

Biological Asset Mortgage and Rural Finance's Innovation and Development

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Abstract

As a new type of financing method, biological asset mortgage loans can provide incremental capital supply for agriculture and rural development, and play a positive role in promoting the development of agricultural modernization. Its special feature is the use of biological assets as collateral to obtain funds. This article believes that the biological asset financing model can be combined with personal capital, corporate capital and financial institutions to promote financial innovation while revitalizing biological assets and improving rural areas. And the efficiency of agricultural capital allocation.

Keywords

Rural finance; Biological asset mortgage loan.

1. Introduction

In the context of agricultural modernization, the growing demand for agriculture and rural funds requires both the improvement of financial institutions' service capabilities and the improvement of financial instrument innovation. With the development of the rural economy and the emergence of new-type production and operation entities, there is a clear gap between farmers and agricultural funds. All along, the traditional collateral owned by farmers, such as physical assets and financial assets, is very limited. As biological assets are the main source of assets for farmers and agricultural enterprises, if they can confirm their legal status as collateral, rural and agricultural financing channels will be greatly expanded. The emergence of biological asset mortgage loans has its own practical necessity, and it is an effective means to solve the gap between China and the country's financial development in rural and agricultural development.

2. The practical necessity of biological asset mortgage

As a new financial instrument, the mortgage of biological assets, the core is to establish the legality of biological assets as collateral. The "Property Law" formally implemented in 2007 broadened the scope of collateral. The report of the 19th National Congress of the Communist Party of China proposed the implementation of the strategy of rural revitalization. The National Rural Revitalization Strategic Plan (2018-2022) clearly pointed out that industrial prosperity is the focus of rural revitalization, and it must increase financial support for agriculture and innovate financial support. Agricultural products and services. With the introduction of various policies and measures by the state and financial institutions, local governments have also actively implemented them. Jilin Province issued the "Opinions on Accelerating the Development of Modern Animal Husbandry Economy" in 2009; the People's Bank of Shandong Zaozhuang City Center Sub-branch and the Municipal Animal Husbandry Bureau and the Municipal Industry and Commerce Bureau jointly formulated the "Zaozhuang Municipal Livestock and Livestock Mortgage Loan Management Measures"; The demonstration zone actively responded to the national call for "continue to run the national agricultural high-tech industry demonstration zone", and issued the "Implementation

Opinions on the Pilot Implementation of Rural Property Mortgage Loans in the Yangling Demonstration Zone" in 2011. Management Measures for Property Right Mortgage Pledge Loan (Trial); In order to increase the utilization of stock assets and solve financing problems, the Sixth Division and Wujiaqu City of Xinjiang Autonomous Region launched the "Administrative Measures for Living Livestock and Poultry Mortgage Loan (Trial)".

Biological asset mortgage loans have been widely launched in various places, and have formed four types of biological asset mortgage financing including "bank + insurance + enterprise", "bank + third-party guarantee + enterprise", "bank + enterprise + peasant household" and floating mortgage Model (Du Jingfan and Lu Dehong, 2013; Hao Junyi and Zou Xinyang, 2017). However, in practice, biological asset mortgage assets, as a financial innovation product, are still limited in national pilot projects. In practice, they can be integrated into other financial instruments and products of financial institutions, accumulating experience and improving in a wide range of applications Corresponding policies and regulations.

3. Integration of biological asset mortgage loans and personal capital

The main source of traditional agricultural borrowing is households in a broad sense. It usually does not pay interest and is mainly used in difficult times. In fact, this source reduces agricultural risks by spreading the risk to many related households. In general, the proportion of rural households that borrow money from friends and relatives has stabilized or declined over time, especially when institutional credit becomes available. It is rarely invested in revenue-increasing operating and fixed capital. This source is often described as informal insurance against unlucky incidents, and does not apply to the poor in rural areas, because the poor often have poor relatives. Therefore, there are certain limitations on the scale of funds and service targets provided by this source.

In modern agriculture, the role of personal credit in rural and agricultural development is becoming increasingly apparent. The lending activities within the scope of relatives and friends can integrate the way of mortgage of biological assets, and its advantages are reflected in: the relatives have more information about the borrower's biological assets' operating ability and market value, and can objectively assess the borrower's repayment ability and The scale of borrowing; in addition, the adverse selection and moral hazard that may be involved in this borrowing process are relatively small, which provides a strong guarantee for the restriction function of personal credit in the rural interpersonal relationship network.

4. Integration of biological asset mortgage loans and corporate capital

4.1 Trader

With the increase in the sale of small commercial farmers, merchants have become an increasingly important source of credit. Competition in various forms of credit is very important to maintain the competitiveness of its loan interest rates and conditions. Large commercial banks lending to traders, and then lending to small commercial farmers by traders is a potentially important source of credit, as long as there is competition, this is desirable. However, when professional agricultural lenders appeared, its importance continued to decline. This source of funding is an indispensable lubricant for farmers operating in the commercial sector, but its beneficiary group is relatively fixed.

This source of funds can increase the size of the credit relationship between agricultural and rural merchants involved in the value chain through biological asset mortgage loans. Enterprises in different positions in the value chain can make accurate judgments from a professional perspective on the operating status and operating capabilities of the enterprises' biological assets in the value chain. On this basis, the combination of biological asset guarantees can increase the smoother cooperation and capital exchanges between the merchants involved.

4.2 Contract farming

Order farming refers to loans provided by large enterprises for purchasing products under contracts, and enterprises also provide input and technical guidance. This system may be large and dominate in the field of small specialization. It cannot replace professional institutions nationwide. In high-income countries, specialized farming in poultry and other specialized fields is already common, but the penetration rate in low- and middle-income countries is much lower.

When the subject matter involved in the order has a longer growth period and a larger investment scale is required during the contract period, the biological asset mortgage loan method can be used as an effective way for the commodity provider to obtain productive capital. In view of the relatively consistent judgment of the value of the target asset by both parties to the contract, the commodity buyer can accurately assess the value of biological assets at different stages and be familiar with the characteristics of biological assets. Therefore, when lending to the commodity provider, the safety of funds can be effectively guaranteed and the borrowing behavior can increase Opportunities for cooperation between the two parties.

5. Innovative integration of biological asset mortgage loans and financial institutions

5.1 Micro-Finance

When the Nobel Peace Prize winner and Muhammad Yunus, the founder of the Grammy Bank of Bangladesh, announced microfinance, microfinance became widespread. Microfinance is one of many small groups. It emphasizes savings first, then loans supported by the group, and constantly emphasizes the unity of small groups. Small groups formed a pyramid and developed into a national organization. The result is a high repayment rate and lower management costs.

Rural microfinance has increased agricultural production and played a useful role in promoting and expanding participation in the growth of the rural non-agricultural sector. Studies have shown that only those who are at the bottom of smaller commercial farmers can receive microcredit: microcredit cannot benefit those who produce most of the agricultural output (Khandker and Koolwal, 2014). Combined with the process of China's agricultural modernization, the amount of funds required by small commercial farmers is significantly greater than the typical micro-credit line. The nature of the loan and the profitability conditions are very different from the normal requirements of normal customers of microfinance institutions. In addition, micro-credit repayments rely on loans of group solidarity and mutual guarantees, which work well in the presence of savings and micro-loans. For farmers who require large loans to provide guarantees, the effect is not so good. However, the introduction of biological asset mortgage loans in the microfinance system can effectively overcome the mismatch between microfinance and the current needs of farmers. With the help of the network of rural households in rural microfinance groups, the cost of default can be effectively raised. Biological assets as collateral can effectively increase the credit limit and alleviate the problem of insufficient microfinance lines; in addition, the emergence of collateral also helps the unity of the group, and Increasing the size of funds guaranteed by each other has strengthened the bond between microfinance groups.

5.2 Commercial Bank

Commercial banks will eventually become an important part of the current agricultural financial system in low- and middle-income countries, but this will not happen soon. Commercial banks in high-income countries are important lenders for agriculture (including family farms). In the United States, more than half of agricultural loans are operated by commercial banks. This means that community banks in rural areas now have special opportunities to obtain agricultural loans and become important lenders. Commercial banks have specially trained agricultural loan officers as important staff. He and farmers work together to formulate agricultural budgets and loan plans and follow up to ensure repayment. If there is no bad weather, the default rate is close to zero. In

agriculture susceptible to weather, a relatively high percentage of rural bank loans poses a risk problem.

In low- and middle-income countries, commercial banks are located in major urban centers and are unwilling to expand into rural areas. This is because they see difficulties in the scale of local branches and believe that agricultural loans are very risky because of lack of internal agricultural expertise. In the long run, commercial banks will gradually expand to cover smaller urban centers, and will eventually become a useful source of competition to provide loans to small commercial farmers. They will be attracted by the huge potential for increasing rural deposits.

For a commercial bank to play a role in the mortgage of biological assets, two conditions must be met. First, they must establish a large number of rural branches, which must be distributed in all larger market towns. Second, they must be equipped with qualified technical agricultural loan officers in each branch. Ideally, several banks can set up several branches that meet these conditions, and then set up more branches. Commercial banks will become an important part of the competitive agricultural credit system. Commercial banks have the professional advantage of risk control in the financial field. To promote loans that use biological assets as collateral, they should strengthen their agricultural expertise and integrate them into rural financial activities. Through specialized operations, they can effectively understand agricultural financial risks and control them to a certain extent. Within the level, to ensure the orderly development of this financial instrument.

5.3 Biological asset mortgage professional financial institution

With the development of agricultural modernization, the biological assets of rural and agricultural enterprises will show a trend of large-scale development. The increase in the importance of biological assets is in line with the requirements for the development of financial specialization. As the pilot is fully rolled out, the reality requires the establishment of a financial institution dedicated to biological asset mortgage loans to fill the existing existence between microfinance and commercial banks. Huge gap.

This financial institution provides financing based on biological assets nationwide, and it should grasp four key points: First, establish many convenient locations. Surveys have repeatedly shown that location convenience is one of the most important factors for farmers in the financial system (Desai and Mellor, 1993). They know that using this system requires multiple visits, and it is impossible to go to a big, distant city. Neighboring branches are also important to ensure that loan officials understand borrowers. Secondly, each branch is equipped with a professional and technically competent loan specialist to ensure that a large and growing number of profitable loans can be repaid on time and in full. This is a key condition in the system. This official must receive high-level agricultural technology training and have experience in agriculture. Loan officers need to be trained in accounting, farm budgeting, and loan rules, and work closely with local boards. A knowledgeable loan officer can greatly reduce the risk. Biological assets are usually seasonal and determine the precise timing of loans and repayment periods. This timing varies from region to region and even from farm to farm, depending on the specific crops grown and natural conditions. Loan officials must understand agricultural technology and local conditions. The loan commissioner's task is to ensure that the loan generates income so that it can be repaid in full. Third, the establishment of a community-level board, that is, a local board composed of knowledgeable farmers, peasant women, and female heads of household, not through personal guarantees, but through appropriate selection and supervision to ensure good loans and full repayment. In the elected board of directors, a group of respected farmers and farmer wives can ensure that repayable loans are issued, and social pressure is exerted to ensure that the branches are solvent so that the loans can continue. The board of directors brings local knowledge about farms and farmers, which can complement the intense work of loan officials and bring stability to branches. Finally, a higher-level institution raises loan funds for the branch, manages complex accounting and analysis, finds and corrects problems in the branch, and formulates policies for the system. The advent of mobile phones allows branch lenders to focus on

agricultural planning, supervise loans and repayments — and send accounting data directly to top management.

6. Conclusion

Biological asset mortgage loans can be widely used in rural and agricultural development, but the risks of this financial innovation product must be monitored and monitored. In the promotion of this financing tool, the positive role of the government is also essential. First of all, ensure that this financing method has a legal basis, rather than staying at the level of administrative regulations. Only in this way can the financial risk of biological assets as collateral be reduced to a level acceptable to the parties to the contract. Secondly, the government should ensure the effective functioning of basic guarantee functions such as the confirmation of biological assets, value evaluation, epidemic prevention and control, and agricultural technology research. While promoting the healthy development of agricultural financial activities, it is also possible to reduce rent-seeking behavior that may occur in various links. Finally, as an innovative financial method, biological asset mortgage loans should integrate existing financing methods, complement each other, complement each other, and should not isolate them. This requires financial supervision and the financial system to match it.

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