

FINANCIAL FUND SUPPORTING AGRICULTURE IN CHINA

Lu Yao

Institute of Geographical Sciences and Natural Resources Research, Chinese Academy of Sciences, Beijing, P.R. China.

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Summary

Financial fund supporting agriculture refers to the fund invested by the state finance departments in agriculture, forestry, water resources and fishing, industry etc. in order to support sustainable agricultural production and to develop agricultural enterprise. Financial support to agriculture includes expenditures for national agricultural capital construction and undertakings, operating expenditure for the departments of farming, forestry, water conservancy and meteorology etc., financial expenditure for agricultural production, appropriation for rural countryside relief and subsidy to agriculture.

The financial support to agriculture in China has diversified channels and forms. Since the Reform in 1978 there has been a split in the functional authority of financial support to agriculture, between the central authority and local government.

In recent decades, the scale and structure of financial support to agriculture in China have changed a lot. The total fund supporting agriculture has increased continuously, but its proportion to total state financial expenditure has dropped. At the same time, expenditure for agriculture and related affairs has been increased and expenditure for capital construction has fluctuated.

Recently, there have been changes in financial support to agriculture. Firstly, the input to agriculture has increased. Secondly, focal points for using funds to supports agriculture have been identified. Thirdly, propelling agricultural industrialization forward has been a characteristic of rational structural adjustment of the financial fund supporting agriculture. Fourthly, perfecting the regulation, strengthening management, deepening the reform of financial support to agriculture and agricultural financial affairs. Fifthly, the scale of indirect financial agricultural expenditure, with price subsidy as its main component, has been enlarged continually.

But there are still some problems in current financial support to agriculture, such as tardy adjustment of policy targets, and serious diversion of the financial fund. Henceforth the target of policy on financial support to agriculture should be adjusted according to the needs of agricultural development. The management of the fund supporting agriculture should be perfected.

Since new China was founded, especially since China's reform and opening up to the world, agriculture in China has made outstanding achievements. It has fed 22% of the global population, with only 7% of the world's land. Sustainable and stable development of agriculture in China depends mainly on three factors: rural policy, agricultural science and technology, and fund investment. State financial support for

agriculture, as an important part of the fund invested in agriculture, is a main factor that promotes production of agricultural products and rural economic development.

1. Concepts and category of financial fund supporting agriculture in China

China is a large agricultural country, and for long time the Chinese government has thought highly of sustainable development of agriculture. It has invested heavily in agriculture by means which include a governmental financial fund, a bank credit fund, a rural collective fund, a farmers' fund for agricultural production and support of agricultural projects from foreign investors. Among them, the financial fund supporting agriculture is an important component of the agricultural fund in China, which is made up of a central financial fund and a local financial fund. The term financial fund supporting agriculture, includes all funds invested by the state finance department in agriculture, forestry, water resource and fisheries etc. in order to support sustainable agricultural production and develop agricultural enterprise.

Financial support to agriculture includes expenditures for national agricultural capital construction and undertakings, operating expense for the departments of farming, forestry, water conservancy and meteorology etc., financial expenditure for agricultural production, appropriation for rural countryside relief and subsidy to agriculture. Generally speaking, it can be divided into three aspects: expenditure for improving agricultural producing potent, expenditure for supplying rural public goods and expenditure for protecting agriculture. Expenditure for supplying rural public goods includes the fund appropriated by finance budget for rural capital construction, social infrastructure, science and technology, education etc. Expenditure on protecting agriculture includes such indirect input as conducting agricultural investment by governmental finance, paying loan interests to particular agricultural projects, raising the purchase prices of agricultural products, supplying means of production for agriculture at privilege preferential prices and reducing volumes of imported grain, fertilizer and pesticide. So the financial fund supporting agriculture in China comprises not only the direct investment appropriated from the finance budget, but also indirect support, including all kinds of financial subsidy to agriculture.

1.1. Expenditure Supporting Agricultural Production

Expenditure for supporting agricultural production refers to the expenditure appropriated from governmental budget to support various expenses of production incurred by rural collective units and households. It includes subsidy to:

- small water conservation projects,
- well drilling and sprinkler irrigation projects run by villages,
- soil and water conservation measures,
- small power stations run by villages,
- expenditure for combating particularly severe droughts,
- reclamation of rural wasteland,
- expenditure for extension of agricultural technologies and plant protection in rural areas,
- expenditure for protecting grassland, cattle and poultry,

- forestation and forest protection in rural areas,
- rural aquatic industry, and
- special funds to support township enterprises, particularly for developing grain production.

1.2. Expenditure for Agricultural Capital Construction

Appropriation for agricultural capital construction is an important component of national capital construction. This refers mainly to expenditure for capital construction of farmland and water resources in order to improve fundamental agricultural production and social conditions. It principally includes management schemes for large rivers, construction of large irrigation works, building rural roads and highway infrastructure, etc. A lot of material and labor has been supported by government finance over the decades, and much of this has had a detrimental impact on sustainable agriculture and food security.

1.3. Operating Expenses for Departments of Farming, Forestry, Water Conservancy and Meteorology, etc.

Expenditure for agricultural undertakings refers to the expense for agricultural reclamation, farms, agriculture, animal husbandry, agricultural machinery, forestry, timber industry, water conservancy, aquatic products industry, meteorology, technology popularization in township enterprises, extension and demonstration of improved varieties, plant (and cattle, poultry, and forest) protection, water quality monitoring, prospecting and designing, resources investigation, training of cadres, subsidy to horticultural enterprises, expenditure by specialized secondary schools, subsidy to experimental aerial sowing of seeds, expenditure of afforestation and meteorology agencies, expenses for fishery administration, and operating expenses for agricultural administration, etc.

1.4. Expenditure for Countryside Relief

Expenditure for countryside relief refers to the financial budget for poor rural areas affected by natural disasters. It is used to support recovery of agricultural production and to relieve the difficulties faced by farmers in disaster- or poverty-stricken areas. It includes direct subsidies to farmers for production in difficult times.

1.5. Subsidy to Agriculture

Subsidies to agriculture comprises various kinds of direct and indirect subsidies given to agricultural producers and agricultural product managers. The money is paid by finance departments at all levels but, of course, the Ministry of Finance has a large role in this task. The targets and objectives of subsidies to agriculture are to protect farmers' welfare, to maintain the fundamental position of agriculture in the national economy, to guarantee a balance of supply and demand in agricultural products, and to strengthen the competitive marketability of agricultural products. There are currently two trends affecting subsidies to agriculture: those concerned with geographical extent, and the absolute amount of money.

At present, financial subsidy to agriculture mainly refers to price subsidy, which includes the expenditure appropriated, with the approval of government, from governmental budget as a subsidy for price adjustment. The financial support to agriculture took different forms in different historical periods. The subsidy expenditure appropriated by national finance according to the policy in the 1980s mainly included funds for raising grain price, subsidy to the difference between the selling and purchasing prices for grain, cotton and edible oil, awards for excess purchase of cotton, risk fund for non-staple food, price subsidy to meat, subsidy to price difference for curbing the high market prices of meat and vegetables, etc. Under conditions where supply of agricultural products exceeds demand, in order to protect farmers' interests, financial agricultural subsidy by policy is mainly the risk fund expense to establish a price protection system for grain and expenditure supporting price and distribution of other agricultural products. Agricultural subsidy is becoming an important form of financial support to agriculture.

2. Characteristics of Financial Support to Agriculture

2.1 Diversified Channels and Forms of Financial Support to Agriculture

The channels and forms of financial support to agriculture in China have always been diversified. But there are some obvious difference between current financial support channels and the old one since the reform and opening up. Firstly, special funds have been provided in the national budget, providing financial assurance for supporting sustainable and stable development of agriculture and rural economy. For example, in order to help relatively lagging districts to change agricultural production condition and boost the development of rural production construction, the Central Finance set up special funds for agricultural construction in 1980. These were known as “development funds supporting under-developed regions”. In order to support grain production and strengthen the comprehensive productive capacity, national finance set up, in 1986 and 1988, special funds for developing grain production and agricultural development . Secondly, an agricultural financial credit system with compensated input was established. Agricultural finance had been disbursed gratuitously before the reform. The agricultural revolving financial fund was used for compensation only in specific areas and domains in the early 1960s and 1970s. Since the early 1980s, in order to improve the utilization efficiency of limited funds supporting agriculture, based on experience of using revolving financial funds supporting agriculture with compensation in certain areas, an agricultural financial credit system has been set up, and steadily improved, on a national scale. Thirdly, price subsidy, which is an indirect method of supporting agriculture, has been used on a large scale. National finance provided large amounts of price subsidy to agricultural products from the end of the 1970s to the early 1990s, in order to increase farmers' income by heightening the purchasing price of agricultural products, and to protect the interests of citizens by keeping the price of agricultural products relatively stable. At the same time, state finance also arranged a lot of price subsidy to agricultural products. In recent years, the comprehensive productive capacity of agriculture has been greatly improved. Chinese agricultural products have turned from long-term shortage to an essential balance of supply and demand, or to oversupply. And the income of citizen has increased greatly, improving their quality of life and their

ability to tolerate price fluctuations. So subsidy for retail purchase of agricultural products was reduced and finally abolished, while farm gate subsidies for purchase of agricultural products has been increased in order to protect farmers' interest. The protecting price system for purchasing grain was initially established in 1997 and unlimited purchase of surplus grain from farmers with protected price was permitted. Subsidies to operating expenditure for grain from the grain risk fund, are aimed at protecting farmers' interest in planting grain. As regards the extra-budgetary disburse of agricultural administrative departments and public undertakings that aim to make up the shortfall in the budgetary fund, this has achieved risen to a scale larger than that before the reform.

With regard to inter-relationship of expenditure channels for agricultural finance, three characteristics have been apparent following the reform and opening up (see Table1).

Types of expenditure	Principal expenditure items
Direct budgetary expenditure	Expenditure for supporting agricultural production, agricultural undertakings and agricultural capital construction (three items of expenditure in agricultural science and technology)
Indirect budgetary expenditure	Expenditure for countryside relief, reduction or exemption of agricultural tax, price subsidy for agricultural products and means of agricultural production
Extra-budgetary expenditure of financial department	Revolving fund supporting agriculture
Extra-budgetary expenditure of other departments	Expenditure for capital construction, renovation and reconstruction, and administrative undertakings

Table1. Types of Chinese agricultural financial expenditure

1. Budgetary direct expenditure supporting agriculture has been turned partly into extra-budgetary expenditure supporting agriculture. According to the policy, every item of budgetary fund supporting agriculture and the budgetary fund arranged by finance departments at every level, the fund supporting agriculture with compensation transmitted from the previous year constitute the resources of the revolving fund supporting agriculture. This becomes extra-budgetary expenditure supporting agriculture.
2. Indirect budgetary funds supporting agriculture constitute an important supplement to direct budgetary funds. This indirect support includes reduction or remitting of agricultural tax, expenditure on countryside relief, and special discount rates, etc.
3. The budgetary expense for agricultural administrative departments and public undertakings not only make up the shortage in budgetary funds in agricultural administration and undertaking expenditures, but also become the source of budgetary revenue. It has been shown by recent investigations that, among the extra-budgetary expenses of agricultural administrative departments and public undertakings, the undertaking expenditure, which is the highest, constitutes more than 40%; administrative expenditure makes up more than 1%, and the sum delivered to the national purse and transmitted into budgetary revenue constitutes

about 3%. According to the budgetary report, among the forestation funds from 1987 to 1991, the expense used for public security by forest police, procuratorial work and judicature was about 86 million Yuan.

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Biographical Sketch

Lu Yao. Female. Born in 1972. Ph. D. Associate Professor at the Institute of Geographical Sciences and Natural Resources Research, Chinese Academy of Sciences. Graduated from China Agriculture University, majored in Sustainable Agriculture and Rural Development (SARD). Main research field includes: resources and environmental economics, non-point sources pollution (NPSP).