

Clever Use of Fiscal Fund to Attract Capital to Agriculture

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INTRODUCTION

“A Notice on Promoting Financial Support and Service in Modern Agricultural Development” (the Notice) had been issued by the Ministry of Agriculture in August 2014. It was the first guidance document of financial support in this aspect. According to the Notice, three questions should be paid attention to: 1) what are the important meanings in promoting financial support in agriculture? 2) What are the aspects where the government’s fiscal department can do to help attract capital? 3) What are the influences that the Ministry of Agriculture can exert?

1. The significance and great opportunities in the fiscal support in agriculture

With the acceleration of agricultural modernization, the large-scale and intensive new agricultural management entities like large family farms, large livestock raisers as well as the cooperatives are developing rapidly. The way to solve the problem of rural finance has been more and more important, because the development of rural finance has relied more on finance capital. “Strengthening the financial support for agriculture, rural areas and farmers plays a very important role in plenty of problems, including the safety of food, modern agricultural modernization drive, increasing of farmers’ income and narrowing the gap between urban and rural areas. ” said by Li Ke-Qiang, the Premier of China. Different from the direct fiscal subsidy, financial capital is conducive to a market-oriented agricultural operation and makes peasants have independent choices. Moreover, it can not only promote the farmers to set up the consciousness of marketing, risks and credit, but promote their competitiveness in the market with both fairness and efficiency.

However, the Notice bridging the supply and demand of rural finance is not so smooth that the capital demand of the rural economic development has not been satisfactorily met. It has become one of the most important factors limiting the development of modern agriculture, and also one of the most outstanding problems in the area of rural finance. Among them, the most prominent problem is in the new main agricultural management body. On the one hand, most of them need large sum of loans. On the other hand, most of them lack what can be mortgaged to banks. In a research conducted in Hunan province, Chongqing province and GuiZhou province, peasants often say that the huge funds demand of large-scale production could not be satisfied if it only rely on grants-in-aid. “We would rather loan one million Yuan from bank than have 100 thousand Yuan subsidy” a leader of peasants’ cooperative was quoted as saying. According to statistics, China now has 2.7 million farmers that each of them manages over 1 million acreages, more than 950,000 farmers’ cooperatives and over

300,000 organizations of agricultural industrialization. Therefore, it is important to solve the problem of farmers' difficulty in taking out loans to construct modern agriculture.

Now, the Notice gives China a big opportunity to solve the problem. All of the financial management departments and [financial institutions](#) are actively participating in financial support in agriculture. At the same time, a huge potential market provided in the rural area with the fast development of the modern agriculture and a great demand for capital nurtured by a fast developing modern agriculture. Therefore, double-wins result can be achieved in both modern agriculture and financial service industry.

2. The model and innovation of fiscal founding guiding finance capital to support agriculture

Fiscal funds and financial tools have obviously a synergistic effect in the agricultural support and protection system. To meet the funds demand of modern agriculture, fiscal funds support in agriculture must use the financial leverage to amplify its effect. Meanwhile, finance can be better protected in risk management and be more reasonable in cost compensation, and finally be turned to be the real funds to support the development of agriculture. In other words, the rural finance must rely on the support from public finance. In recent decade, the ministry of finance has carried out lots of projects which can offer direct subsidy to peasants. Though these projects provide a strong help to rural finance, some of them has been inefficient. To promote the efficiency, we should innovate ways to guide the public finance to give support to rural areas. Now, there are five ways:

(1) Guarantee allowance. Government spends money establishing or helping others set up guarantee institutions to build the rural credit system, these institutions can help peasants who are qualified to get loans by offering guarantee to the banks.

(2) Loans allowance. Public finance gives qualified agricultural loans allowance to reduce the cost of getting loans.

(3) Agricultural insurance. To control the risk of agriculture, public finance gives allowance to nearly all kinds of agricultural insurances such as natural disaster insurance and health insurance.

(4) Finance institutions allowance. Government uses fiscal and tax means to give finance institutions which have an extra risk and costs because of loaning to peasants some allowance, it can change the mind of these institutions who have no motivation to apply for loans.

(5) Investment funds. Public finance can guide the social capital to invest into agricultural enterprises by setting up some equity investment fund. It can make these enterprises stronger.

Besides the agricultural insurance allowance, [rural financial institution](#) allowance and award to agriculture-related finance institutions, the central budget plans to build a few pilot projects in some fields to innovate the way to develop rural finance. The first pilot project is the loan allowance for beef and mutton production. In Hebei, Shandong, Henan and Sichuan

provinces, public finance will use risk compensation, loan guarantee and loan allowance to guide the finance institutions to support the large-scale production of beef and mutton. The second pilot project is financial leasing for agricultural machinery. The central budget will give a reasonable allowance to large scale sugarcane harvesters in Guangxi province and large cotton picking machines in Xinjiang province which can get money through financial leasing. The third pilot project is the farmer credit cooperatives and mortgage loans of land contract and management right, the central government will choose one city or county from Jiangsu, Liaoning, Hebei and Jiangxi provinces, respectively.

3. All levels of agricultural departments should play their roles

In the work of providing financial support for agriculture, the department of agriculture should effectively implement all the policies and measures in providing financing for the development of agriculture, villages and farmers. They should work harder in two aspects:

(1) One is in giving advice. Financial support for agriculture should become an important measure for promoting agricultural production and the new growth points for the policy of enhancing agriculture and benefiting and enriching the farmers. The department should do more research in rural finance and propose relevant policies and suggestions and meet the needs in financing the development of modern agriculture, and make great effort information policies and measures facilitating the financial support.

(2) The other aspect is building a platform. Agriculture departments should establish sound working mechanisms for coordination and communication with financial regulatory authorities, and enhance its cooperation with financial service institutions such as banks and insurance companies. It will be better if the departments build a platform for communication and cooperation between agricultural operators and financial institutions by signing cooperation agreements with them. Through the platform, governments can recommend high-quality projects which can be collected together to these financial institutions.

Certainly, to control the risk in rural finance, agricultural departments must help regulators dispose of illegal fund-raising activities in the name of farmer credit cooperatives or financing agricultural projects.

CONCLUSION

The Chinese Ministry of Agricultural issued “A Notice on Promoting Financial Support and Service in Modern Agricultural Development”, suggesting finance supporting agriculture should focus on increasing productivity and helping peasants easily get their loans, and promote the financial security level of modern agriculture. The Notice makes a higher request of the peasants’ knowledge and intended to build up peasants’ knowledge level, technique understanding and management capacity.

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