

Improve the Investment and Financing Environment and Promote Sustainable Development of Agriculture in Shandong Province, China

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Abstract

With rapid development of the economy, the industrialization of agriculture of Shandong Province has been expanded, and the investment and the demand for funding also increased. However, agricultural production has a greater vulnerability, constrained by natural conditions, and must rely on external investment and financing support. And good rural finance environment, can promote the healthy development of the financial industry, in turn strongly support and promote economic development and social progress. Conversely, poor financial environment will hinder the healthy and orderly development of the financial sector and ultimately affect the overall economic growth. This article aims to make a in-depth research on the environment for agricultural financing of various regions of Shandong Province and analyzes the problems and shortcomings of the soft environment for agricultural financing, and gives policy proposals, so as to provide reference views for the built of rural finance environment of Shandong province.

Key words: Agriculture investment; Financing; Financial environment; Methods

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INTRODUCTION

Joseph Nye is a professor of Harvard University who first proposed the concept of soft power. This concept was originally defined as: “the ability of a country by attracting and persuading other countries to obey your goals so that to get what you want.” Although this concept is for the act of state, but it clearly indicates specific content characteristics of the soft power, that is the importance of the environment on the target. China is still in economic transition and its external environmental uncertainty is very strong. Therefore, in formulating and implementing investment and financing policies, we must grasp its external environment, pay attention to the effective integration of investment and internal and external environment. SWOT analysis method or PEST analysis method can be used to analyze the political, economic, social, technical, legal and business operating environment. Only in this way we can promote sustainable economic development.

Shandong province is a major agricultural province, and agriculture occupies an important position of the province's economy. In 2008, added value of the industry total 300.3 billion yuan, an increase of 5.1%, accounting for 9.67% of total provincial GDP. Agricultural output as well as meat, eggs, aquatic products, vegetables, fruits, oil production etc ranks first in the country. The steady growth of agricultural production is the foundation of the sustained, rapid and healthy development of the province's economy. With rapid development of the economy, the industrialization of agriculture of Shandong Province has been expanded, and the investment and the demand for funding also increased. Therefore, the industrialization of agriculture to create a favorable environment for investment and financing, to meet the financial needs of agricultural production, has become an important issue which must be resolved, This article aims to make a in-depth research on the environment for agricultural financing of various regions of Shandong Province and analyzes the problems and shortcomings of

the soft environment for agricultural financing, and gives policy proposals, so as to provide reference views for the built of rural finance environment of Shandong province.

1. PRESENT SITUATION OF AGRICULTURAL INVESTMENT AND FINANCING OF SHANDONG

Shandong Province, a traditional agricultural province, its financing environment of agriculture are very representative. Now it seems that the main source of funding is the form own funds of farmers, at the same time, governments at all levels of the fiscal subsidies expand the funds and supports to agriculture. In external financing, China Agricultural Development Bank, Agricultural Bank of China and rural credit cooperatives were also set up in Shandong Province, which are in mutual division of labor and become a rural financial system. In addition to formal financial institutions, there are widespread non-formal financial institutions and private lending. In general, there are three forms of the source of funds that can be invested into agriculture in Shandong Province: farmers' own funds, government spending and loans from financial institutions.

It should be noted that China's financial institutions give small-scale credit, low credit support for agriculture and rural , the financing situation of agriculture in Shandong Province is typical representative. With withdrawal of the Agricultural Bank of China from the rural areas, the main financing channels of agriculture and rural areas of Shandong Province is from the rural credit cooperatives, but the capital size of the rural credit cooperatives is relatively small, so the ability of financial support for agriculture is limited; and for their own business considerations, they tend to provide large loans to businesses, and transfer the farmers deposit to businesses areas, so that the problem of insufficient funds in agriculture and rural areas is more serious. .

Another aspect, the external environment and basic conditions of the financial operations including economic factors, legal factors, credit factors, cultural and political factors plays an important role on the efficiency of investment and financing of financial institutions. And the constraints of the soft power in the economic development further weaken the positive of financial institutions for investment, making agricultural investment and financing issues become more prominent.

2. FINANCIAL ENVIRONMENT PROBLEMS THAT FACED BY AGRICULTURAL FINANCING OF SHANDONG

2.1 Lags of the Financial and Legal Environment

and its Supporting Measures

Legal environment is the main component of the financial environment, which will directly affect the financial ecology. The built of financial and legal system has a direct impact on the orderly, stability, balance and innovation of financial environment, and determine the future development of financial environment Overall, with the reform and opening up, especially with the deepening of financial reform in recent years, more and more attention has been paid on the protection of financial debt by Shandong Province, local government and judicial, so the financial legal environment has been greatly improved. Statistics show that from 2001 to 2005, the rate of financial claims in favor of financial debts of Shandong Province increased every year. However, now not only Shandong Province, on the whole, the financial legal environment is still not sound and complete. Because some important issues of China's financial environment in not resolved yet to the level of the national legal system. The legal system is lagging which constraints the financial ecology, Imperfections of the current financial legal environment mainly in the following areas:

Firstly, the standardized market exit mechanism for financial institutions is lack. China's current regulated bankruptcy market mechanism of financial institutions has not been established. On the one hand, over-protection of the financial sector, leading to poor management as well as insolvent financial institutions can not exit out of the market. As the lack of legal system of bankruptcy of financial institutions, the central bank and government at all levels had to take non-market means of rescue, making the risk of problem financial institutions to continue to accumulate, which ultimately affect the asset quality and operating standards of all financial system. On the other hand, even some financial institutions take small amount measures of market exit, and it is still mainly done through administrative means, with a clear policy features.

Secondly, the existing law can not adapt to the changing needs of economic and financial situation and have an inadequate protection of financial claims. For example, China's current "Bankruptcy Law" was enacted in the 1980s, which is mainly aimed at policy bankruptcy of state-owned enterprises. With the development of market economy, the coverage of the Act, liquidation, bankruptcy, etc. have been unable to meet the requirements of market economy, leading to a situation that bank creditors, particularly the interests of creditors can not be adequately protected. This allows unscrupulous businesses to be able to use the "Bankruptcy Law" loopholes and through the opportunity of corporate restructuring, bankruptcy escape from the bank debts .

Thirdly, the financial efficiency of law enforcement is low and the environment of law enforcement is poor. Defects in the current financial environment for law enforcement is long-time implementation, complicated procedures and high cost. The status of proceedings and

enforcement results is out of touch. Even if the banks win, the implementation is difficult. Through litigation, banks often not only can not claim repayment from the companies, but also lose the huge litigation costs and attorneys' fees.

2.2 Shandong's Social Credit Environment is Not Sound or Perfect yet Which can Not Fully Meet the Needs of Sustainable Economic Development

Credit awareness of society members is weak. Shandong Province, on the whole, although it is a big economic province, its economy is mainly based on agriculture and industries, the third industry is not mature enough, especially in commerce and trade which is not boom like Zhejiang, Guangdong, resulting in underdeveloped credit trading market. Awareness of personal credit, credit concept of business and farmers is still relatively weak who are general lack of credit awareness and credit ethics under the condition of modern market economy.

Lack of effective promises constraints and punishment mechanism. In some cases of dishonesty and fraud trial, there is a serious local protectionism tendencies. Some basic law enforcement department is influenced by local businesses and government and in the judicial process intends to favor local enterprises at the expense of the interests of creditors, resulting in a lack of strict dishonesty and punishment mechanism.

Credit system, intermediaries are not perfect. The built of social credit information collection system and the credit agency is still in its infancy, and credit information of the public and even institutional investors is also lack of effective assessment and accurate estimation. At present, mainly credit agency of Shandong Province are mainly credit guarantee agencies, accounting firms and the credit rating agencies which are in the early development stage. However, most existing credit agency has small funds scale, low-security multiple and poor professional services and professionalism and credibility, which increases the cost of banking transactions. As lack of authority credit rating agencies, many commercial banks have their own way to develop corporate credit rating, although covering credit compliance, management practices and risk management capabilities, etc., there are also problems that the design is not scientific and rating criteria is not uniform and assess issues has limited scope, etc.

In a word, through the analysis of agricultural financing environment of Shandong, the current financing environment simply can not meet real needs and become a bottleneck restricting the development of agricultural production.

3. POLICY PROPOSALS FOR SHANDONG TO IMPROVE THE AGRICULTURAL INVESTMENT AND FINANCING ENVIRONMENT

3.1 Improve the Legal System and Law Enforcement Environment of Financial Environment, and Protect Financial Claims

To optimize the financial environment in rural areas, we must improve the financial legal environment, which is basic for building a good financial environment. The central government, should take the following measures: First, to amend the the "Bankruptcy Law" which is closely related to protection of the bank debt, improve the legal system for financial institutions bankruptcy, establish a market-oriented mechanism for corporate bankruptcy. Strengthen the legal status of creditors in corporate bankruptcy, especially give the creditors the right to apply for corporate bankruptcy and restructuring to avoid evasion of bank debts. Second, modify the "Criminal Law", and strengthen efforts to combat financial fraud. Only through severely punishment on criminal acts like misappropriation of funds, assets of customers, we can effectively maintain social order and financial stability and make the financial environment play the self-regulatory function.

For the local government in Shandong Province, it should take the following measures: First, to accelerate the development of not only basic system but also other local laws, government regulations and other regulatory documents which are related to the built of financial ecological environment. Second, strengthen fair law enforcement, to further improve the complete rate of financial case. Third, improve the protection mechanism of the financial justice, establish a coordinated system of protection of financial claims. Courts at all levels, public security, taxation, the People's Bank and the financial supervision departments should strengthen coordination and close cooperation. Each financial institution should consult the court when litigation cases occur and the court should actively provide legal support for financial institutions.

For the various financial institutions, they should strengthen collaboration to "fight to escape" together. All financial institutions should unify their thinking, increase awareness of financial risks. Enhance communication and through the sharing of information resources, account management and other measures to constraint the enterprises; strengthen ties with the government and the judiciary and apply for understanding and support from the government and the judiciary to create a favorable environment against bad firms.

3.2 Strengthen the Construction of Social Credit System; Cultivate a Good Credit Environment; Create Faith in Shandong

Market economy is the credit economy, the legal economy, and good social credit ensure to establish specific socialist market economic order. It is important to effectively guard financial risk and is the foundation of normal operation of modern economy and finance. To optimize

the investment and financing environment in rural areas of Shandong Province, we must accelerate the improvement of the credit system, enhance the governance and law enforcement of credit environment, provide a good credit environment for financial environment.

Carry out honest education in rural areas, establish positive incentives and reward systems, develop a social atmosphere of honesty and trustworthiness. Strongly encourage and praise the honest businesses and farmers through the news media, and increase the punishment mechanism on dishonesty, so make the businesses and individuals with good credit fully enjoy the benefits and convenience and make a corporate and personal with poor record pay the price, so make trustworthy an optimal rational economic behavior. All financial institutions strengthen the study and use on financial environment, and increase authorized credit for the parts with good financial environment in a timely manner, increase credit support to enterprises with good credit and give insurance rate incentives to promote the establishment of incentives to improve the financial ecological environment.

Accelerate the built of enterprise and individual credit system, improve the social credit system. The People's Bank should actively promote credit information database construction of corporate and individual. Industry and commerce, taxation, public security, the People's Bank, the financial regulatory authorities should timely open the information of illegal business, insurance fraud and theft, escape, cheat, less, tax resistance and other relevant information to the public through the network and other carriers. Improve the open sharing of credit data for financial institutions to provide adequate and real information. So that make credit the one of the most important indicators for banks to rely on and optimize financial environment.

Improve the credit monitoring and management, foster market-based credit agency, and improve the credit intermediary service system.

(1) For the actual situation of Shandong's economic and social development, it is important to gradually improve the credit counseling, credit evaluation and credit guarantee. Encourage and support the development of a series of professional intermediary institutions related to financial environment from the policy, such as law firms, accounting firms, rating agencies, estimation agencies, etc. Carry out services covering corporate credit rating, comprehensive information reports and other special credit reporting services, provide multi-faceted, multi-

level credit services.

(2) Continuously improve the standards of audit, accounting and information disclosure, and actively absorb foreign advanced experience and related forms of organization, make strict industry supervision and industry access. Cultivate a group of large specialized representative intermediaries agency with high levels of integrity while open markets to foreign intermediary to form a good morality atmosphere.

(3) Establish credit guarantee system with characteristics of multi-level, policy and business, and actively explore methods for the existing small-scale security company in restructuring and expand the funds strength and risk control ability of security sectors, promote the built of credit guarantee system, improve the financing environment of SMEs and farmers. Local governments should establish agricultural policy-oriented insurance agency and commercial insurance agency system, set up risk prevention and rescue system with a combination of sound agricultural policy-oriented insurance, financial subsidies, agricultural policy credit funds, and gradually form a multi-level risk share and transfer mechanism for agricultural disaster .

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