

# *Analysis on the Current Situation of Financing of Rural Professional Cooperatives in China*

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**Keywords:** Farmers' professional co-operatives, financing constraints, government security measures, financial system, rural prosperity

**Abstract:** This paper selects the relevant data of Chinese farmers' professional cooperatives from 2011 to 2016, respectively from number of rural specialized cooperatives, total investment of rural specialized cooperatives, average contribution amount of each rural professional cooperatives, operation of rural professional cooperatives in different regions. At the same time, on this basis, this paper further analyzes the specific plight of the current financing difficulties of China's farmers' professional cooperatives, and analyzes the possible reasons for the above difficulties from the institutional level, the financial system level, the perfection of government security measures and other aspects. It is expected that this study can effectively help China's professional farmers' cooperatives to obtain financing more easily, inject more sufficient financial vitality into rural agricultural development, and better solve the "three rural" problems to achieve agricultural development, farmers' prosperity and rural prosperity.

## **1. Introduction**

Rural professional cooperatives are the innovative mode of rural basic economic management system in the new era, which has a positive role in promoting farmers' income and accelerating the construction of new countryside. Although the rural professional cooperatives have developed rapidly in recent years, the number has increased year by year, but the lack of financing has seriously restricted the development and growth of rural professional cooperatives.

However, the existing academic research has done a lot of research on the development of cooperatives, mainly focusing on the problems faced by the development of cooperatives and the countermeasures and suggestions to alleviate the financing difficulties of cooperatives [1, 2]. Scholars generally believe that the financing problem is the main problem faced by cooperatives. The psychological and vision problems of "free riding" of cooperatives are the main reasons for their financing difficulties. The limited credit services provided by financial institutions to cooperatives aggravate the financing difficulties of cooperatives [3, 4]. In this regard, scholars proposed that comprehensive efforts should be made from the cooperative itself, financial institutions, government and other aspects to alleviate the financing difficulties of cooperatives [5, 6]. However, domestic and foreign scholars have little research on the factors affecting the financing difficulties of cooperatives and lack systematic analysis, and the existing literature on cooperatives is mainly concentrated in

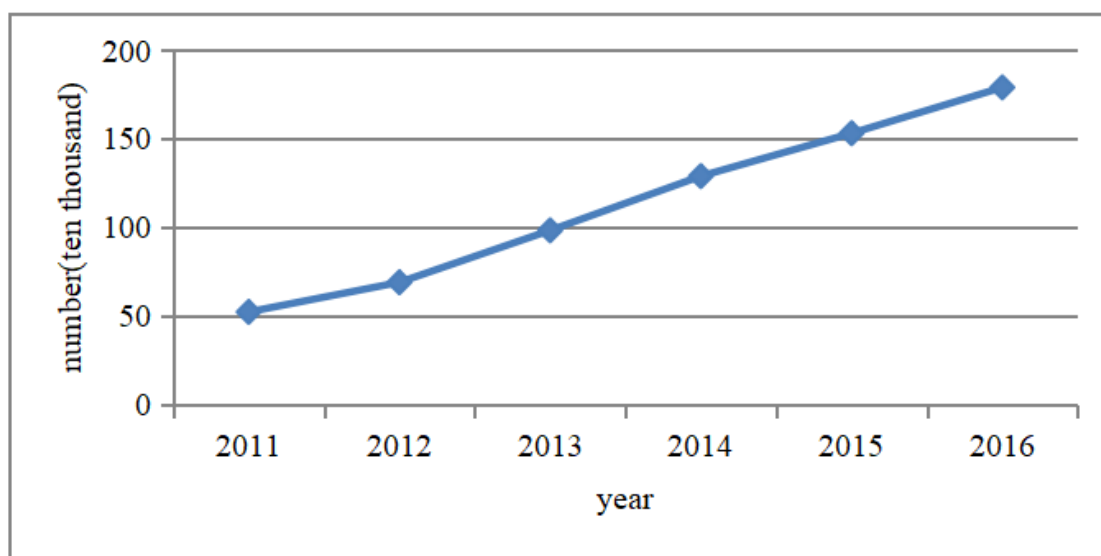
some more developed regions such as the central and eastern regions, and less research on the western regions with relatively backward economic development [7].

Therefore, based on the overall analysis at the national level, this paper draws a more comprehensive conclusion to promote the rapid development of China's rural economy.

## 2. The Development Status of Rural Professional Cooperatives

Rural professional cooperatives belong to agriculture, because the scope of agriculture is very wide, and the rural professional cooperatives are all over the country. The data statistics itself is a time-consuming and laborious thing. Moreover, many rural professional cooperatives lack financial personnel who have received formal training or higher education, and the financial statements are even less. Therefore, in terms of data collection, there is no such thing Great difficulty and limitation. After consulting the data of the third agricultural census in 2016, we found that by the end of 2016, a total of 1.79 million rural professional cooperatives had been registered and established in the industrial and commercial departments. According to the data of the Ministry of agriculture, the total contribution of rural professional cooperatives nationwide reached 37200 billion yuan. (Department of system and information of economic management general station, Ministry of agriculture, 2017).

### 2.1. The Number of Rural Professional Cooperatives Continued to Rise

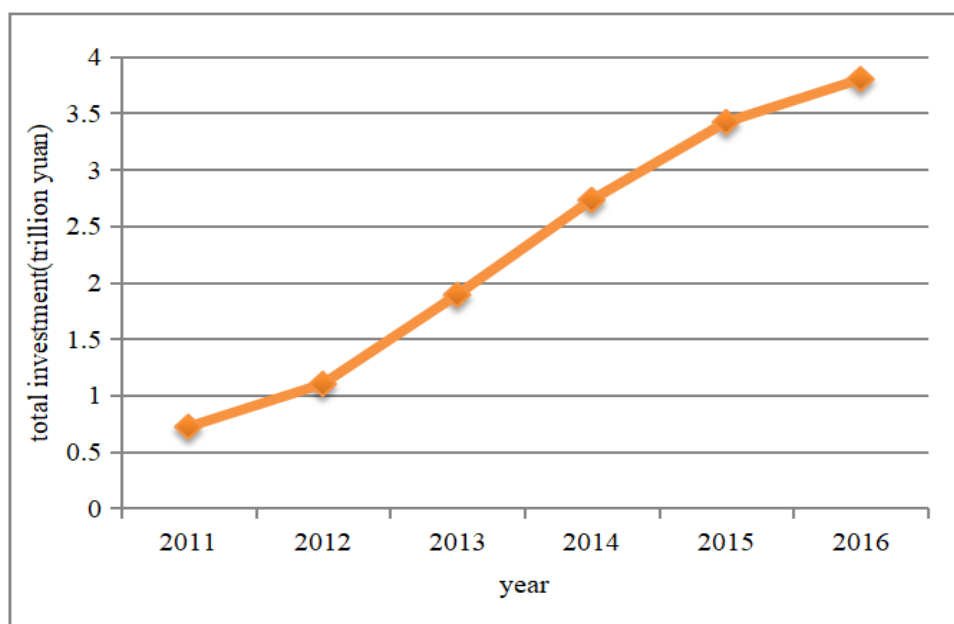


Data source: Wande database

Figure 1: 2011-2016 number of rural specialized cooperatives in China

As shown in Figure 1, by collecting the data on the number of rural professional cooperatives in China from 2011 to 2016, we found that the number of rural professional cooperatives in China has maintained a good trend of steady growth in the past six years, and has shown a rapid growth trend since 2012, specifically as follows: from 521700 in 2011 to 1790000 in 2016, increasing in number 1.2683 million, an increase of 243.11%.

## 2.2. The Total Investment of Rural Professional Cooperatives Continued to Rise

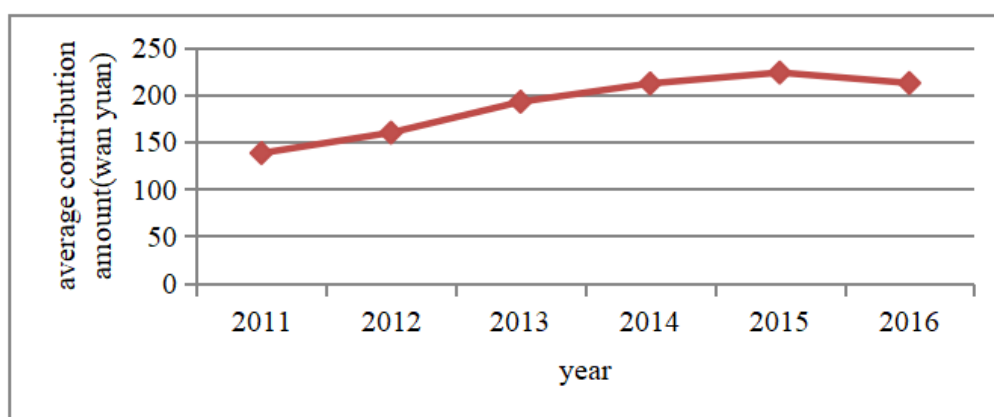


Data source: Wande database

Figure 2: Total investment of rural professional cooperatives in China (trillion yuan)

As shown in Figure 2, through the analysis of the total financing data of rural professional cooperatives in China from 2011 to 2016, it is found that the total financing amount of rural professional cooperatives in China has been increasing, from 0.72 trillion yuan in 2011 to 3.8 trillion yuan in 2016, with an increase of 427.78%, and the total financing amount showed a linear growth trend from 2012 to 2015. From 2011 to 2012, the total amount of financing did not increase much, mainly because the number of rural professional cooperatives did not increase much in this year.

## 2.3. The Growth Rate of Average Contribution of Rural Professional Cooperatives Slowed Down



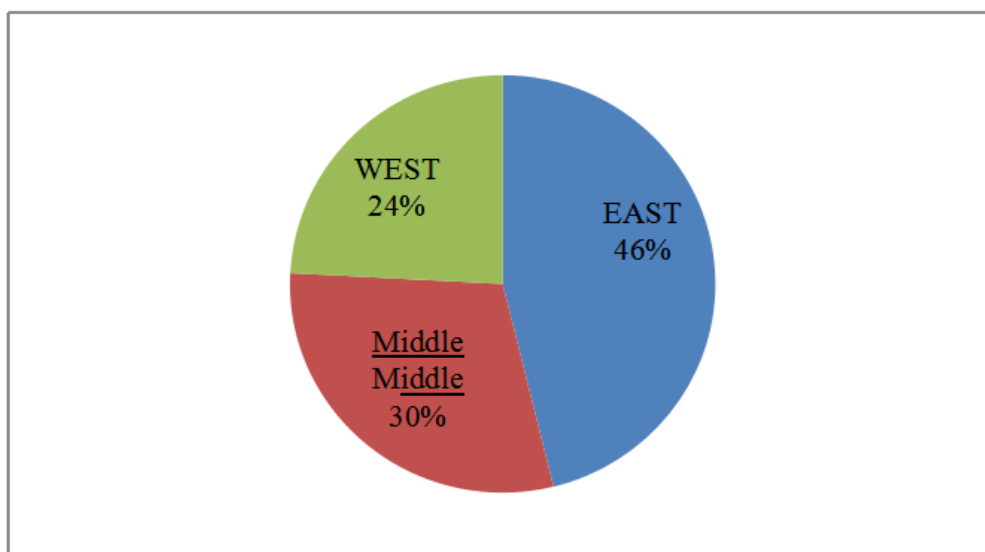
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Figure 3: 2011-2016 average contribution amount of each rural professional cooperative

As shown in Figure 3, although the data from 2011 to 2016 show that the rural professional cooperatives have made great progress in both the total number and the total amount of investment,

we can find some problems by analyzing the contribution amount of each rural professional cooperative in China. The average contribution of rural professional cooperatives gradually slowed down, and even decreased in 2016, from 2.2337 million yuan / unit in 2015 to 2.229 million yuan / unit in 2016. This shows that the average capital scale of rural professional cooperatives in China has decreased, and also reflects the problems of fund shortage and financing difficulty of rural professional cooperatives in China.

#### 2.4. Rural Professional Cooperatives are Mainly Concentrated in the Eastern Region

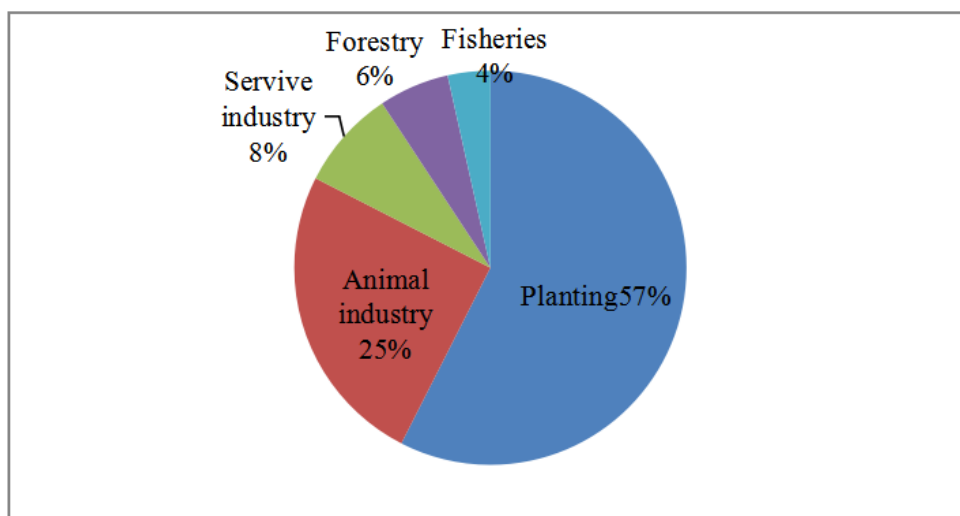


Data source: system and Information Department of the general economic and management station of the Ministry of agriculture

Figure 4: Proportion of rural professional cooperatives in different regions

As shown in Figure 4, the relevant data of the third agricultural census in 2016 show that at the end of 2016, about 1.8 million rural professional cooperatives were registered in the industrial and commercial departments, including 826200 rural professional cooperatives in the eastern region, 531100 in the central region and 432700 in the western region. Among them, the number of rural professional cooperatives in the eastern region is the largest, accounting for 46% of the national rural professional cooperatives, accounting for about half of the national rural professional cooperatives; the number of rural professional cooperatives in the western region is the least, accounting for only 24%. This shows that there is a great relationship between the distribution of rural professional cooperatives and their geographical location: firstly, the soil quality in the eastern region is the best in China, certainly better than that in the central and western regions, and the vast plains in the eastern region are more suitable for crop cultivation; secondly, the economy in the eastern region is more developed than that in the central and western regions, and the people's living standards are richer. Therefore, the number of rural professional cooperatives in eastern China is more than that in other regions.

## 2.5. The Management Content of Rural Professional Cooperatives Is Developing in Many Aspects



Data source: system and Information Department of the general economic and management station of the Ministry of agriculture

Figure 5: Proportion of rural professional cooperatives

As shown in Figure 5, the operation contents of rural professional cooperatives are various. In addition to focusing on the production of the well-known planting industry, the rural professional cooperatives also continue to expand their business contents. Now, their business contents have covered many production fields, such as planting, animal husbandry, service industry, forestry and fishery. In addition, some cooperatives have broken through the boundaries of the village in terms of production and business scope, realizing Cross Village, cross county and even cross city cooperation. According to the statistics provided by the system and Information Department of the Ministry of agriculture, as of the end of 2016, among the surveyed rural professional cooperatives, the proportion of planting cooperatives accounted for more than 50%. The number of planting, animal husbandry, service, forestry and fishery cooperatives were 843000, 371000, 123000, 92000 and 51000, respectively, accounting for the national rural professional cooperatives. The specific gravity was 25%, 8%, 6% and 4% respectively. Compared with the number of various types of rural professional cooperatives in 2014, the number of planting, animal husbandry, service, forestry and fishery cooperatives were 741100, 322200, 105700, 74800 and 45100, respectively, with an increase rate of 13.75%, 15.15%, 16.37%, 22.99% and 13.08%.

It can be found that the number of all kinds of professional cooperatives has increased, which is related to the increase of the total number of rural professional cooperatives, but the proportion of all kinds of rural professional cooperatives has basically not changed. As the main category of rural professional cooperatives, planting rural professional cooperatives have occupied half of the rural professional cooperatives. Why can planting rural professional cooperatives develop best among all kinds of rural professional cooperatives? This is mainly because in China's rural areas, the most popular is the planting industry. At the beginning, the rural professional cooperatives were actively united by farmers engaged in planting industry, and then gradually developed into service industry, animal husbandry, forestry and fishery and other fields.

### 3. Analysis on the Reasons of Financing Difficulties of Rural Professional Cooperatives

#### 3.1. Institutional Defects of Rural Professional Cooperatives

First, from a deeper perspective, the rural professional cooperative is a cooperative organization with economic nature. Secondly, it has no compulsion to its members. According to the actual situation of the region, combined with the local soil quality and environment, the members independently formed rural professional cooperatives and managed cooperative affairs collectively and democratically. Rural professional cooperatives are run by farmers. However, the education level of most members of rural professional cooperatives is low. Many members have never attended high school, let alone university. There are also college graduates, but few of them are junior high school graduates. Most of them are junior high school and high school graduates. They lack the theoretical knowledge of managing rural professional cooperatives and can only practice constantly to some extent, it also reduces the ability of rural professional cooperatives to obtain funds.

Second, the withdrawal and entry of rural professional cooperatives are free and voluntary, without institutional constraints. This management mode has its advantages and disadvantages, but on the whole, the disadvantages outweigh the advantages, because this loose management mode increases the uncertainty of internal financing and the variability of its own funds, so it is difficult to guarantee the self-owned funds. Therefore, it is not conducive to the investigation of the credit level of rural professional cooperatives by financial institutions, and it is not conducive for rural professional cooperatives to obtain loans from banks and other financial institutions.

Third, rural professional cooperatives attract members to join by treating all members equally. In terms of voting decision-making and election, each member holds one vote and can only hold one vote. This management method seems to be very democratic on the surface, but it actually damages the interests of those members who have invested a lot and is harmful to the rural areas the development of professional cooperatives<sup>[8]</sup>. However, in order to get more funds from the members of the cooperatives, they want to increase the proportion of their own investment in order to obtain more funds in the process of production. Moreover, the power of members is realized by being able to exercise the right to vote in some things, and the voting right is mainly realized by the right to vote. The voting system in which everyone holds one vote and can only hold one vote will undoubtedly harm the interests of those members who have invested more money and energy into the cooperative, thus making each member unwilling to invest a higher amount of funds, Only willing to invest in accordance with the minimum capital standard of cooperatives, which is not conducive to the expansion of the scale of funds of cooperatives.

Fourth, planting and animal husbandry are the main industries of rural professional cooperatives, accounting for more than 80% of the total. Both planting and animal husbandry have the characteristics of high risk and long period. Planting industry is vulnerable to natural disasters, such as climate change, drought and flood disasters. These unpredictable natural factors will affect the production of agricultural products; animal husbandry is also vulnerable to the impact of sudden epidemics. For example, frequent outbreaks of avian influenza in recent years will cause a large area of poultry infected with diseases and eventually die, which will seriously affect the profits of cooperatives. The biggest characteristic of agriculture is a long cycle. Planting industry usually takes one to two quarters from sowing, rooting, sprouting, maturing to harvest and sales. The same is true for animal husbandry, and it takes a certain time for poultry to grow. In real life, the purpose of financial institutions is to make profits, so it is difficult for them to lend funds to rural professional cooperatives with high risk and long-term characteristics.

Fifthly, although there are various external financing channels in the market, some limitations of rural professional cooperatives make their main funds come from internal financing, that is, members'

share capital. The law of the People's Republic of China on rural professional cooperatives clearly states that rural professional cooperatives should put the promotion of rural development and increase farmers' income in the first place, emphasize the participation of farmers, and stipulate the proportion of farmers in rural professional cooperatives: at least 80%. However, the income level of farmers in China is low. After the basic living expenses are removed, the remaining funds are not much, and the funds that can be put into the cooperatives are very few. Therefore, the limited initial capital sources seriously limit the development and growth of cooperatives.

### **3.2. Imperfect Financial System**

In the actual production and operation process, rural professional cooperatives mainly seek funds from rural commercial banks, postal savings banks, Agricultural Bank of China and other commercial banks. However, commercial banks are commercial in nature and seek to maximize their own profits. In order to ensure their own interests and avoid the possibility of non-performing loans, commercial banks are more willing to lend funds to those enterprises with strong strength, good credit and large scale, rather than small-scale and high-risk economic mutual aid organizations such as rural professional cooperatives [9]. In addition, with the increase of national supervision on the financial industry, banks have also strengthened the control and assessment of granting funds and loans. In the process of granting loans, they have adopted extremely strict examination system. Therefore, it is more difficult for rural professional cooperatives to obtain loan funds from commercial banks.

Although there are a large number of commercial banks in China, most of them are concentrated in cities, and the commercial banking system in rural areas still needs to be strengthened. The amount of loans that rural commercial banks can provide is limited, but many state-owned commercial banks set up few outlets in rural areas. Most of them share a business network in many villages and towns, which results in the demand for funds far greater than the supply of funds, which brings great inconvenience to the financing of rural professional cooperatives.

### **3.3. The Guarantee Measures of Government System are Lagging Behind**

The leaders of various countries have always attached great importance to the revitalization of rural areas, the development of agriculture and the livelihood of farmers. State leaders have paid more and more attention to the construction of rural areas and the well-being of farmers. In fact, the emergence of rural professional cooperatives must have a certain material basis, and agricultural development will produce rural professional cooperatives only after it is mature, and rural professional cooperatives have the important meaning of increasing agricultural production, increasing farmers' income and promoting rural development. In response to the state's attention to agricultural development, many local governments have stated that they should vigorously support the development of local rural professional cooperatives and give appropriate financial support, but they have not been put into practical action. Through visiting and asking some rural professional cooperatives, many of them showed that they did not really enjoy the support of the government in the process of production and operation, and were not satisfied with the government's inaction.

## **4. Conclusions**

China's farmers' professional cooperatives have achieved good results in recent years, and have played an important role in promoting rural economic development. But at present, the financing difficulties of farmers' professional cooperatives across the country are more prominent, and there are significant differences between different regions and different types. On the whole, the eastern region is better than the central and western regions, and the higher the capital ratio, the lower the initial

financing constraints faced by cooperatives. The reasons for the above difficulties lie in the imperfection of the system and the lack of relevant government support measures.

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