

A comparative study on the reform of rural credit cooperatives under the strategy of rural revitalization

Zhuyao Yin^{1*}, and Tingli Wu²

¹Jiaying Nanhu University Jiaying, Zhejiang Province, China

²Jiaying, Zhejiang Province, China Jiaying, Zhejiang Province, China

Abstract. Rural credit cooperatives are the main force serving "agriculture, rural areas and farmers" in China. Zhejiang and Shaanxi are the first pilot provinces of the rural credit cooperative reform in China. The research on the reform of rural credit cooperatives in Jiaying, Zhejiang and Yan 'an, Shaanxi shows that there are significant regional differences in the reform and development of rural credit cooperatives. Yan'an rural credit institutions play a more prominent role in supporting agriculture, but Jiaying rural credit institutions have comparative advantages in overall operational efficiency, anti-risk ability, profit model and other aspects. On this basis, it is proposed to follow the principle of "six insistence" in promoting the reform of rural credit cooperatives, continuously improve the operating capacity of rural credit cooperatives, and promote the supply side structural reform of rural finance.

1 Introduction

Rural Revitalization is a major strategic decision to do a good job in the work of "agriculture, rural areas and farmers" In order to better meet the diversified financial needs of rural revitalization, we must adhere to the correct direction of rural financial reform and establish a rural financial service system suitable for the characteristics of "agriculture, rural areas and farmers". Rural credit cooperatives are the main force and the most important financial factor allocation institution serving "agriculture, rural areas and farmers" in China. They are an important financial link for fighting poverty and implementing the Rural Revitalization Strategy.

At present, the academic research on the reform of rural credit cooperatives mostly focuses on efficiency and supervision. As rural commercial banks are a unique type of banking institutions in China, there is no such concept abroad. The relevant research is mainly based on agricultural, county and rural financial institutions [1]. Cheng Chao and Lin Liqiong (2015) found that due to the relatively backward financial infrastructure and insufficient competition in the banking industry in China's county areas, the "small bank advantage" theory is still applicable in China's county areas [2]. Lin Yifu (2012) believes that due to the small capital scale of regional small and medium-sized banks and their better understanding

* Corresponding author: 670790608@qq.com

of the credit and operation status of local small and medium-sized enterprises, the information cost is low, which is most suitable for financing small and medium-sized enterprises [3]. Cao Yuanzheng (2002) questioned that rural credit cooperatives have become quasi state-owned commercial financial institutions. Because their governance structure and incentive institutions are similar to government administration, they not only do not play the role of small agricultural loans in supporting the rural economy, but have heavy bad debts and serious losses, which need relief and Reform [4]. To sum up, rural credit cooperatives should achieve sustainable development through transformation, and the regulatory authorities need to create a good business development environment for them.

Over the past 15 years of reform, China has continued to promote the reform of rural credit cooperatives and achieved remarkable results [5-7]. In order to deeply understand the regional differences in the reform and development of rural credit cooperatives, find out the specific reasons and put forward targeted policy suggestions, this paper selects two “red cities”[†], Jiaxing in Zhejiang and Yan'an in Shaanxi, as the representatives of eastern and western cities for comparative research. From the scientific point of view of comparative analysis, the GDP of the two cities ranks sixth in the province (Zhejiang and Shaanxi both include 11 prefectures and cities), and the basis of economic development is comparable. At the same time, the data samples of rural credit institutions in the two places are comprehensive and convenient for statistics, and the comparative analysis is scientific and operational.

2 Regional comparison of the operation status of rural credit institutions in the two places

Generally speaking, after 15 years of reform, the asset scale, deposit and loan balance and profitability of rural credit institutions in the two places have been greatly improved, the non-performing loans have been significantly "double reduced", the capital strength has been improved, and the ability to support agriculture has been continuously enhanced [8-11]. From the reform results, the reform process of rural credit cooperatives in Jiaxing is significantly faster than that in Yan'an, and the reform of rural credit cooperatives in the two places is also unique.

2.1 Yan'an rural credit institutions play a more prominent role in supporting agriculture

By the end of 2018, the loan balance of Yan'an rural credit institutions was 25.890 billion yuan, accounting for 21.8% of the loan balance of all financial institutions, 7.0 percentage points higher than that of Jiaxing. The loan balance ranked first among the financial institutions of the Ministry of security of Yan'an (Jiaxing ranked second); The balance of agriculture related loans was 14.759 billion yuan, ranking first in the city, accounting for 35.3% of the balance of agriculture related loans of all financial institutions, 12.8 percentage points higher than that of Jiaxing; There are 202 outlets of rural credit institutions, accounting for 54.74% of all outlets, 24.4 percentage points higher than that of Jiaxing. In addition, as an old revolutionary base, rural credit institutions in Yan'an are undertaking the arduous task of financial targeted poverty alleviation. As of June 2019, a total of 617 million yuan of poverty alleviation microcredit has been issued, accounting for 72.25% of the city's poverty

[†] Red cities: the revolutionary memorial site and the city bearing the revolutionary spirit.

alleviation microcredit, which has made an important contribution to Yan'an's taking the lead in overall poverty alleviation.

2.2 Jiaxing rural credit institutions have relatively strong profitability

In terms of net profit, Jiaxing rural credit institutions realized a net profit of 2.083 billion yuan in 2018, an increase of 259 times over 2002; Yan'an rural credit institutions realized a net profit of 186 million yuan, an increase of 30 times over 2002. In terms of profit margin, in 2018, the asset profit margin of Jiaxing rural credit institutions was 1.06%, 0.58 percentage points higher than that of Yan'an; The capital profit margin was 12.81%, 5.41 percentage points higher than that of Yan'an. In terms of cost income ratio, the cost income ratio of Jiaxing rural credit institutions was 30.46% in 2018, 12.66 percentage points lower than that of Yan'an rural credit institutions.

2.3 Jiaxing rural credit institutions have relatively strong anti-risk ability

In terms of capital adequacy ratio, at the end of 2018, the capital adequacy ratio of Jiaxing rural credit institutions was 14.07%, 1 percentage point higher than that at the end of 2015, and showed a continuous upward trend; The capital adequacy ratio of Yan'an rural credit institutions was 13.10%, down 1.81 percentage points from 2015. In terms of non-performing loan ratio, at the end of 2018, the non-performing loan ratio of Jiaxing rural credit institutions was 1.05%, down 0.35 percentage points from 2015; The non-performing loan ratio of Yan'an rural credit institutions was 7.07%, an increase of 2.1 percentage points over 2015 and 6.7 times that of Jiaxing. From the perspective of provision coverage, at the end of 2018, the provision coverage of Jiaxing rural credit institutions was 684.14%, an increase of 219.56 percentage points compared with 2015, and the provision coverage of Yan'an rural credit institutions was only 127.29%, a decrease of 77.48 percentage points compared with 2015.

2.4 Jiaxing rural credit institutions have more diversified profit models

In 2018, the net interest margin of Jiaxing rural credit institutions was 2.92%, 2.33 percentage points lower than that of Yan'an (5.25%); The net interest income accounts for 57.50% of the operating income, 17.28 percentage points lower than that of Yan'an. The interest and other traditional business income of Jiaxing rural credit institutions is significantly lower than that of Yan'an. In 2018, Jiaxing rural credit institutions' investment business income and net income from handling fees and commissions were 2.452 billion yuan and 123 million yuan respectively, accounting for 38.55% and 1.93% of the revenue respectively, 30.91 and 2.04 percentage points higher than Yan'an (net income from handling fees and commissions was - 02 million yuan). Investment business and intermediary business income have gradually become an important channel for the income growth of Jiaxing rural credit institutions.

3 Analysis on the reasons for the differences in the operation of rural credit institutions between the two places

3.1 There are differences in the level of economic and financial development

In this paper, the comparative research method is used. Two cities with similar development levels are arranged together to make a comparative comparison: through a comprehensive comparison of their differences in operating inventions, we can find out what causes the differences and what factors cause them. By the end of 2018, Jiaxing's GDP was 487.2 billion

yuan and its local fiscal revenue was 51.85 billion yuan, 3.1 and 3.5 times that of Yan'an respectively. The reform of agricultural institutions in Jiaxing is supported by the government of Yan'an. For example, during the central bank's special note exchange period, six rural cooperative institutions in Jiaxing received a total tax reduction of 1.64 billion yuan, and the local government gave preferential support of 150 million yuan, with an average of nearly 300 million yuan for each institution. Yan'an received a total of 830 million yuan of tax relief, with an average of 60 million yuan for each institution, only 21% of Jiaxing. The strong support of the government has accelerated the reform process of Jiaxing rural cooperative institutions and reduced the burden.

Table 1. Comparison of results before and after the reform of rural credit institutions in the two places.

Unit: 100 million yuan,%

	Jiaxing			Yan'an		
	2002	2018	Changes	2002	2018	Changes
total assets	252.18	2014.18	+700%	26.82	447.32	+1570%
deposit	177.69	1721.81	+870%	16.07	379.76	+2260%
loan	122.6	1065.42	+770%	13.25	258.90	+1850%
Net profit	0.08	20.83	+25900%	0.06	1.86	+3000%
Non-performing loan ratio	20.57	1.03	-19.54%	37.12	7.07	-30.05%
Provision coverage	28	678	+650%	3.16	127.29	+124.13%

Data source: Local financial statistics Yearbook and website of People's Bank of China

3.2 Differences in financial ecological environment

First, the financial volume of Jiaxing is stronger than that of Yan'an. By the end of 2018, the balance of various loans in Jiaxing was 686.338 billion yuan, 5.78 times that of Yan'an. Second, the competition pressure of Yan'an rural cooperative medical institutions is small. The number of banks in Yan'an county and district is generally less than 10, and the county-level agricultural cooperative institutions have strong competitiveness in the local area; The number of banking institutions in all counties and districts of Jiaxing is more than 20. Under the pressure of competition, Jiaxing rural cooperative institutions have more willingness and motivation to develop intermediary business. Third, Jiaxing has made greater efforts in bank enterprise cooperation. Zhejiang associated press has established cooperative relations with large enterprises such as Sinopec, China Telecom and Tencent, and built a cooperation platform, which is conducive to the implementation of major measures of Jiaxing rural cooperative institutions in Inclusive Finance, retail transformation, community banking, scenario application and so on.

3.3 Differences in internal governance structure

In terms of ownership structure, natural persons in Yan'an rural cooperative institutions accounted for 65.5%, 10 percentage points higher than Jiaxing. The average shareholding

amount of natural persons was 97400 yuan, 50600 yuan lower than Jiaxing. In terms of profit distribution, the proportion of cash dividends of Yan'an rural cooperative institutions accounted for 53.2% of the net profit, 31 percentage points higher than that of Jiaxing. In terms of incentive and restraint mechanism, Jiaxing rural cooperative medical institution divides the leading group of the bank into five categories: "development", "promotion", "enterprising", "development" and "growth", and carries out the annual comprehensive evaluation of duty performance according to the two parts of operation and management (accounting for 80%) and key work (accounting for 20%). However, Yan'an has not fully implemented the line evaluation since August 2018, and the implementation of the evaluation and accountability system is relatively weak.

4 Common problems in the reform and development of rural credit cooperatives in the two places

4.1 Defects in industry management mode

The two rural credit institutions have the following two problems: first, the composition of property rights and functional requirements conflict. The provincial associated press is a financial institution with the status of an independent enterprise legal person, which is composed of rural credit institutions under its jurisdiction according to the principle of joint-stock cooperation. It is the role orientation of "athletes" and "referees", resulting in the conflict between its functions. Second, the responsibility orientation and responsibility boundary are ambiguous. The management and service mode of the Provincial Association for rural credit institutions is easy to lead to the administration of industry management, which is manifested in the actual control of people, finance and materials of rural credit cooperatives and the intervention of specific business activities. According to the survey, the documents issued by the provincial associated press to rural credit institutions basically cover the selection and employment of senior executives, financial management, fund allocation, business operation, business performance evaluation and other aspects, which restricts the independent development of rural credit cooperatives to a certain extent.

4.2 Insufficient business development and innovation ability

The survey found that the business innovation ability of rural credit cooperatives in the two places is still relatively weak, which is mainly reflected in three aspects: first, the ability to absorb funds is insufficient. There are few deposit products developed by rural credit institutions, mainly traditional time deposits, and most of the interest rates are benchmark interest rates. Compared with other financial products with annual yield of about 4% - 5% and flexible term, they are not attractive. Second, the innovation of credit products is insufficient. On the surface, the mechanism of rural credit institutions is more flexible and easy to innovate credit products. However, due to financial strength, lack of talents and other reasons, rural credit institutions have less credit products that really have influence and can meet the needs of county and rural capital subjects, weakening the market competitiveness. Third, the market reaction is slow. Compared with state-owned banks and joint-stock banks, rural credit cooperatives have insufficient grasp of the overall economic situation, policy trend and industry analysis, insufficient sensitivity to changes in the market, and backward business guidance and ideas.

5 Results and discussions

The research on the reform of rural credit cooperatives in Jiaxing, Zhejiang and Yan'an, Shaanxi shows that there are significant regional differences in the reform and development of rural credit cooperatives. The main reason is that there are significant differences in the level of economic and financial development, government support, ownership structure, incentive and restraint mechanisms between the two places. In addition, after more than ten years of reform, there are still two common problems in the industry management mode, business development and innovation of rural credit institutions in the two places. Based on the above analysis, this paper puts forward the following relevant policy recommendations:

5.1 Adhere to the combination of stable legal person status and appropriate classification of rural credit cooperatives

The reform of rural credit cooperatives does not lie in the level of legal person, but in the reasonable market positioning according to the actual situation of rural economic development. When considering the legal entity level of rural credit cooperatives reform, we should adhere to the principle of "seeking truth from facts and promoting by classification", pay attention to the reality of regional economic development, and determine a reasonable legal entity level on the basis of considering the resources of potential investors and referring to the local economic development level, agricultural industrialization degree, asset business scale and other factors, which should be conducive to the introduction of qualified investors and give full play to the binding function of equity.

5.2 Adhere to the combination of improving the corporate governance structure and optimizing the ownership structure of rural credit cooperatives

We should appropriately optimize the ownership structure, introduce a group of strategic investors and financial investors who agree with the rural credit cooperatives' strategy of serving agriculture, rural areas and farmers and pursue long-term investment value, and optimize the governance structure of rural credit cooperatives. In terms of equity setting, we should achieve reasonable structure and balanced distribution. We should not only prevent the rural credit cooperatives from being controlled by a few major shareholders due to the excessive concentration of equity, so as to turn them into "cash machines" for investors, but also prevent them from being controlled by insiders due to the excessive dispersion of equity. At the same time, the qualification of investors should be carefully reviewed to prevent "taking shares with diseases".

5.3 Adhere to the combination of strengthening the service function of provincial association and the reform of de administrative management system

According to the principle of "separating government from enterprises, standardizing the performance of duties, stabilizing the county and strengthening services", we should weaken the administrative management of the Provincial Association; According to the function of highlighting "managing risks, strengthening services and promoting coordination", build a middle and back office service platform, enhance the group service function and guide it back to the track of industry management. In terms of the selection and appointment of senior executives of rural credit cooperatives, gradually weaken the administrative appointment and management mode of the provincial Associated Press, select and appoint outstanding

financial management talents outside the system by means of open selection and market-oriented competition, and optimize the talent structure of the rural credit system.

5.4 Adhere to the combination of profitability and agricultural support of rural credit cooperatives

We will promote the rural financial service function and sustainable development of rural credit institutions. On the one hand, rural credit cooperatives should give full play to their network human advantages with wide coverage, make use of the business characteristics of rooted in rural areas, facing "agriculture, rural areas and farmers" and serving thousands of families, and realize the unity of social and economic benefits in the reform and development. On the other hand, local governments should establish and improve credit risk compensation mechanisms at all levels to make up for the additional market risks borne by rural credit cooperatives in agricultural support services and enhance their rural financial service capacity and enthusiasm.

References

1. Opinions of the CPC Central Committee and the State Council on implementing the Rural Revitalization Strategy [EB] Bulletin of the State Council of the people's Republic of China (January 2, 2018)
2. Cheng Chao, Lin Liqiong, *Bank scale, loan technology and financing of small and micro enterprises -- are examination of the theory of "small bank advantage"* [J]. Economic science, **(4)**, 54-66 (2015)
3. Lin Yifu, *Special topics on China's economy (Second Edition)* [M]. Peking University Press, Beijing (2012)
4. Cao Yuanzheng, *Basic problems of China's financial reform* [J] Economic research reference, **(15)**, 17 (2002)
5. Gong Ni, *An analysis of the effectiveness of China's rural financial supervision policy - - from the perspective of rural small and medium-sized financial institutions* [D] Sichuan: Southwest University of Finance and economics (2014)
6. Deng Xianghong, Jiao Jinsong, Ang Lee, *Transformation of rural commercial banks: current situation, gap and optimization path -- Taking S City as an example* [J]. Research on financial regulation, **(12)**, 92-104 (2016)
7. Liu Chaoyang, Chen Danni, *Research on institutional efficiency of rural commercial banks (rural credit cooperatives) -- An Empirical Study Based on Guangdong* [J]. Rural finance research, **(09)**, 35-41 (2020)
8. He Lu, *Research on risk management of new rural financial institutions* [J]. Shang, **(12)**, 137-137 (2014)
9. Wang Zhenhong, *Problems and Countermeasures of rural financial development in Shandong Province -- from the perspective of international experience* [J], agricultural economy, **(11)**, 87-90 (2013)
10. Yang Ye, Yang Shenggang, *Research on the effectiveness of rural commercial banks in supporting agriculture from the perspective of target deviation -- Based on the data of 107 rural commercial banks in Hunan Province* [J], China soft science, **(2)**, 42-53 (2018)
11. Zhang G., *Review and reflection on the reform of rural credit Cooperatives* [J]. Financial Economics, **(11)**, 75-79 (2020) (In Chinese)