Current Status and Problems of the Chinese Rural Financial Reform

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＜論文要旨＞

Ⅰ INTRODUCTION

After the entry into WTO, the agricultural product market will be further expanded. In order for the agricultural sector and farm households to access funds, the Chinese State Council issued *The Decision on the Reform of Rural Financial System (Decision 96)* on August 22,1996, and confirmed that the Rural Credit Co-operatives in China (RCCs) must be reconstructed to be the real co-operative financial institutions as the name implies on behalf of their members. In order to support the reform of RCCs, the People's Bank of China (PBC) also issued a series of documents, which stipulated the detailed measures and steps.

However, although RCCs offer the most essential financial intermediaries in the rural areas, the loan portfolio to farm households and the agricultural sector are still not enough. It is said that more than 60 percent of the sources of farm households' loans are from informal financial institutions[1)].

The main focuses of the present day researches are carried out on the analysis of the background and progress of the Chinese rural financial reform. The causal analysis appears to lack. The purpose of this paper is to elucidate the current status and problems of the Chinese rural financial reform, having started since the transition from a central-planed to a market-based economy, from a perspective of analyzing the characteristics on the structure, conduct and performance of the formal and informal rural financial institutions because this type of study has not been reported or illuminated previously in Japan Society of Monetary Economics.

Ⅱ STRUCTURE OF MAJOR RURAL FINANCIAL INSTITUITIONS

The ABC is now primarily responsible for financing farming activities of State farms and State-owned enterprises and for mobilizing deposits from individuals, collectives, and RCCs. There are currently 20,000 branches of the ABC to mobilize deposits at the township level . In 1994, policy loans were divested from the ABC and moved to the newly created policy bank, the ADBC. Since then, the ADBC has been responsible for financing grain purchases by grain cooperatives, and for policy loans directed towards poverty alleviation, agricultural development, and infrastructure development in rural areas. The ADBC utilizes the ABC branches in addition to its own branches that were carved out of ABC for its operations. Most of the loans from the ADBC are financed by the PBC, under its allocation for policy loans. Currently, there is a wide network of RCCs responsible for servicing rural households and collectives with loans and savings services.

But, one of the structural problems between the RCC and the ABC is shown evidently since 1996. After the two institutions separated, the RCC has become a direct competitor of the township branch of the ABC. Yet the settling of accounts of the RCC is still done by the ABC. In order to reduce the RCC's competitiveness, the latter blocks the settling of the RCC accounts, causing many of the RCCs' clients to shift their business to the state commercial banks. The professional quality of the RCCs' staff, its management methods and basic facilities still lag far behind those of the state commercial banks. The most crucial problem is that the real mark of a cooperative financial organization- the participation of farmers has yet to be seen. The RCC has yet to find significant common interests with the farmers, and this has limited the ability of the RCC to mobilize savings in rural communities.

Ⅲ CONDUCT OF THE RURAL FINANCIAL INSTITUTIONS

The reform of the rural finance system has been controlled by the government and has been conditional upon the maintenance of grassroots political control. For example, the government still controls the RCC to some extent. In terms of their internal structure, the vast majority of RCCs have yet to establish a members' representative congress, executive board and monitoring body. Most county united co-operatives have not yet established shareholders' representative congresses participate. Thus, although in legal terms the RCC is owned co-operatively, the way in which the RCC has developed under state control has in fact demonstrated that it is not a co-operative. This confusion over the ownership status of the RCCs has provided the conditions for their control by managers.

Besides, although the state's control over the RCCs has declined somewhat since the separation of the RCC from the ABC, the PBC now still relies on financial laws, debt management, reserve fund requirements, and interest rates to constrain the activities of the RCCs. Compared to the past, the RCCs today have greater autonomy. But in the absence of the institutional mechanisms to make the RCC into a real cooperative, the result of this greater autonomy has been to male the RCC into an interest group that is both independent of the state banks and independent of the farmers. As with the state commercial banks, many RCCs are seriously in debt, yet staff salaries and benefits are still high. Moreover, even in areas where pioneering reforms have been piloted, the participation of farmers in the RCC system is still quite limited. In the models adopted in some places, the RCCs seek share investments from a broad range of social actors, including farmers, individual entrepreneurs and also township enterprises and other institutions. The highest authority is called the “shareholder representative congress” and not the “ cooperative members representative congress”. Although one person one vote system has been put in place, the real power has been captured by the large shareholders, making it impossible to ensure the rights and status of farmers in the RCCs.

The following problems are also mentioned in the informal financial market. First, some lawless people have exploited underground private banks and pawnshops to issue usury for huge profits. There have been events in which monthly interest rates exceeded 30%, with some loans grown from the size of “ant” into that of “elephant”, and the borrowers been ruined, which seriously affected social stability. Second, the financing costs are too high. The small and medium-sized enterprises already suffer from weak business strength, but they have to pay interest for informal financing at a double rate than that of the formal financing, and thus increase their business risks. With an incomplete guaranty system, the guaranty costs are also very high. Third, a non-standard and high-risk investment market has already taken form. In the short-term capital market, due to high investment risks, many private loans depend on blood ties or regional relations. The transactions usually fail without relatives, employment or business relations. In the capital market, as the shares of non-listed companies can hardly circulate, many underground transactions took place, leading to the emergence of many stock mongers. Although such underground transactions satisfied the actual demand of equity circulation by certain degree, they also created lots of “primary share frauds”. Some companies joined together to bank on and tied up the investment of numerous individual investors.

Ⅳ PERFORMANCE OF MAJOR RURAL FINANCIAL INSTITUTIONS

There are no studies at the national level on the performance of rural financial institutions. It is found that a greater bias towards TVEs and collectives in the loan portfolios of the ABC is more than in the portfolios of RCCs and RCFs. Indeed, the RCF loans were more strongly oriented towards rural households than were those by RCCs and the ABC.

The increase in rural financial institutions has not generally improved access to loans by rural households. The bulk of institutional loans are made to TVEs, and the next largest share goes to agricultural collectives. Where farm households can access loans for agricultural production purpose, they are unable to obtain loans for nonagricultural purposes even though non-farm activities are more productive than agriculture. This lack of access to loans for household activities may reduce the productivity of farm credit.

On the other hand , some studies indicated that the share of informal loans in total household borrowing increased slightly with the poverty status of the households. The majority of informal loans were short term, although several could be for an indefinite maturity through rollovers, depending upon the borrower's ability to pay.

Ⅴ CONCLUSIONS - FUTURE DIRECTION OF THE CHINESE RURAL FINANCIAL REFORM

As the policy bank, the ADBC mainly deal with providing capitals for the state-owned enterprises to purchase, process and store grains. But the capital is always insufficient for being provided only by the PBC. On the other hand, the business scope of ADBC is too narrow and lack of financing capacities, their support to the underdeveloped area in the northwest is also incomplete. The ABC, concentrating on the profit maximization as a commercial bank, began to reduce their branches in townships and enlarge their business in cities from 1998. Although RCCs become the only formal financial institution that can provide loans to peasants, private or small-scale business and enterprises, due to the traditional bureaucratic characteristics, as well as its large quantities of bad loans, they cannot perform their function of cooperation. For the above mentioned, the farmer households had to turn to rely on the informal loans. But the informal financial institutions have not been improved in good condition.

In order to resolve the above contradiction, the government has been strongly committed to phased financial sector reforms. The phased reforms effectively created a diverse set of institutions. Besides, donors may contribute to the process by helping with independent audits of the ABC, the ADBC, RCCs and other informal financial institutions, to examine their constraints and performance, and to evaluate their potential to service the changing rural sector. There is also need to conduct surveys to collect micro-level information from rural households and enterprises to assess the current sources of finance in rural areas, the unmet demand for financial services, and the willingness to pay for these services.

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