Improving Rural Financial Reforms in China

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INTRODUCTION

The CPC Central Committee’s Document No.1 asked to improve rural financial services，increase national support and guidance to rural financial reform，increase commercial financial support to farmers，and give full play to the role of policy and cooperation finance，and to ensure the increase of rural credit. It also asked to innovate financial products and services，give priority to meeting the farmers’ need for credit and increase credit support to new type of production and operations. It asked to strengthen cooperation between financial and tax leverage and financial policies，and implement such policies as rewarding financial institutions for the increase of agriculture-related loans，preferential taxation for farmers’ credit，direct remedies for rural financial institutions and small assure loan discount. To consolidate the role of the legal representative of rural cooperatives at county and city levels, and keep deepening the reform on rural cooperatives.

Main content of policy

It also asks to explore new models for agricultural banks to serve the rural and agricultural areas and farmers，strengthen the position of the Agriculture Development Banks as a policy bank and encourage the National Development Bank to promote the construction of modern agriculture and the new countryside. The policy also aims to: support social capital to participate in the establishment of new type of rural credit agencies; improve rural payment service，clear the way for rural payment and settlement; strengthen coordination between rural credits and insurance，innovate rural mortgage and financial tools that suit the countryside，and establish a rural credit guarantee system of multiple layers and various forms. Furthermore, it also aims to: expand the size of forestry right mortgage and improve premium for forestry loans; perfect policy-oriented agricultural insurance system; perfect insurance premium system for agriculture industry; and increase subsidies for credit for agriculture industry in middle and western regions and big counties; increase the proportion of premium of certain kinds of insurance; launch pilot projects for increasing agriculture premium for breeding，fishing，agriculture mechanism，housing and major forest; promote the establishment of finance supported agricultural insurance catastrophe risk dispersal mechanism; and support agriculture-related enterprises to gather capital through capital market of various levels.

Implementation of policy and evaluation

As of the end of 2013，the combined balance of agriculture-related loans in domestic and foreign currency of all financial institutions stood at 20.9 trillion Yuan，increasing by 3.4 trillion Yuan previous year and increasing by 389.5 billion Yuan every year，up to 18.5%. It was 4% higher than the average of other loans. Investments in agricultural-related loans and credit continues to increase.

1) Financial and tax incentives for agriculture-related loans were strengthened continuously. First，directional subsidies for rural financial institutions were increased. New type of rural financial institutions such as rural credit cooperatives，rural cooperation banks and rural commercial banks were granted subsidies equaling to 2% of the average balance. In 2013，finances allocate 4.105 billion Yuan，up to 72.1%. Central finances has applied reward polices for agriculture-related loans of small loans companies in Tianjin，Liaoning，Shandong and Guizhou Provinces. In 2013，central finances allocated 25.19 million Yuan for the reward.

Second，financial institutions at the county level or bellow were rewarded for increasing agricultural-related loans. Financial institutions that managed to increase agriculture-related loans by 15% were rewarded 2% of the increased amont. In 2013，central finances allocated 2.09 billion Yuan for reward.

Third，the tax burden of rural financial institutions were lightened. Financial institution' interest incomes from small loans to farmers（below 50 000 Yuan）and insurance companies' premium incomes from agricultural insurances were exempted from sales taxes，and 10% of such incomes were deducted from the taxable income. Tax was collected at a reduced rate of 3% for rural credit cooperatives，new-type rural financial institutions，and rural cooperative banks and commercial banks at the county level or below.

Fourth，the roles of refinancing，rediscount and the deposit reserve ratio were given full play in guiding the optimization of credit structure. The coverage of agriculture-oriented refinancing was extended from rural commercial banks，rural cooperative banks，rural credit cooperatives and village banks based in counties and villages to financial organizations on those four types based in cities. Meanwhile，small and media sized financial institutions and rural financial organizations that support agriculture and small enterprises were allowed to continue with their relatively low deposit reserve ratios.

2）Rural Financial Products were constantly innovated. Credit products were promoted to make use of credit community to upgrade the clients' credit rating. Property of big family farms，specialized farmers' cooperatives and leading enterprises were engaged to innovate mortgage products of various kinds. The launching of mortgage services of land contract and management rights，homestead use rights and house and property rights was supported. Small and medium sized rural financial institutions were encouraged to offer credit of various kinds to farmers of low income.

3）Reform of rural credit cooperatives was constantly deepened. Reform on property rights system was steadily advanced and the role of legal representative of rural credit cooperatives at county level was consolidated. By the end of 2003，1690 rural credit cooperatives with unified legal representative at country level，468 rural commercial banks and 122 rural credit cooperatives were established. The level of rural financial services was raised. By the end of 2013，balance of agricultural-related loans and farmers' loans from rural cooperatives stood at 6.2 trillion Yuan and 3 trillion Yuan respectively，up to 16.4% and 14.5% respectively. The capability of sustainable development was strengthened. By the end of 2013，bad loans from rural credit cooperatives accounted for 4.1%，down 0.4% from the previous year. Capital adequate ratio was 12.5%，up by 0.7% from the previous year. The profit for the whole year was 196.2 billion Yuan.

4）Pilot programs of the Bank of China’s agriculture-related finance department was expanded. In October，2013 the pilot program was extended to 538 counties of seven provinces including Jiangsu，Zhejiang，Hunan，Yunnan，Jiangxi，Shanxi and Guangdong. The policies of differential deposit reserve rate，supervision and sales tax reduction and exemption were continued. Business and revenues from the agriculture-related finance department accounted for 80% of the total business and revenue from the Bank of China’s county level branches，up from 40% of the previous year. The Bank of China greatly increased support for county-level economy and rural areas，agriculture and farmers.

5）New-type rural financial institutions were developing rapidly. First，the establishment of new-type rural financial institutions gave priority to old，minority-inhabited and border areas，agriculture heartland and small and micro enterprises concentrated areas. The services were extended to bellow townships. By the end of 2013，1134 new-type of rural financial institutions were set up nationwide，195 more than the previous year，including 1,071 county and village banks，14 loans companies and 49 rural financial mutual aid societies. Institutions in central and western regions accounted for 62%. Secondly，loans for rural households and small business increased. By the end of 2013，loan balances for rural households and small business accounted for 90%. New-type of financial institutions have become the major force in serving rural areas，agriculture and farmers，and small and micro business. Third，private capital was increased. In 2013，private capital invested in town and village banks accounted for 71%.

6）Agricultural insurance was developed rapidly. Pilot programs of insurance premium from central finances were extended from six provinces to the whole country. The types of insurance premium expanded from 5 to 15，covering almost all farm products. Insurance premium accounted for an average of 75% to 80% of local finances. In 2013，central finances allocated 12.688 billion Yuan for insurance premium，six times more than that of 2007. As a result，income from insurance premium reached 30. 67 billion Yuan，providing risk guarantee of a total of 1.39 trillion Yuan for 214 million farmers and giving insurance indemnify of 20.86 billion Yuan to 33.67 million farmers. China has developed into the largest agriculture insurance market in Asia，and the second largest in the whole world.

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