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CHINA

RURAL FINANCE: A SECTOR STUDY

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ABBREVIATIONS AND ACRONYMS

ABC	Agricultural Bank of China
BBC	British Broadcasting Corporation, <u>Summary of World Broadcasts</u>
BOC	Bank of China
BJR	<u>Beijing Review</u>
CBE	Commune and Brigade Enterprise
CBR	<u>China Business Review</u>
CR	Cultural Revolution
CITIC	China International Trust and Investment Commission
FBIS	<u>Foreign Broadcast Information Service</u>
FICC	<u>Foreign Investment Control Commission</u>
GAFX	General Administration of Foreign Exchange Control
IACE	Integrated Agro-Industrial Commercial Enterprise
JPRS	<u>Joint Publications Research Service</u>
JJGL	<u>Jingji Guanli</u> (Economic Management)
JJYJ	<u>Jingji Yanjiu</u> (Economic Research)
MOF	Ministry of Finance
NCNA	New China News Agency
NFSMC	National Federation of Supply and Marketing Cooperatives
NYJJWT	<u>Nongye Jingji Wenti</u> (Problems of Agricultural Economics)
PBC	People's Bank of China
PCBC	People's Construction Bank of China
PICC	People's Insurance Company of China
RCCs	Rural Credit Cooperatives
RMRB	<u>Renmin Ribao</u> (People's Daily)
SCCC	State Capital Construction Commission
ZGBN	<u>Zhongguo Baike Nainjin</u>
ZGNK	<u>Zhongguo Nongken</u> (Chinese Land Reclamation)
ZGJR	<u>Zhongguo Jinrong</u> (Chinese Banking and Finance)



CHINA

RURAL FINANCE: A SECTOR STUDY

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## SUMMARY AND CONCLUSIONS

### An Overview of the Financial System

1. The major objective of this study is to provide a better understanding of China's rural financial system and of those factors which are likely to influence its effectiveness in the years ahead. The country's financial system includes several national level organizations under two administrative jurisdictions operating under the general guidance of the State Council: the People's Bank of China (PBC) and the Ministry of Finance (MOF). The PBC is China's most comprehensive banking institution with some functions similar to those of a central bank in market economies. It is the only organization allowed to issue currency and is responsible for implementing national and regional cash and credit plans. As the center for cash, credit and settlements transactions, it is in theory able to monitor plan fulfillment, efficacy of state financial management and other financial activities of the basic-level units in the economy. The MOF is the national fiscal institution and has the responsibility for compiling the central government's annual budget and long-term financial plans. It supervises the financial work of other ministries and state organs, reviews local government budgets, collects government revenues and makes all budgetary disbursements, most of which are channeled through the PBC, People's Construction Bank of China (PCBC) or the Agricultural Bank of China (ABC). The MOF has a strong influence over China's banks through a relationship which is generally complementary. However, jurisdictional overlap between functions of the MOF and PBC may remain in some areas such as authority over loans for investment and financing of working capital. Coordination of these activities is the responsibility of the State Planning Commission

2. The People's Construction Bank is largely a channel for capital construction funds appropriated in the state budget, but it also makes loans for specialized construction enterprises and is responsible for the settling of accounts in China's capital construction system. It is in charge of implementing the recent policy of converting capital construction appropriations from grants to interest-bearing loans. The Agricultural Bank is the recently-restored institution responsible for unified management of all state financial appropriations for rural areas, except funds for state-budgeted capital construction in agriculture, forestry and hydroelectricity. Other key actors on the financial stage include the Bank of China, which is in charge of foreign exchange transactions, the General Administration of Foreign Exchange Control, which formulates and oversees foreign exchange regulations, the State Capital Construction Commission, which coordinates capital construction expenditures and the China International Trust and Investment Corporation, which facilitates joint ventures with foreign capital. This network is relatively new, with the present arrangement dating only from 1979. Moreover further changes are now being made as a result of the major governmental reorganization of March 1982.

3. Recent reforms of China's financial system are aimed at increasing the efficiency with which financial resources are used. Major elements of these reforms include reassertion of the independence and integrity of the banking system, greater use of economic criteria in evaluating loan proposals, decentralizing decision making in credit allocation, improving the human capital in the banking system through training activities, and increased intermediation by local banking units, including lending for projects which may not be part of the state plan.

#### Resource Mobilization and Allocation in Rural Areas

4. Financing of rural development has been based to a large extent on self-reliance and the mobilization of local resources by producing units. Although 30% of GDP flows through the state budget, revenues collected or spent in rural areas equal only a small portion of rural incomes or total budgetary revenues. Budget revenues originate primarily from taxes and profits of state enterprises. The agricultural tax and taxes on commune and brigade enterprises are the major rural sources of revenues for state coffers, although these together account for no more than about 5% of total budgetary revenues. Extra budgetary funds, which originate from profits, taxes and fees on certain state and collective enterprises and which accrue mainly to local governments and local bureaus, have grown very rapidly in recent years. But, again, very few of these revenues are collected or spent in rural areas. Rural savings and individual deposits in rural banks have increased sharply since 1977, reflecting higher procurement prices and increased production, higher deposit rates paid by financial institutions, improved banking services in rural areas and shortages of some high quality consumer goods. Deposits of private individuals in 1981 accounted for more than 40% of total deposits with the rural credit cooperatives. But despite this rapid growth in individual savings, the major determinants of the volume of resources made available for rural investment are decisions by collective units (communes, brigades, teams) as to the allocation of their income between consumption and investment. Government guidelines are that 5-7% of the net income of collective units should be set aside for investment ("accumulation funds"). But poorer units face difficulties in achieving even these modest levels and therefore find it impossible, without supplementary funding, to break out of low-productivity agriculture or expand into profitable CBE development.

5. Responsibility for investment and production in agriculture is divided among a number of different institutions, including central and local governments, state farms, collective units and individual households. Recent government efforts to improve the efficiency of the financial system have been focused largely at the lower levels of this structure - through introduction of the production responsibility system on state farms and collective units, through an expanded role for private plot agriculture

and by permitting larger roles for local bank units in the mobilization and use of local funds. Rough estimates for 1979 suggest that more than 60% of total operating and investment expenditure in agriculture came from retained earnings of production units and households, while about 30% was provided through bank loans. The balance came from the state budget and extra-budgetary funds. Although relatively small, state budget - financed investment by central and local governments are particularly important in large-scale land development and water conservancy projects. The government also provides important support to agriculture through funding of, e.g., research and higher-level agricultural education. State budget expenditures on agriculture are divided into allocations for capital construction - now about 40% of the total and declining - and support to agriculture, including financial aid to production units in poorer areas.

6. Investment in the state farm sector (which accounts for less than 5% of the country's arable land) has been financed largely through state budget grants. With the recent emphasis on improving the efficiency of this sector, bank loans and retained earnings are being emphasized as increasingly important sources of production and investment finance. This shift in sources of finance is made possible by the improved financial performance of state farms -- after a long period of annual losses, the state farm sector as a whole reported profits in 1979 and 1980.

7. The collective system accounts for about 60% of agriculture's capital expenditures and up to 90% of its annual expenditure on production inputs. At the level of the production team, the major investment is labor by team members for land development and water conservancy works. In recent years, financial investment in farm machinery (pumps, engines, hand tractors, etc.) appears to have become more important. Extension of the production responsibility system is shifting a larger share of production expenditures from the team to the household or production group and is resulting in some cutback in financial outlays for large machine services or production inputs deemed uneconomic. Although own funds continue to be the most important source of financing production expenses by teams, use of bank credit is increasing. Financing of investment by brigades and communes in small-scale water conservancy works has come largely from accumulation funds and labor contributions of teams. Surveys suggest that inadequate funds to purchase e.g. pumps, engines and well-construction services, is one factor constraining development in high weather-risk areas such as the North China Plain.

8. Production teams are now allowed to set aside up to 15% of cultivated land as private plots on which families may produce the crops or animal products of their choice. Private plots contribute up to 30% of total household income and household expenditure on private plots may account for as much as 20% of total capital expenditures in agriculture. Until recently, finance for private plot agriculture came largely from household savings. Loans to households from rural credit cooperatives

(RCCs) are growing rapidly (Y 1.1 billion at end 1979 to Y 2.9 billion as of the third quarter, 1981) and may now account for about one-quarter of total RCC loans outstanding. In the period January-August 1981, lending to individuals tripled when compared with the same period of 1980.

9. Commune and brigade enterprises (CBEs) employ about 10% of the rural labor force and account for one-third of incomes and assets of communes, brigades and teams. Their rapid growth in recent years reflects a favorable price regime (relatively low-cost raw materials, high prices for finished products) and tax and other incentives. Demand for CBE investment funds has grown apace and has been met from a variety of sources, including, in estimated order of importance, retained earnings, bank loans, contributions of labor by team members, and state budget allocations. Some experiments in CBE funding using sales of stocks and bonds have also taken place. At the end of 1980, ABC loans to CBEs totalled Y 4.8 billion, or some 10% of ABC's loan portfolio.

10. The financing of rural commerce, particularly the activities of the National Federation of Supply and Marketing Cooperatives (NFSMC) and commercial departments of the Ministries of Food and Commerce, have made large demands on the rural financial system. Most of this is working capital to finance inventories, some of which reportedly exceed normal requirements. At the end of 1980 loans to rural commercial enterprises accounted for about two-thirds of ABC's loan portfolio. Financing for other rural activities is provided from a number of sources, including budgetary allocations and collective and individual contributions. The burden of financing road construction has been shifted to provincial, county and commune organizations. Road maintenance is the responsibility of local governments and necessary resources for this purpose derive from a road maintenance tax, commune funds, and team labor. While higher level education is largely the responsibility of the central government, the funding for middle, primary and vocational education is provided by provincial and local governments, collectives and individuals. Middle-level schools in the communes are operated by the county, but communes may help to meet costs of providing teachers. Capital construction and operating expenditures for schools are financed largely from the state budget, although primary schools may be built through brigade self-help schemes. The three-tiered rural health system - hospitals at the county level, health centers in communes, and health stations at brigades - is funded from budgetary allocations, brigade welfare funds, individual user fees and voluntary labor for construction.

## Agricultural Bank of China

11. Following several short-lived efforts to establish an agricultural bank in the 1950s and 1960s, the State Council in 1979 ordered the restoration of the ABC and made it responsible for the "unified management" of all state financial appropriations for rural areas, with the exception of funds budgetted for capital construction in agriculture, forestry and hydroelectricity, which continue to be handled by the PCBC. The re-established ABC consists essentially of the staff, offices and other physical facilities of the PBC's former Agricultural Finance Department. In addition to its tasks of channeling public funds to rural areas and extending credit, the ABC provides a wide range of banking services to rural areas, serves as PBC's agent in these areas, supplies leadership to the RCCs and provides financial guidance to collective units. The ABC has 27 branch offices in provincial capitals, more than 2,200 subbranches at county level, and some 25,000 offices in communes and state farms. In addition, some 59,000 RCC offices operate at commune and brigade level. With an ABC staff of 285,000, together with 250,000 part- or full-time RCC staff, this network of personnel and offices means that virtually all of China's 53,000 communes and 2,000 state farms have relatively good access to institutional credit. By virtue of ABC's antecedents, most staff of the ABC have considerable experience in rural credit and finance, although the number of university graduates is small, probably less than 5% of total establishment.

12. ABC's total loan portfolio as of December 1980 was Y 47.6 billion. At that time, the ABC had on-lent to commercial departments of, e.g., Ministries of Food and Commerce, another Y 18.5 billion of PBC funds for the purchase and marketing of agricultural products. About 80% of ABC's loan portfolio consists of short-term loans of less than one year while 20% is in loans of up to 5 years' maturity. More than half of ABC's portfolio consists of working capital to finance rural commerce, particularly the National Federation of Supply and Marketing Cooperatives (NFSMC). Another 30% of ABC's loans went to communes, brigades and teams, including 10% to CBEs and nearly 20% for agricultural purposes. For most of its (net) resources in 1980 of Y 55.3 billion, the ABC relied on state capital grants (Y 20 billion) and deposits, the major ones being those of RCCs (Y 21.1 billion), state-owned agricultural enterprises (Y 3.7 billion), rural commercial enterprises (Y 3.0 billion), deposits of individuals (Y 2.8 billion) and other government agencies (Y 2.4 billion). Savings deposits are liquid and fixed-term; the latter range from 6-months to 8-years' maturity.

13. In its first full year of operation (1980), the ABC reported a profit of Y 362 million. Revenue were derived from interest earnings (Y 1.46 billion), agency fees (Y 695 million) and government grants to compensate for the negative spread between lending rates and (higher) deposit rates (Y 170 million). Administration costs of less than 2% of

total resources employed is low by international standards, and reflect generally low salaries. Little information is available on the quality of ABC's loan portfolio. Overdues may exceed 25% of loans outstanding in some areas. After periods of laxity in enforcing credit discipline, the ABC now stresses timely repayment and seems to be making some progress in reducing overdues. The ABC estimates that bad debts currently are less than 1% of loans outstanding; adequate allowance for bad debts may not have been provided in the consolidated accounts. In the past some overdues have been written off, but most have been rolled over.

14. During the 1960s and early 1970s interest rates charged on ABC loans were reduced in parallel with reductions in deposit rates. In 1976-81 lending rates were increased but more slowly than deposit rates, resulting in a negative interest rate spread. A substantial upward adjustment in lending rates in early 1982 eliminated some of the negative spreads. Deposit rates have been increased in the last three years and the range of savings instruments has been extended to include time deposits of up to eight years' duration. Although real interest rates were negative during 1979 and 1980 (when inflation was high relative to China's previous record of remarkable price stability), recent declines in the inflation rate appear to have again resulted in positive real rates on both demand and time deposits.

15. ABC evaluation of subloans involves assessment before the loan is granted, supervision during disbursement and post-disbursement review of project impact. At present the most important factors influencing the decision to finance a project appear to be its conformity to the state plan and availability of materials and markets. Recent policy decisions are expected to give ABC somewhat more autonomy, although lending emphasis must be consistent with state plans. Appraisal of subloans by ABC emphasizes cash flow and material balances. No formal financial or economic analysis using discounting techniques is used, although pay-back periods are sometimes calculated. In addition to extending credit for investment projects, the ABC often acts as an intermediary to help locate raw materials needed for implementation and markets for project output. Frequently, it also requires a formal contract which stipulates rights and obligations of the ABC, the borrowing unit and suppliers of the equipment or materials to be financed.

16. ABC has a large number of accounting and statistical staff who prepare timely, consistent and detailed records which are supplied to higher level units on a regular basis. One apparent weakness is lack of detailed information on overdues. The accounts of ABC headquarters are examined by the Ministry of Finance, although this may not involve comprehensive auditing. ABC's internal auditing appears to be even more cursory, but plans are to strengthen this function in line with new national policy emphasis on financial accountability within the banking system.

17. The rural credit cooperatives, while collectively-owned financial units, serve as the basic level units of the ABC. Their sources of funds

include deposits of individuals, deposits of collective units and, occasionally, loans from the ABC. Uses of funds includes loans to individuals, to collective agricultural endeavors and to CBEs. RCC deposits at the end of 1980 totalled Y 29.2 billion while loans equalled Y 8.2 billion. In general, RCCs are net suppliers of funds to ABC. The RCC loan portfolio has doubled between the end of 1979 and the end of 1981 - largely reflecting sharp increases in loans to CBEs and individuals. By the third quarter of 1981, RCC loans to individuals were nearly half as large in total volume as all agricultural loans to communes and brigades. Although the RCCs operate under the guidance of the ABC, their degree of autonomy varies from place to place. In some locales the ABC may emphasize agricultural loans to collective units or loans to CBEs while the RCCs are responsible primarily for loans to individuals. With local level operations virtually identical, the rationale for maintaining the local ABC and RCCs as distinct organizational entities is not always clear.

### Commune and Brigade Enterprises

18. The term "commune and brigade enterprises" (CBEs) refers to the more than 1.4 million enterprises in industry and mining, agriculture and the service trades that are collectively-owned by communes, production brigades and, occasionally, production teams. They are typically small-scale, often seasonal in nature, and in the past have frequently employed relatively simple machinery to produce for a local market. But variations among CBEs in terms of size, type of production and level of technology are enormous. CBE output has grown by more than 18% annually in recent years. In 1980 gross revenues ("output value") totalled Y 68 billion and the Y 11.9 billion in wage payments averaged Y 15 per capita in the countryside. This was equal to 18% of the per capita income distributed by the collective sector.

19. A key principle behind CBE development in the past was that CBEs were to use locally-available raw materials to meet local needs, while prime factors of production were reserved for use by the modern, state-owned industrial sector. To enforce this principle, a support and control mechanism has been established with four offices at the county level - the planning committee, offices of finance and trade, agriculture, and industry and transport - playing important roles. Within the office of industry and transport, the key agency is the county bureau for CBE development which has the responsibility to recommend approval (or disapproval) of new enterprises, based on guidelines set by provincial or prefectural offices. For project investments of less than Y 10,000, the county planning office makes the final decision; for larger projects, approval must come from the prefectural planning commission.

20. Poor planning and hasty development of CBEs in the 1960s and early 1970s resulted in some duplication of facilities and establishment of enterprises which frequently were technologically inefficient and financially weak. A process of rectification and economic adjustment has been underway in recent years. Tax concessions granted in 1978 have been

rescinded for enterprises which face marketing difficulties or compete for raw materials with state-owned industry. The State Council in mid-1981 directed that communes refrain from establishing large textile mills, cigarette factories and other enterprises which were considered to be better handled by state enterprises. Inefficient CBEs are to be closed down and provinces are to examine CBE investment proposals more carefully to ensure that the approved new capacity will have adequate raw material supplies and market outlets. Whenever possible, CBEs are to be included in state plans; at present, only about 20% of CBE output is part of the state plan. China's price structure and system of local taxation, with revenues going to local governments, has contributed to the proliferation of small scale, frequently technologically inefficient CBEs.

21. Among the factors which are likely to influence future development of CBEs are their geographical concentration, discrimination against collective enterprises in the allocation of materials and equipment and inadequate guidance and support from industrial ministries and transport, supply and marketing departments. Among the 29 provinces, autonomous regions and municipalities, 55% of CBE income originates in three municipalities and four provinces, while less than 3% of production is accounted for by the lowest eight provinces. Discrimination against collective enterprises in the allocation of materials, marketing difficulties and inadequate support from industrial ministries and commercial departments reflect the fact that most of the CBEs are poorly articulated within the formal planning network. Price reform which would ease supply bottlenecks and policies permitting easier access by CBEs to local and external markets may be as effective in assisting future CBE development as more formal incorporation into the state plan.

#### Issues in Development of the Rural Financial System

22. Although current economic policy is aimed at reducing investment shares and increasing consumption in national income, continued growth of rural investment and more efficient use of investment funds are recognized as necessary to modernize agriculture and improve rural living standards. Two of the greatest challenges for China's rural sector will be to supply the food and raw materials required by population and income growth and to provide employment opportunities for an expanding labor force. Agricultural development programs for the 1980s are expected to lead to increased intensification and diversification, with significant implications for the rural financial system. In the state farm sector, annual investment in the Sixth Plan period (1981-85) is expected to rise from Y 1.1 billion in 1980 to Y 1.4 billion. In the collective sector, recent reforms have opened new opportunities for livestock, food and cash crop production. There are also opportunities for improved water control. The rapid expansion of the production responsibility system and extension of private plot agriculture is already reducing the demand for large equipment and increasing the demand for hand tools and smaller-scale machinery, as investment decisions are



shifted from teams and brigades to households. Increased commercialization of agriculture will add to the financing requirements in rural commerce and transport. With the likelihood that employment creation in rural areas will become a more important policy objective, emphasis on CBE development will increase. Examples of suitable CBEs might include textile plants based on local raw materials, garment industries, food processing and other consumer and rural producer goods industries. In the more highly developed areas near urban or export markets, the growing integration between CBEs and state enterprises is likely to create strong new demands for finance. In the poorer areas, bank credit or state budgetary support are likely to be required to permit collective units to modernize agriculture or engage in profitable CBE development.

23. These developments in agriculture, rural commerce and industry will make new demands on the rural financial system. This is recognized in the Government's efforts to strengthen the role of the banks in mobilizing and allocating resources in rural areas. Price reform and banking reform should proceed together in order that the greater autonomy of banks will result in investment activities based on prices which reflect economic values and costs. The autonomy of banks needs to be considered in relation to available mechanisms for managing the overall level of economic activity and controlling inflation. More should be known of the impact of price reform on the viability of ABC's lending program. The policy of replacing budgetary grants with bank loans is to be welcomed as a means to enhance efficiency in use of those resources. More consideration might be given to the types of institutions and expenditures that would benefit from a judicious mixture of grants and credits. Finally, it is important that increased autonomy given to banks be accompanied by greater financial independence for borrowing units to ensure that they are influenced by profit and loss considerations.

24. More specific issues relate to the organization and management of the ABC. The ABC still carries out a substantial volume of business on behalf of the PBC. It would seem useful to compare this system with an approach which incorporates the PBC-related work into the regular operations of the ABC. The PCBC also operates in rural areas as the disbursing of state budget funds for capital construction and in occasional loans to state farms and to CBEs. The interest rate structure on these loans appears to differ from that at the ABC. There may also be some overlap between ABC and RCCs, although coordination among these units appears to be good. It should be determined whether excessive or wasteful duplication exists among these various financial agencies.

25. Extension of the production responsibility system is likely to add significantly to the demand for credit and banking services at the household level. Changes in the pattern of ABC and RCC lending are already underway: loans to individuals are growing rapidly; these loan funds are being increasingly used for production purposes; and short- and medium-term

loans for tools and small equipment are growing more rapidly than loans for large equipment. Local offices of ABC and RCCs are having to work with more customers and respond to a wider range of loan requests. It seems necessary to expand the work of RCC branches below commune level and establish more credit operations at brigade and, perhaps, at production team level.

26. Strong credit discipline should continue to be an important principle in ABC operations. There is need to examine reasons for overdues in China's rural lending program and devise means to keep these under strict control. Contributing factors may have been natural disasters, lending for unsound projects which do not have adequate debt service capacity and the financing of medium-term investments with short-term loans. The recent policy decision to allow the banking system to impose penalty interest rates on overdue loans should be adopted on a universal basis. An improved reporting system also is required which permits ABC to determine its arrears position accurately and quickly.

27. Perhaps the weakest area in ABC's operations is its approach to appraisal of investment proposals. The focus on cash and materials balances, while essential to sound planning, gives inadequate attention to financial analysis. Almost no consideration is given to economic analysis in formulating lending policies, a particularly serious shortcoming in an environment where differences between financial and economic prices are sometimes wide. A valuable first step in improving appraisal methodology would be for ABC to develop a simple project appraisal handbook which provides a checklist of issues to be examined during project identification and preparation. A major thrust of the handbook should be to explain how financial and economic benefits and costs of different types of projects are to be evaluated and compared. A second priority requirement is to develop a program for the training of project staff in project analysis. In view of the large numbers of ABC and RCC staff which require familiarization with improved appraisal techniques, careful consideration is required on how to make the training effort most cost effective.

28. Apart from the provision of credit, the ABC can contribute to rural development through its role as a supplier of information on raw material availability, market outlets and improved technology in ABC-financed projects. This role is particularly important in furthering CBE development in more isolated areas where contact with the modern sector is more limited. In some of these areas, the availability of financial resources may be a less binding constraint on CBE development than lack of information on raw materials, markets and suitable technology. Establishment of a technology dissemination unit within the ABC might be appropriate in view of its extensive network of contacts among potential users of these services in the collective units.

29. The level and structure of deposit rates and lending rates are likely to be important factors in shaping China's rural financial system. As increased emphasis is given to mobilization of savings for investment, the level of real interest rates can be expected to play a more decisive role than in the past. At the minimum, real interest rates on time deposits should remain positive. The recent action to increase lending rates relatively more than deposit rates will strengthen ABC's financial performance. Lending rates should exceed deposit rates by a margin sufficient to cover administrative costs and provide some profit as an incentive to increase lending. Higher interest rates on ABC loans will also enhance the efficiency with which major borrowers such as the NFSMC use those resources. Equally important is the new authority of banks to levy penalty interest on overdue loans, on loans for excessive working capital and inventories and on loans diverted from working capital to unsanctioned uses. Full use of this set of economic levers would be a valuable part of ABC's efforts to improve rural financial management.

30. The role of external assistance in China's rural credit system will be mainly catalytic, in view of the small amounts of external funding likely to be involved relative to annual loan volumes by the ABC and RCCs. But if carefully designed, this assistance could be useful in helping to strengthen the system and improve rural financial management. Particular attention would need to be paid to the lending emphasis (e.g., geographic, commodity, agro-industry) and to the financial and economic criteria that would be used in the evaluation of subprojects. The World Bank's knowledge of possible rural lending opportunities in China remains limited, but probably can be enhanced most effectively through project identification and preparation work. Proceeds of a possible World Bank loan might be used in at least three ways: to augment the loan funds of the ABC and RCCs; to finance office equipment and computer facilities for ABC operations; and to support the training of higher-level ABC managerial and technical staff in short-term and degree programs in China and abroad. Assistance in strengthening ABC's institutional capabilities is ultimately likely to be as valuable as the financial resources which are provided.



CHINA

RURAL FINANCE: A SECTOR STUDY /1

1. AN OVERVIEW OF THE FINANCIAL SYSTEM

1.01 The World Bank's economic report on China /2 described briefly the rural credit system and outlined the working of one of its principal institutions, the Agricultural Bank of China (ABC). It noted the Government's intent to expand the flow of credit to rural areas as part of the general thrust of recent economic reforms and readjustments. The report also suggested that the ABC, by virtue of its extensive network of local offices linked to state farms and collective production units, may merit some priority as a channel for larger financial flows to Chinese agriculture. This study examines in greater detail the operation of China's rural financial system and, in particular the ABC and the rapidly-growing enterprises under commune and brigade management. The major objective of the exercise is to provide a clearer understanding of the workings of the system and of those factors which are likely to influence its effectiveness in the years ahead.

1.02 This report is limited in detail and scope. The World Bank is at an early stage in its understanding of China's rural financial institutions. The financial system is very large in terms of the volume of its annual financial flows and complex in terms of the number of collective, state and private decision-making groups which influence its operations and use its services. Description and analysis of the system also is complicated by the rapid changes in economic policies in China today and the necessity of key institutions, such as the ABC, to change as a result. Although built upon a long history, the ABC in its present form is a new institution and its policies continue to evolve. Wide variations in its operational policies among provinces further complicate the task of describing in general terms

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/1 Based on a World Bank Rural Credit Mission to China in October-November 1981, including Messrs. J. Goering (Leader), B. Argyle (Rural Credit Specialist), I. Porter (Economist), all of the Bank, and Ms. C. Wong (Specialist on Commune and Brigade Enterprise), consultant. The mission held discussions with staff of the Agricultural Bank of China in Beijing and travelled to Shandong and Zhejiang Provinces and Guangxi Autonomous Region. Revisions of the Green Cover version of this report were made on the basis of discussions held with the Government in Beijing in April 1982.

/2 China: Socialist Economic Development, June 1, 1981, Report No. 3391-CHA.

the workings of the ABC. While new ground has been broken in furthering the World Bank's understanding of China's rural financial system, further detailed analysis is required to provide a clear picture of the system which governs the flow of financial resources among some 800 million rural people. That analysis requires additional time and effort and, above all, the continued development of closer working relationships between the World Bank and China's rural financial institutions.

#### A. Background

1.03 China's financial system has been a major factor in shaping the pattern of rural development in the past thirty years and has been called upon to assist in implementing a number of rural reforms since 1949. It played an active role in helping control the hyper-inflation prevailing in the late 1940s. After the private banking system was nationalized, or brought under the control of the People's Bank of China (PBC), the PBC promoted the socialization of industry and commerce by various means, including discrimination against private sector activity and inducements to firms to become joint state-private enterprises. The collectivization of agriculture also was heavily supported by loans from the banking system to the newly-established collective units.

1.04 After the 1950s, political goals became relatively less important in policies affecting the rural financial system, although ideological considerations lay behind several key policies such as periodic reductions in interest rates charged to rural borrowers. The banking system also has been called upon to promote development of specific sectors of the economy by means of special loans and/or particularly favorable interest rates. Agriculture and rural-oriented activities were among the most favored sectors in terms of institutional credit programs. That policy has been retained. Even today funds for the purchase of agricultural equipment and construction of small hydroelectric facilities carry the lowest interest rates of any bank loans. These low rates are officially rationalized as essential to spur rural development and compensate rural producers for the disincentives of relatively low state procurement prices for key agricultural products.

1.05 An overview of China's rural financial system and its operations is provided below. A second section discusses the financing of agricultural and rural development in China, while a subsequent chapter looks at the operations of the ABC. Chapter 4 provides a description and analysis of commune and brigade enterprises. A concluding section considers some factors which are likely to influence future development of China's rural financial system.

B. Principal Financial Institutions /1

1.06 China's financial system at present includes eight national level organizations under two distinct administrative jurisdictions: the People's Bank of China (PBC) and the Ministry of Finance (MOF).<sup>/2</sup> The former is China's chief banking institution, an independent, ministry-level entity that reports directly to the State Council. The People's Insurance Company of China (PICC) has the status of a subordinate department of the PBC. The PBC also manages' on behalf of the State Council three nominally independent organizations: the Bank of China (BOC), in charge of foreign exchange transactions, the General Administration of Foreign Exchange Control (GAFX), responsible for formulating and overseeing foreign exchange regulations, and the Agricultural Bank of China (ABC), which handles most bank work in rural areas. The rural credit cooperatives, originally collective bodies formed voluntarily by local peasants, serve as the basic level units of ABC.

1.07 On the fiscal side the Ministry of Finance is the most important institution. Together with the State Capital Construction Commission (SCCC), it manages the People's Construction Bank of China (PCBC) which, like the BOC, ABC and GAFX, is in theory subordinate only to the State Council itself. The PCBC handles state budgeted capital construction appropriations whether loans or grants, and in addition provides banking services to capital construction teams and various related units. The China International Trust and Investment Corporation (CITIC) also has a position directly below the State Council. Its main functions involve arranging and facilitating joint ventures using Chinese and foreign capital as well as handling investments in China by foreign companies and overseas Chinese. All joint ventures, however, must be approved by the Foreign Investment Control Commission (FICC).<sup>/3</sup> The institutional relationships among China's financial organizations are shown in Figure 1.1.

1.08 This organizational structure is only a few years old. During the Cultural Revolution, the PBC was incorporated in the MOF, and little was heard about or from it. The BOC was separated from the PBC only in March

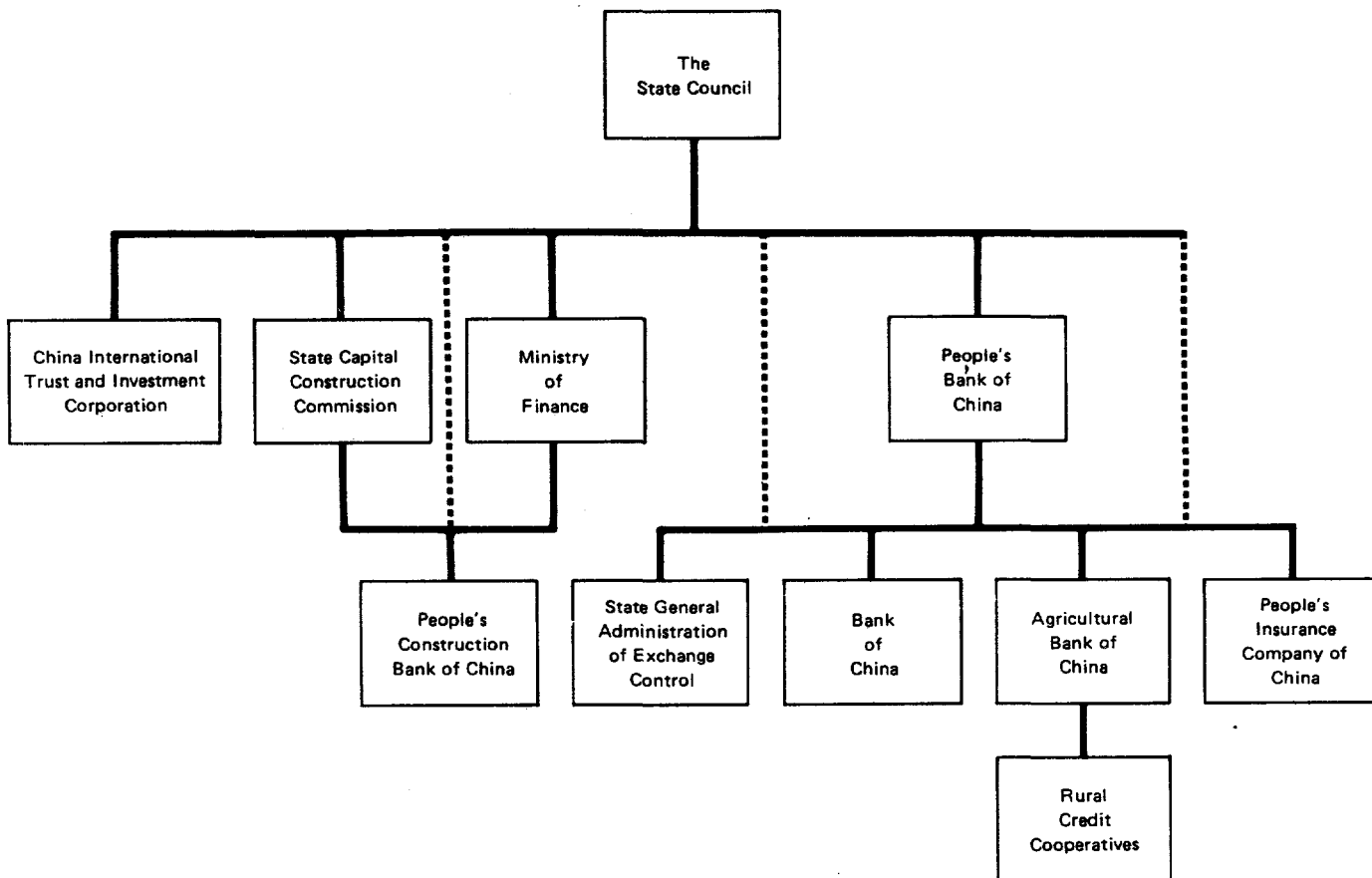
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<sup>/1</sup> In this and other sections the description of institutional arrangements refers to the situation that existed at the end of 1981; the changes that have resulted from the March 1982 governmental reorganization are not taken into account.

<sup>/2</sup> The general discussion that follows is based mainly on three sources: PBC, Planning Bureau (1980), pp. 2-4; China Business Review (CBR), July-August 1980, pp. 15-18; and Zhang Enhua, "On Banking Reform", BJR (29), 7/20/81.

<sup>/3</sup> "The Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment", Article 3; translated in BJR, No. 29, 7/20/79, p. 24.

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RURAL FINANCE: A SECTOR STUDY  
Figure 1.1: Organizational Structure of China's Financial System<sup>1/</sup>



Source: Adapted from Zhang Enhua, "On Banking Reform", Beijing Review, No. 29, July 1981, p. 26.

<sup>1/</sup> Dotted lines indicate responsibility on basic policy matters.



1979; GAFX was created at the same time, CITIC somewhat later in the year. There were several attempts to set up an agricultural bank in the 1950s and 1960s, all short-lived. The present incarnation of the ABC dates from February 1979. The PCBC was made an independent entity in November 1979. The PICC resumed domestic insurance business at the beginning of 1980, after an interruption of over 21 years. Through most of the 1970s China's banking system was under the control of the MOF, and specialized banks either did not exist or were without independent status.

### The People's Bank of China

1.09 The PBC is China's most comprehensive banking institution. As an administrative organ for government financial management, and at the same time an economic entity managing loan activities, it has wide-ranging responsibilities. Despite some departures, the PBC approaches fairly closely in formal scope and authority the concept of a "monobank" - the nerve center and monitor of the economy at both the micro and macro levels. It serves many of the functions that in market economies are the responsibility of the central bank and performs services handled by commercial banks, savings banks and, more recently, investment banks. The PBC is the country's center of cash, credit and settlements transactions.<sup>/1</sup> By virtue of its monopoly position, it is in theory able to monitor the degree of plan fulfillment, efficacy of financial management, and other activities of the basic-level units in the economy.

1.10 The PBC is the only organization in China permitted to issue currency, and is responsible for devising and implementing national and regional plans for cash in circulation. With a few exceptions related to China's capital construction system, all state-owned enterprises and other government entities as well as Party Committees and mass organizations must keep their funds in an account at one and only one branch bank. Only very small payments can be made in currency, using strictly limited cash reserves that units are allowed to keep in their possession. All other transactions in the state sector of the economy must be consummated by appropriate crediting and debiting of the parties' bank accounts. Again with some notable exceptions in the rural credit and capital construction system, all loans of circulating funds (working capital) are supposed to emanate from the PBC.

1.11 The PBC holds savings accounts of individuals in urban areas and sets interest rates on all loans and deposits, subject to approval by the State Council. Except for state-budgeted capital construction funds, it

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<sup>/1</sup> Zeng Kanglin and Yan Yi "The Present Financial and Banking System must be Reformed" RMRB, 10/6/80; translated in JPRS E.A. (103).

handles revenue accruing to, and disbursements from, the national treasury. Foreign exchange rates are set by the PBC, which has overall responsibility for international activities, though the BOC manages day-to-day transactions.

1.12 As of the end of 1979 the PBC network included 29 provincial-level branch banks, 148 municipal-level subbranches (in cities directly subordinate to the provinces), 220 central subbranches in prefectures and 2,777 county-level subbranches. The PBC has a total of 330,000 employees, including only 1,200 at the head office in Beijing. The latter is divided into 14 departments including the headquarters of the PICC. PBC branches are under the "dual leadership" of the head office and local party committees. In professional work the leadership of Beijing is supposed to be primary, while in the realm of political work and Party affairs the localities play the dominant role. The PBC regained its independent status only after 1976. Since then it has been trying to repair past damages and expand its role as a flexible expediter of economic development.

#### The People's Construction Bank of China

1.13 The PCBC is mainly a conduit for capital construction funds appropriated in China's state budget. It also acts as a true bank in making circulating capital loans to, and handling the deposits of, specialized construction and installation enterprises, geological prospecting units, and enterprises which supply construction materials. The PCBC settles accounts in China's capital construction system. To carry out these functions it has 2,500 branches throughout China. In November 1979 the PCBC was made an independent organization on the national level directly subordinate to the State Council, managed on its behalf by the MOF and to a lesser extent by the State Capital Construction Commission.

1.14 The PCBC is in charge of implementing the recent policy to transform state capital construction appropriations from nonrepayable grants into interest-bearing loans. It handles all such loans, which at present can be made only to "independent accounting units" - mainly enterprises. Investment expenditures in the so-called "nonproductive" sector - government administration, defense, scientific research, culture, education and public health will continue to be grants disbursed by the MOF through the PCBC. Many productive sectors such as heavy industry, which have losses or low profits, will continue to receive grants. Capital construction loans from PCBC carry the low interest rate of 3.6% per annum. Therefore, the main effect on enterprise decision-making will come from the fact that investment expenditures are now repayable with the proceeds of the projects concerned. This contrasts sharply with the past, when investment funds were free gifts for which units competed vigorously. Once funding was obtained there was little reason for them to economize in its utilization.

1.15 Capital construction loans were first introduced on an experimental basis in eight enterprises in August 1979. By the end of September 1980, a total of Y 3.2 billion in capital construction loans had been made to 626 different projects. During the 1960s and early 1970s the PCBC was at the forefront in making new innovations in Chinese banking practices. Though the PCBC loans of that period were relatively small in magnitude and still highly fiscal in character, they set a precedent for financing investment by means of credit rather than budgetary grants. The institution of capital construction loans most likely has enhanced the PCBC's decision-making role, since it now has the authority to approve or reject loan applications.

#### The Agricultural Bank of China

1.16 The ABC is the recently restored specialized institution in charge of rural banking. It is also responsible for unified management of all state financial appropriations for the rural economy, with the exception of state-budgeted capital construction in agriculture, forestry and hydroelectricity, which continues to be handled by the PCBC. Though the ABC nominally answers directly to the State Council, the PBC is charged with managing the ABC on behalf of the Council. Operations of the ABC are discussed more fully in Chapter 3.

#### Ministry of Finance

1.17 The MOF is China's national fiscal institution and has the task of compiling the central government's annual budgets and long-term financial plans. The MOF collects government revenues and makes all budgetary disbursements, most of which are channeled through the PBC, the PCBC or the ABC. The MOF supervises the financial work of other ministries and state organs as well as the operations of finance and taxation departments of local governments. It reviews and approves local government budgets before they are submitted to the State Council and then to the various People's Congresses for final ratification. It also formulates tax and budget regulations and oversees interprovincial fiscal transfers.

1.18 The MOF continues to have a strong influence over China's banks and there are areas where jurisdictions and activities overlap. Working capital funds for state enterprises are provided partly by means of budget appropriations in the form of permanent nonrepayable grants, partly by bank loans. In most respects these are close substitutes from the viewpoint of recipients. Short and medium-term loans for equipment similarly are close substitutes for "tapping potential" and renovation appropriations in the

state budget. Furthermore, many budgetary capital construction projects are now being funded by PCBC loans rather than grants. The state budget includes appropriations for the various banks, called "bank credit funds." The cash plan, credit plan and state budget are closely interrelated and partially determined by each other. The MOF and PBC must coordinate their activities carefully to minimize overlap. Jurisdictional uncertainties remain regarding authority over loans for investment, working capital financing, and procedures required for obtaining foreign currency loans. Coordination of these activities is the responsibility of the State Planning Commission. A financial summary of the state banking system is contained in Annex D, Table 1.1.

### C. Recent Banking Reforms and Rural Finance

1.19 Five main themes can be identified in recent reforms of China's financial system. One is reassertion of the independence and organizational integrity of the banking system, combined with the establishment or restoration of certain specialized financial institutions. Attention is focussed on redefining the relationship between banks and other supervisory organs responsible for overseeing the economy. The second main trend involves strengthening and transforming the banks' position vis-a-vis their clients. Bank decisions affecting clients are to be based on independent use of economic criteria rather than administrative fiat or blind adherence to detailed plans. "Economic levers" such as interest rates and repayment terms should partially supplant bank directives in guiding the actions of basic-level borrowing units. Loan agreements are to be formalized in economic contracts between bank branches and borrowing entities. Significantly, the right of banks to make independent judgments on loan applications and, if necessary, refuse to grant credit is strongly affirmed.

1.20 The third, and in many ways the most important reform from the banking system's own point of view, is internal decentralization. This has two aspects. Administratively, local bank branches are being given more flexibility in the important area of credit planning. They are now allowed to reallocate loans among different categories of the credit plan and can use the proceeds of an increase in deposits or more rapid turnover of loans to extend more loans in their localities. Bank branches are considered to be economic units as well as administrative bodies. All branches are considered as independent accounting units which have responsibility for their respective profits and losses.

1.21 A fourth theme of current reforms is to improve the quality of the financial system's human capital. This ties in closely with a more economic orientation of the system and bonuses for its employees. It also is closely related to the reassertion of bank independence with regard to personnel

decisions. Better training of new bank cadres and extensive courses for veteran and leading personnel, who in some cases know little about the mechanics of bank operations, are the main means of achieving this goal. /1

1.22 The fifth current is closely related to internal decentralization. Bank branches, as well as trust and investment corporations they may set up, are to act as financial intermediaries, bringing together the idle, surplus funds of economic units and government organizations and using them to make investments that will foster local economic development. The key innovation lies not in mobilizing surplus funds, which is a legitimate, though in the classic socialist model a relatively unimportant, role of banks. What is really new, and of particular significance for future development of the rural financial system, is the active search for local investment opportunities and the banks' authority to make investments in projects that may not be part of the state plan.

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/1 A report from the PBC gives both an indication of the magnitude of this task and its importance in the view of the banking system:

"A short-term plan and a long-term program have been worked out by the People's Bank of China to raise the educational level of its staff. The short-term plan stipulates that before the end of 1983, all leading cadres and staff, including new recruits, will get two-to-six months training on a rotation system. In 1980, 68,464 people took the two-month vocational training. This is about 30% of all cadres and workers scheduled for such training. According to the long-term program, by 1990 a comprehensive college and middle-school education system will be set up within the bank so that workers' education will be institutionalized. A bank official said that China would set up a national education committee within the banking system. A college was planned for the advanced training of cadres." (NCNA 5/29/81, in BBC FE/6753/BII/4)

## 2. RESOURCE MOBILIZATION AND ALLOCATION IN RURAL AREAS /1

2.01 During the past few years the pattern of development expenditures and financing in China has changed significantly. This reflects in part the Government's efforts to improve the efficiency /2 of the economy by strengthening and increasing the role of the banking and financial system. But it also reflects other institutional changes aimed at the overall objective of improving efficiency. These include the reduced emphasis on state budget financing of investment, the devolution of the public finance system, and the development of new production responsibility systems throughout the economy. In rural areas the new production responsibility systems have been of particular importance. This chapter provides an overview of the reforms and changes in the pattern of expenditures and financing of rural development. Due to the limited availability of quantitative information, the overview is mainly descriptive but, where feasible, estimates have been made of the extent of resource mobilization and the amount and source of finance for investment and operating expenditures in rural areas.

### A. Resource Mobilization

2.02 Rural development in China has been based to a large extent on local resources and much self-reliance. In particular the rural collective economy has remained quite isolated from the rest of the economy, undertaking most investment and production activities on its own and using its own resources. Nonetheless, the Government has mobilized substantial resources

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/1 For the purposes of this discussion, rural areas are defined as all areas outside of the 203 cities and the 2,300 county towns. The most significant implication of this definition is that in the industrial sector the only activities to be addressed in detail are those of commune and brigade enterprises.

/2 At various places in this report, a distinction is made between financial efficiency (where emphasis is placed on the profitability of a project to the organization or organizations that are undertaking it) and economic efficiency (where emphasis is placed on economic returns and on the contribution of a project to national economic development). For a further discussion of this distinction see paras. 5.31-5.35, and "Economic Evaluation of Investment Projects: Possibilities and Problems of Applying Western Methods in China," a paper prepared within the World Bank as background material for a team of Chinese experts who are preparing a project appraisal manual for the China Investment Bank.

from rural areas mainly to help finance its industrialization program but also to assist agriculture and rural development. In recent years there has also been a growing amount of rural savings and an increase in the amounts of financial intermediation within the rural sector.

### Fiscal Resources

2.03 For the economy as a whole, fiscal revenues (including both state budgetary and extrabudgetary revenues) are of great importance. More than 30% of GDP flows through the state budget alone. Accordingly, efforts to improve the efficiency of the fiscal system by devolving more authority to local governments and emphasizing credit rather than budget financing of various development expenditures are an integral part of the Government's overall program of economic reform. These fiscal reforms are, however, of less significance for rural institutions than for urban institutions because rural revenues remain a relatively small proportion of rural incomes and of total budget and extrabudgetary revenues.

2.04 Budget revenues come primarily from taxes and the profits and depreciation funds of state run enterprises and are divided into central and local portions (Annex D, Table 2.1). A much smaller share of revenues is retained by rich provinces than by poor provinces. A formal revenue sharing scheme was introduced in 1980 and provinces have been encouraged to extend revenue sharing principles down to the county level. Revenues retained by the provinces are divided into two parts: a nondiscretionary component the use of which is largely stipulated by the central government and a discretionary component which is used to cushion fluctuations in planned receipts and expenditures and for uses determined by local authorities.<sup>/1</sup> The major rural revenues are the agricultural tax and taxes on commune and brigade enterprises (CBEs). But the agricultural tax, which is assessed as a percentage of a hypothetical normal yield per mu fixed many years ago, has remained remarkably stable over the years and now accounts for less than 3% of total revenues. Total revenue from CBE taxes was only Y 2.0 billion in 1979 or less than 5% of total revenue from industrial and commercial taxes and less than 2% of total budgetary revenues.

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<sup>/1</sup> The sources of discretionary funds probably vary from province to province. But in most provinces they are believed to include: about 3-5% of total ex ante budgetary expenditures; a proportion of the funds from overfulfillment of revenue collection plans; surpluses accruing from economizing on expenditures; and some local taxes including license fees for transport vehicles, property taxes on urban housing, slaughter taxes, sales taxes on draft animals and sales taxes at markets.

2.05 Extrabudgetary funds are of two types and have been growing rapidly in recent years. One set of extrabudgetary funds is under the direct control of certain state and collective enterprises and the local bureaus and ministerial systems to which they belong. They include the profits and depreciation funds that are retained by those enterprises and bureaus /1 plus such resources as highway maintenance fees, waterway maintenance fees, afforestation funds, incomes from productive activities of schools, management fees for markets, housing management fees, etc. The other set of extrabudgetary funds accrues directly to local governments and includes a portion of the profits of county run collective enterprises as well as local surcharges on industrial and commercial taxes, agricultural taxes, etc. Relatively little information is available about these funds except that they have been growing rapidly and are now a larger source of finance for total capital construction than budgetary revenues. A review of the sources and uses of these funds at the county level suggests that most of the revenues arise from industrial enterprise profits and are largely used for investment in similar types of enterprise. The share of rural revenues in these funds is therefore relatively small.

2.06 The Government has in the past been able to mobilize substantial resources in rural areas through the establishment of a pricing structure designed specifically to generate large profits for state industrial enterprises. In recent years this has been offset in part by increases in agricultural prices, the financial effects of which have been considerable./2 But a comparison of agricultural prices with the prices of processed commodities (for example, sugarcane prices with prices for refined sugar) suggests that this price structure still generates large profits for industrial enterprises. As a result, commune and brigades are setting up their own processing industries which may be financially viable but economically inefficient (para. 4.17).

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/1 An industrial enterprise under the control of one of the industry ministries would pay some of its profits as tax to the finance bureau or remit some of its profits to the finance bureau. This would be included in budget revenues. Of the remaining profits, some would stay with the enterprise and some would be remitted to the industrial bureau.

/2 The World Bank Report No. 3391-CHA, Annex C, P.58, suggests that the terms of trade between agriculture and industry moved significantly in favor of agriculture between 1970 and 1979.



Household Savings

2.07 The household sector in rural areas is playing an increasingly important role in resource mobilization. Some household savings are used directly by the households themselves for investment in private plots, housing etc. But the savings deposits of commune members have also increased rapidly from Y 3.9 billion at the end of 1976 to Y 11.7 billion at the end of 1980 and Y 17.0 billion at the end of 1981 (Annex D, Table 3.13). The rate of growth of such deposits has been much higher than the growth of rural tax revenues. Household deposits are also growing more rapidly than other deposits; at the end of 1980 they accounted for 43% of total deposits with rural credit cooperatives compared with 36% at the end of 1979.

Table 2.1: SAVINGS AND TAXES IN RURAL AREAS, 1977-80

	1977	1978	1979	1980
	----- billion yuan -----			
Increase in savings deposits of commune members	0.7	0.9	2.3	3.9
Agricultural tax	2.9	2.8	3.0	
Commune and brigade enterprises taxes			2.0	

Source: Annex D, Tables 2.3, 2.4 and 2.5.

2.08 It is possible that some of the increase in rural savings is involuntary in the sense that these funds would have been used to purchase consumer goods if more high quality goods had been available in rural areas. But it also appears that the rapid growth in rural incomes (especially noncollective incomes), coupled with increases in interest rates and an expansion in the savings network, have been contributing factors. In addition, the Government's emphasis on "voluntary deposit, free withdrawal, interest payments and protection of the anonymity of savers" /1 has encouraged households to convert some of their currency holdings into bank deposits.

Other Rural Resources

2.09 Despite their rapid growth, however, household savings are still relatively small in relation to total rural resources. The major determi-

/1 ZGJR No. 6, 9/30/79, p. 14.

nant of rural resource mobilization remains the decisions of rural organizations, particularly collective enterprises and groups, on the amount of labor accumulation and on how much of current revenues are set aside for future production and investment expenses. In the case of production teams (the basic collective production unit), deductions from total gross output (sales plus retained production) are made for: costs of purchased inputs, taxes, grain and cash reserves to be used, inter alia, to cover some of the following year's expenses, and accumulation and welfare funds.<sup>/1</sup> The remaining income is then allocated to individual household heads within the team, primarily according to household accumulations of work points. Teams decide on their own work points system but most systems take account of the difficulty of a specific task as well as the amount of time spent on it. Many also include piecework elements.<sup>/2</sup> Work points can be accumulated through participation in production activities (at any level of the collective system), as well as through work on infrastructure or other investment projects. Government guidelines on the distribution of output and income suggest that 20% of current revenues should be kept for production expenses in the following year and 5-7% of net income should be allocated to the accumulation fund. But many of the poorer collective units are unable to achieve such rates and, as a result, face great difficulties in improving agricultural productivity or developing profitable commune and brigade enterprises.

#### B. Financing of Agriculture

2.10 Despite the rapid growth of rural industries, agriculture remains the most important activity in rural areas and the major source of livelihood for most of the rural population.<sup>/3</sup> Responsibility for agricultural

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<sup>/1</sup> These funds are generally placed on deposit with the local rural credit cooperative or ABC branch.

<sup>/2</sup> Changes in these systems are taking place as part of the process of reforming the organization and management of agricultural production (para. 2.17).

<sup>/3</sup> The activities and institutions covered under the term "agriculture" need to be carefully defined. In the national accounts the term agriculture includes the activities of industrial enterprises run by production brigades and teams. Commune-run enterprises are excluded. In this discussion, however, all commune, brigade and team enterprises are excluded from agriculture, regardless of whether they are involved in industrial or more directly agricultural activities (such as running a tea plantation or a dairy operation). The organization and financing of commune, brigade and team enterprises is then discussed separately.

investment and production is divided among a number of different institutions including central and local government, state farms, rural collectives (production teams, brigades and communes), and individual households. To date, government efforts to improve the overall efficiency of agricultural development expenditures have focussed on the introduction of new production responsibility systems in state farm and rural collective agriculture, an expansion in the area devoted to private plot agriculture and an increase in the role of the banking system in financing expenditures in state, collective and private plot agriculture. Little change has taken place in the organization and financing of central and local government activities in agriculture. Tables 2.2 and 2.3 provide rough estimates for 1979 on the extent and sources of finance for expenditures on agricultural investment and production.

#### Central and Local Government /1

2.11 The government itself directly undertakes a relatively small share of total agricultural investment (Table 2.2), but its role in investment and general agricultural support is still very important. At the central government level there are five ministries and two specialized agencies directly concerned with agriculture /2. At the province level some of the rural-oriented departments corresponding to central ministries may be merged with the agriculture department. At the prefecture and county levels, staff are usually grouped under an agricultural office. Subordinate organizations are linked both to a parent ministry and to an appropriate level in local government. Central and local government institutions are of particular importance for water conservancy. In the case of a major water conservancy scheme, /3 for example, the departments, bureaus and offices of the Ministry of Water Conservancy are directly responsible for construction and maintenance of the headworks and the main and branch canals. They may also take responsibility for certain medium-scale schemes. Another major government activity is the provision of agricultural research, extension and training services.

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/1 Because of major differences in organization and financing, central and local government activities are discussed separately from the activities of other state institutions such as state farms.

/2 The Ministries of Agriculture, Water Conservancy, Forestry, Agricultural Machinery and State Farms and Land Reclamation, the General Bureau of Aquatic Products and the Central Meteorological Bureau.

/3 Generally larger than 20,000 ha or a reservoir larger than 100 million cu m.

Table 2.2: ESTIMATES OF INVESTMENT EXPENDITURES IN AGRICULTURE,  
1979/a  
(Y billion)

Insitution undertaking agricultural investment	Source of finance			Total
	Budget and extra budgetary funds	Bank loans	Own funds and resources	
Central/local government	2.3	-	-	2.3/b
State farms	0.5	0.1	0.3	0.9/c
Communes/brigades/production teams	2.2	2.1	8.4	12.7/d
Households/Private Plots	-	0.3	4.7	5.0/e
<u>Total</u>	<u>5.0</u>	<u>2.5</u>	<u>13.4</u>	<u>20.9</u>

Sources and Notes:

- /a Includes fixed investment, work in progress and increase in inventories.
- /b Based on World Bank Report No. 3391-CHA Annex A, Table 2.4, but assuming that (i) half of state capital construction in agriculture was for hydroelectric power (i.e., industry) and (ii) Y 0.5 billion was for capital expenditures on state farms.
- /c Breakdown of state farm expenditures by source of finance based on data from Ministry of State Farms on sources of investment finance in Heilongjiang in 1979 and on data in Zhongguo Nongken No. 6, June 1981, p. 2-4.
- /d Based on World Bank Report No. 3391-CHA Annex A Tables A 17, 24 and A 25 but making the estimate for total capital expenditures, not just fixed investment expenditures. The breakdown of commune capital expenditures by source was calculated as follows: (i) Budget funds estimates are based on World Bank Report No. 3391-CHA, Annex A, Table 4.8 and include Y 0.7 billion of commune support (the remainder of this item goes as support to commune and brigade enterprises) and an estimated Y 1.5 billion in subsidies for small-scale water conservancy schemes; (ii) own funds include the 45% of investment which is labor costs and Y 2.7 billion of support for agriculture out of commune and brigade enterprise profits; (iii) the residual of Y 2.1 billion is bank loans.
- /e Based on World Bank Report No. 3391-CHA Annex A Tables A 17 and A 24 and assuming that 25% of loans to individuals are for capital expenditures in agriculture.

Table 2.3: ESTIMATES OF OPERATING EXPENDITURES IN AGRICULTURE  
1979/a  
(Y billion)

Insitution undertaking agricultural production	Source of finance			Total
	Budget and extra budgetary funds	Bank loans	Own funds and resources	
State farms	0.3	0.2	1.0	1.5/b
Communes/brigades production teams	1.0	13.6	19.4	34.0/c
Households/Private Plots	-	0.3	2.2	2.5/d
<u>Total</u>	<u>1.3</u>	<u>14.1</u>	<u>22.6</u>	<u>38.0</u>

Sources and Notes:

- /a Excluding expenditures on labor. Government expenditures on research, extension and administration are also excluded.
- /b Based on information on gross agricultural output of state farms from Zhongguo Baike Nianjian 1980 translated in FBIS 6/10/81 and on information from Heilongjiang on the relationship between production costs (excluding labor) and gross agricultural output.
- /c Based on World Bank Report No. 3391-CHA Annex A, Table A7 but excluding (i) Y 1.5 billion of expenditures on inputs for state farms; and (ii) Y 2.5 billion of estimated expenditures on inputs for private plot agriculture. Breakdown of these expenditures by source of finance based on information from Shandong and Guangxi provinces.
- /d Assumes that 25% of loans to individuals are for agricultural production expenses.

2.12 Financing for the agricultural activities of central and local government is provided almost entirely from the state budget. In the case of county-level activities, use is very occasionally made of extrabudgetary funds but the amounts of such funds going to agriculture are believed to be quite small. State capital construction expenditures in agriculture (including hydroelectric power) averaged less than Y 1 billion in the late 1950s, or less than 10% of total state capital construction. But they rose to Y 2.4 billion (14% of the total) in 1965 and Y 6.2 billion (12% of the total) in 1979 before falling to Y 4.5 billion (8% of the total) in 1980. It is understood that as much as half of these expenditures were for hydroelectric power (i.e. industry rather than agriculture), but most of the other expenditures were accounted for by investment in major irrigation and flood control projects. In recent years expenditures for agricultural support have been growing more rapidly than capital construction expenditures and now account for over 60% of state budget expenditures on agriculture (compared with 40% in the mid 1960s). A portion of these funds goes as support to collectives and state farms but most are used to finance the agricultural support services and maintenance work of central and local government organizations.

Table 2.4: BREAKDOWN OF STATE BUDGET EXPENDITURES  
IN AGRICULTURE, 1965-80 /a  
(Y billion)

	1965	1970	1975	1976	1977	1978	1979	1980
<u>Total Expenditure</u> <u>on Agriculture</u>	<u>4.080</u>	n.a.	<u>7.809</u>	<u>8,592</u>	<u>8.666</u>	<u>12.802</u>	<u>15.252</u>	<u>12.200</u>
Capital construction	2.351	n.a.	3.556	3.991	3.598	5.107	6.241	4.460
Agricultural support	1.729	1,591	4.253	4.601	5.068	7.695	9.011	7.740
Of which commune support	0.055	0.203	0.916	1.119	1.235	1.620	1.085	0.840

/a Includes hydroelectric power. These figures are budget appropriations and should not be compared with the figures in Table 2.2 which are actual expenditures.

Source: Ministry of Finance.

State Farms

2.13 In relation to the collective sector in agriculture the state farm sector is small. It accounts for less than 5% of the country's cultivated area and a very small proportion of investment and operating expenditures. In the past, the major rationale for the development of such farms was to encourage population migration from the densely populated East Coast to the less populated and less developed border areas and to reclaim wasteland often in difficult agroclimatic circumstances. State farms now figure prominently in the Government's overall program for expanding marketable food crop production. In addition to agricultural production, state farms are being encouraged to expand industrial and commercial activities (para. 2.29). They also provide workers and their families with health care, education, etc.

2.14 State farms, like other state enterprises in China, were previously subject to a high degree of central control. Farming operations were run on a central, consolidated basis and all state farm revenues and costs were aggregated. Production was directed by crop and area from the center. There was little incentive at the farm level for efficient production because all profits had to be remitted in full to the center and losses were absorbed by the center. Since 1979 efforts have been made to improve efficiency by giving individual farms more autonomy in investment, production and financial management. In addition to decentralizing decision making for all except large civil works (reservoirs or dikes) and making farms responsible for their own profits and losses, the reforms involve the introduction of new job responsibility systems designed to decentralize management and to reward those who increase the quality and quantity of production. A major element of the new system is the extensive use of "contracting" among the farms' internal management units: farm, subfarm and brigade. Brigades may make further contracts with work groups and even families and individuals. In the contracts production and profit targets are specified and units are rewarded if they exceed the targets or penalized if shortfalls occur.

Table 2.5: INVESTMENT IN THE HEILONGJIANG STATE FARM SYSTEM, 1979-81

	Budget funds	Bank loans	Individual farm provided investment funds	Total
	----- ¥ million -----			
1979	150	30	90	270
1980	150	30	100	280
1981	50	60	160	270

Source: Ministry of State Farms.

2.15 Most state farms have now assumed full responsibility for their own profits and losses and have introduced some form of job responsibility system. They finance most of their production expenditures out of retained earnings and the importance of retained earnings as a source of finance for investment expenditures has been growing rapidly (Table 2.5). Use is also made of bank loans for both investment and production expenses and loans outstanding to state farms from ABC have grown from Y 0.7 billion at the end of 1979 to Y 1.6 billion at the end of the third quarter of 1981 (Annex D, Table 1.1). Some state farms, however, still turn over their profits to the state and receive budgetary allocations for investment and production expenditures. In 1979 about 45% of farms were suffering losses and required subsidies from the state. Nonetheless, for the first time in more than a decade, the state farm sector as a whole showed a net profit in 1979 and in 1980 (Table 2.6). A major reason for these improvements was the large increase in agricultural prices, but it appears that improvements in efficiency have also been of significance./1

Table 2.6: STATE FARM PROFITS AND LOSSES, 1978-80  
(million ¥)

	1978	1979	1980
Sales revenue	6,900	9,100	10,670
Production costs	6,570	7,900	9,230
Marketing costs and taxes	290	400	460
Gross profit and (loss)	40	800	980
Net costs of non-productive activities	130	280	320
Net profit and (loss)	(90)	520	660

Source: Ministry of State Farms.

### Collective Production Teams

2.16 Most agricultural production and income continues to be generated by the collective sector which accounts for about 60% of investment expenditures on agriculture and about 90% of expenditures on agricultural inputs.

/1 See "Management Decentralization and the Job Responsibility System on China's State Farms" by A. Schumacher (IBRD) and C. M. Pang (Ministry of State Farms), January, 1982.



Within this sector, production teams (each with 30-40 families) are the most important organizational unit. They are responsible for investments in small-scale land reclamation and land leveling, in construction of small irrigation schemes, and in agricultural mechanization. These teams own the land and most farm tools and draft animals. They are responsible for negotiating with higher authorities on production plans and then organizing labor and managing production activities. Production teams may also be involved in such activities as rural industry and transportation.

2.17 In the past, production teams were severely constrained by state requirements on what crops to grow, how much was to be delivered to the state and how production should be organized and labor paid. Since 1977 reforms have been introduced to improve productivity in agriculture by granting production teams more autonomy in investment and production decisions. State quotas for grain have been eased and agricultural prices have been increased. Teams have also been encouraged to diversify agricultural production. In addition, new types of "job responsibility" systems have been designed to meet local conditions and requirements and to encourage increased production. In the most advanced areas where collective agriculture is well established, these systems have usually taken a form in which the production team establishes specialized working groups and signs contracts with these groups to achieve a specific quantity of output for a given number of work points and at a given production cost. Reward and penalty provisions are built into the contract. In the less advanced areas, greater emphasis is placed on allocating land and production quotas to individual households. In the poorest counties as much as 90% of production teams have adopted this "household responsibility system". In such cases the land continues to belong to the production team and tractors or draft animals and irrigation water will still be provided by the team. But the household may be given responsibility for providing other production inputs and all cultivation activities for an assigned plot of land are the responsibility of a particular household. Where the team or other collective body supplies services, fees may be charged to the household. Households continue to be responsible for meeting their share of quota and above-quota crop procurements, the agricultural tax, feed for collectively-owned animals and any funds for collective welfare and accumulation.

2.18 The agricultural investment undertaken by production teams has consisted primarily of land levelling, terracing and construction of canals and dikes. This investment has proved to be an important and effective part of the overall program of land development and irrigation. Production teams have also invested in pumps and diesel engines and in equipment such as dryers and threshers and recently, as a result of the new responsibility systems, have begun investing in small tractors.<sup>/1</sup> Under the responsibility

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<sup>/1</sup> Large tractors and other major agricultural machines continue to be owned by communes or large production brigades.

systems there are stronger incentives for households and groups to reduce financial outlays on services deemed inefficient. A sharp cutback is already taking place in the use of larger scale machinery. In financing agricultural investments the poorest teams may occasionally obtain state budget or extrabudgetary funds but in the vast majority of cases teams continue to rely on their own resources, both financial and labor. The teams accumulation funds are used to purchase material inputs (e.g. cement and machinery). The funds may also be used to pay labor costs, which generally account for about 45% of investment in farmland development. But it is more common for labor used in basic construction to participate in current year distribution by receiving work points in the same manner as labor for current production tasks. In addition 3-5% of members' "basic labor days" are deducted as obligatory labor. In recent years production teams have also been borrowing from rural credit cooperatives and from the ABC (or its predecessor, the PBC) for construction of small water conservancy schemes and for purchase of small agricultural equipment.

2.19 In the case of annual expenditures on agricultural inputs (mostly fertilizers), production teams have sometimes received small allocations from the state budget or extrabudgetary funds (Table 2.3). But in most provinces such allocations are unlikely to account for more than 5% or 6% of total production expenses. Some of the remainder has come from retained earnings, with teams in certain areas keeping about 20% of each year's gross income to use in purchasing production inputs. Bank loans as a source of finance has been growing to the point where they now account for more than 50% of annual production expenses. /1 The increased use of credit and the new responsibility systems are already resulting in more attention being given to the economics of crop production. In some areas, where technicians recommended fertilizer usage rates calculated largely on the basis of crop yield maximization, households and groups are reducing the use of fertilizer to more profitable levels. In some areas the household responsibility system is also resulting in individuals taking responsibility for purchasing the agricultural inputs that were previously bought by the production team.

#### Other Collective Units

2.20 Production brigades are responsible for coordinating the annual production plans of teams with the state's plans for agricultural production. They also help organize and manage agricultural investment projects, such as the construction of irrigation schemes, that involve more than one production

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/1 Data provided to the mission show that in Guangxi the proportion of production expenses financed by credit grew from 44% in 1976 to 60% in 1980 while in Shandong the proportion increased from 40% in 1980 to 61% in 1981.

team. In addition, brigades have their own enterprises which may include specialized agricultural production activities such as large vegetable plots, fruit orchards or dairy operations<sup>/1</sup> and provide certain social services. Above the brigade is the commune, the highest level collective accounting unit and the point at which collective and state activities merge. In addition to assisting in rural industrialization (paras. 2.24-2.27) and providing infrastructure and social services (paras. 2.31-2.36), the commune has an important role in drawing up agricultural production plans and in facilitating agricultural investment and production. Just as brigades organize and manage projects that involve more than one team, so communes organize and manage projects that involve more than one brigade. Such projects form an important share of farmland and water conservancy capital construction. Communes have fairly extensive research and extension services for production teams; they are responsible for important aspects of water supply management; and they frequently maintain a supply of tractors and other agricultural equipment for the use of production teams.

2.21 Financing for brigade and commune level investment in land development and irrigation has come largely from brigade and commune accumulation funds (which include part of the profits of CBEs as well as financial contributions from production teams) and from labor contributions by production teams. Poorer communes have on occasion been able to obtain state grants but the total amount of this assistance has declined significantly since 1978. Tractors are now financed almost entirely from accumulation funds or from credit. Through its fuel pricing policy, the Government still subsidizes the use of tractors but changes in the sources and terms of finance and in the organization and management of production appear to have reduced the drive toward possible excessive mechanization. Other expenses of the commune, including the costs of extension services and water management, are financed in part from budgetary allocations and in part from user charges such as water fees imposed by the commune. However, even in cases where charges are imposed, they are generally insufficient to cover full costs of operation and maintenance. Budgetary subsidies makeup the shortfall.

#### Households and Private Plots

2.22 Production teams in China are now permitted to allot up to 15% of the cultivated land to families for private plots on which families can grow agricultural products of their choice.<sup>/2</sup> Families also raise small livestock

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<sup>/1</sup> In Chinese statistics these agricultural activities are often not separated from the industrial activities of brigades. All are considered under the heading of commune and brigade enterprises.

<sup>/2</sup> The underlying policy edict dates from 1981. The area under private plots is expected to increase, but now probably accounts for no more than about 8% of the cultivated land.

(pigs and poultry), and engage in fishing and nonagricultural activities (such as collecting firewood and making handicrafts). Such activities may be undertaken individually or in joint ventures with other households. The produce from private plots is consumed at home, bartered or sold at rural markets and resulting income may account for as much as 30% of a household's total income.<sup>/1</sup> In 1979 household expenditures on private plots accounted for more than 20% of total investment expenditures in agriculture <sup>/2</sup> (Table 2.2) and about 7% of expenditures on agricultural inputs (Table 2.3). This suggests that both investment and operating expenditures on private plots have yielded high returns at prevailing market prices. As the area under private plots expands however, it is possible that supply will increase more rapidly than demand and prices and returns will decline.

2.23 In financing expenditures on these private plots, families have in the past been dependent almost entirely on their own savings. But they are now permitted to borrow from rural credit cooperatives and in recent years such lending has been growing rapidly. Loans outstanding to individual commune members increased from Y 1.1 billion at the end of 1979 to Y 2.5 billion (26% of loans outstanding from the rural credit cooperatives) at the end of 1981 (Annex D, Table 3.13). In the period January-August 1981 lending to individuals tripled when compared with the same period of 1980.<sup>/3</sup> Some of this additional credit has been used to finance household expenditures including house construction, marriage expenses, purchase of consumer goods, and some may have gone for purchase of inputs for collective agricultural production. But it appears that there has also been a substantial increase in the amount of credit being used for private plot agriculture.

### C. Financing of Commune and Brigade Enterprises

2.24 Commune and brigade enterprises (CBEs) are collectively owned by people's communes, production brigades and teams. Industrial CBEs such as mining plants, food processing plants, farm machinery plants and brick kilns, are the most significant. But there are also agricultural CBEs such as orchards, tea plantations, fisheries, animal husbandry and forestry enterprises and service CBEs such as construction and transport teams and retail stores, restaurants and teahouses in market towns. CBEs are typically

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<sup>/1</sup> World Bank Report No. 3391-CHA, Annex A, pp. 53-54.

<sup>/2</sup> This figure of 20% is surprisingly high and needs further investigation. It may include some investments in housing and other nonagricultural activities.

<sup>/3</sup> Source: Various press reports and communiques.

small-scale, often seasonal in operation, with a few workers using simple machinery to produce for a local market. With output growing at nearly 18% per year in the past 3 years, CBEs are among the most dynamic sectors in rural China today and in 1980 accounted for over one-third of the income and assets of the three-level rural collective economy of communes, brigades and teams.<sup>/1</sup> Their work force of 29 million represented nearly 10% of the rural labor force. More significantly, the Y 11.9 billion in wage payments made by CBEs averaged Y 15 per capita in the countryside, equal to 18% of the per capita income distributed by the collective sector. Because of their employment and income-generating capacity, development of CBEs is being emphasized as an important means to further progress in rural areas.

2.25 As part of the overall emphasis on diversifying the rural economy and expanding the role of the market, the Government in 1978 offered a variety of tax concessions to CBEs (including three year tax holidays), expanded its administrative support for CBEs and gave counties and communes more autonomy in determining what enterprises could be developed. One overall result was a massive expansion in the number of enterprises and considerable duplication of production capacity, particularly between small CBEs and large state enterprises. In the cigarette industry for example many communes and brigades set up their own small cigarette factories with the result that much less tobacco was available for the state factories. One major reason for the possibly excessive expansion of CBEs is the existing structure of prices in China which results in raw material prices tending to be low and processed consumer goods prices relatively high. As a result, it is relatively easy for communes and brigades to invest in enterprises which may be economically inefficient but which yield high financial returns. In addition, under existing fiscal arrangements, county governments have much to gain from an expansion of CBEs because a proportion of the revenues from the industrial-commercial taxes levied on CBEs accrues to the county.

2.26 The investment expenditures of CBEs have been financed from a variety of sources including state budgetary allocations, bank loans and the rural collectives own resources (Table 2.7). Collective resources include the retained earnings of CBEs, the accumulation funds of communes, brigades and teams and contributed labor. In the early years when CBEs were small and rudimentary, labor and land comprised the main components of their investment and labor was often conscripted from production teams. Funds

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<sup>/1</sup> Information obtained from Annual Economic Report IV 55-57 and from CBE Bureau, Ministry of Agriculture.

were also contributed by production teams./1 On this foundation CBEs gradually built up their resources and their growing profits have begun to account for an increasing proportion of investment financing. Reinvestment of CBE profits increased from Y 3.1 billion in 1978 to Y 4.1 billion in 1979 and to perhaps Y 5 billion in 1980./2 State budgetary allocations provide only a minor portion of investment funds for CBEs - about Y 350 million per year in recent years./3 These funds are routed through the various CBE bureaus. They are disbursed by the banks either as grants or as interest-free loans and are generally targeted for specific industries and selected geographical areas. In recent years the Government has been emphasizing the use of bank loans to finance an increased share of fixed investment in CBEs, and in some areas, bank loans (mostly from the ABC/RCCs but occasionally from the PCBC) are now financing as much as 50% of new investment in CBEs./4 In 1980, experiments began on a new form of finance for CBEs in which ABC and RCC branches were commissioned to issue stocks and bonds to raise funds for CBEs./5

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/1 In Hebei's Zunhua county, commune-run enterprises in the early 1970s derived 20-30% of their investment funds from contributions of production teams; see Jon Sigurdsson, Rural Industrialization in China (Cambridge, Harvard University Press, 1977), p. 66.

/2 See World Bank Report No. 3391-CHA, Annex A, Table 6.9; 1980 figures based on assumption that 40% of net profits of Y 12 billion was reinvested.

/3 Estimate of CBE Bureau, Ministry of Agriculture.

/4 In Guangxi, ABC officials stated that bank loans financed 50-65% of CBE investment. In Jiangsu's Wuxi county, bank loans to CBEs in 1979 totalled Y 50.7 million, compared with the reinvestment from CBE profits of Y 49.8 million (ZGJR (7) 1980, p. 28-30).

/5 In the Dongling District in suburban Shenyang, for example, the RCC was named as the agent for selling shares of stock to finance an expansion project at the Wusan Commune Animal Husbandry Farm. Of the required investment of Y 130,000, the farm itself raised Y 30,000 and the other Y 100,000 was to be raised through sales of stocks in Y 100 denominations. Ninety percent of the farm's profits are to be distributed as dividends. By August 31, 1980, some Y 85,000 had reportedly been raised through sales of stocks to individuals and rural collectives. (See Liaoning Ribao (Liaoning Daily), September 16, 1980, reprinted in ZGJR (10), 1980, .32.).

Table 2.7: ESTIMATES OF INVESTMENT AND OPERATING EXPENDITURES  
IN COMMUNE AND BRIGADE ENTERPRISES, 1979  
(Y billion)

Type of expenditure	Budget & extra-budgetary funds	Bank loans	Own funds & resources	Total
Investment costs	0.3 <u>/a</u>	1.0	4.1 <u>/b</u>	5.4 <u>/c</u>
Operating costs <u>/d</u>	-	7.0	27.4	34.4 <u>/e</u>
<u>Total</u>	<u>0.3</u>	<u>8.0</u> <u>/f</u>	<u>31.5</u>	<u>39.8</u>

/a Estimate of Ministry of Agriculture, Bureau of Commune and Brigade Enterprises on the proportion of "commune support" allocated to commune and brigade enterprises.

/b World Bank Report No. 3391-CHA, Annex A, Table 6.9.

/c Based on World Bank Report No. 3391-CHA, Annex A, Tables A17, A24 and A25.

/d Excluding labor costs.

/e Based on gross output figures contained in World Bank Report No. 3391-CHA, Annex A, Table 6.9 and using State Statistical Bureau assumptions that the ratio between net output and gross output is 0.3.

/f According to BJR (29) July 20, 1981, p. 22, bank loans to CBEs rose from Y 6 billion in 1978 to Y 10 billion in 1980. It is assumed that they were about Y 8 billion in 1979.

2.27 In the case of production expenses, CBEs have traditionally relied on retained earnings but in recent years have also used bank loans. The total amount of bank loans granted to CBEs increased from about Y 8 billion in 1979 to Y 10 billion in 1980 and to Y 9.4 billion in the first half of 1981. In 1979 it is estimated that as much as 80% of these loans were for production expenses and, although the proportion may have declined since then, it appears that at least half of bank loans to CBEs are still for production expenses.

/1 In Zhejiang, ABC officials indicated that 88% of the Y 1.6 billion in loans extended to CBEs in 1980 were for production expenses. In Guangxi only 58% of the Y 97.0 million lent to CBEs during January-October 1981 were for production expenses.

#### D. Financing of Rural Commerce

2.28 The structure of commerce in rural areas has undergone a number of changes since the early 1950s when the Ministry of Trade controlled both internal and external trade. Until very recently, the most important commercial organizations in rural areas have been the departments and bureaus of the Ministries of Food and Commerce and the National Federation of Supply and Marketing Cooperatives (NFSMC).<sup>/1</sup> The Ministry of Food is in charge of foodgrains and edible oil while the Ministry of Commerce deals in nonstaple foods (meat, poultry, eggs, cabbage), in manufactured consumer goods and in some materials, including gasoline. The NFSMC handles most other agricultural and sideline commodities and is responsible for the marketing of some inputs to agriculture and most consumer goods. Although the NFSMC officially represents collective commerce, its operations come under strict state control. For all practical purposes, it functions as an agency of the Ministry of Commerce. NFSMC has stores at both the commune and brigade levels and may also act as the representatives of the Commerce and Food Bureaus in areas where these bureaus do not have their own stores. In addition to these major commercial organizations in rural areas, there is a Pharmacy Bureau to market medicines and medical supplies, an Aquatic Products Bureau in charge of all fish products and other county and collective retail outlets. Since 1978 there has also been a revival of individually operated commercial shops, joint commercial ventures between a number of households and rural markets or fairs at which sideline and handicraft goods are sold.

2.29 The local units of the supply and marketing cooperatives appear to be facing difficulties in selling some products and excessive inventories are a common problem. Storage and processing facilities of rural commercial organizations are frequently deficient and result in inefficient operations and sizeable waste and loss. These inefficiencies in processing and marketing operations are widely recognized and continue to encourage experimentation with new organizational approaches. One approach is to establish "integrated agro-industrial commercial enterprises" (IACEs) among communes and state farms and to provide these enterprises with more financial and marketing autonomy by not requiring that they be established under state plans, as has been generally required of earlier commercial enterprises.<sup>/2</sup> IACEs may include

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<sup>/1</sup> The governmental reorganization of March 1982 reportedly combined the NFSMC and the Ministries of Food and Commerce (The Wall Street Journal, March 9, 1982, p.34).

<sup>/2</sup> Chun Min Pang, "The Development of Integrated Agro-Industrial Commercial enterprises in China", draft report prepared for the World Bank; January 1982.



single integrated state farms or communes, a group of farms and/or communes or an amalgam of farms, communes and stateowned industrial enterprises. Each commune and state farm in the IACE continues to be an independent entity, with its own production and accounting systems, and each must continue to meet its annual state production targets. To finance the development of such enterprises (250 had been established by the end of 1981), the Government has provided special low cost loans and grants.

2.30 Such enterprises still account for a very small proportion of rural commerce and the major commercial enterprises in rural areas remain the supply and marketing cooperatives and the subunits of the Ministries of Food and Commerce. Most of the financial requirements of these rural commercial organizations relate to the funds needed to purchase agricultural and other products. In the case of enterprises and subunits of the Ministries of Food and Commerce, some of these funds come from state budget allocations or from their own retained earnings. These units also borrow from the People's Bank or from the ABC which acts as the agent of the People's Bank in areas where there is no separate branch of the People's Bank. The NFSMC also relies for as much as 70% of its financial requirements on loans from ABC. In these cases, the local NFSMC units usually have one account for both loans and deposits and withdraw and deposit money on a daily basis with the amount of the loan acting as the maximum overdraft level. As a result, banks have little or no control over NFSMC activities and the level of inventories tends to determine the level of credit.<sup>/1</sup> Other collective units and individual commercial stores also borrow from ABC. At the end of 1980 loans to rural commercial enterprises accounted for 65% of loans outstanding from ABC. Rural commercial loans have grown sharply in recent years due partly to the rapid growth of agricultural production and the emphasis now being placed on expanded availability of consumer goods. But it appears that rural commercial enterprises continue to face problems of large holdings of unmarketable or substandard goods.

#### E. Financing of Other Rural Activities

##### Roads

2.31 During the 1950s the Central Government played an active role in the expansion of the road network but since then responsibility for roads has been delegated to provinces, counties and communes. The design, construction and maintenance of trunk roads are the responsibility of the Provincial Transport

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<sup>/1</sup> In some areas reforms are being introduced aimed at increasing the control of ABC over rural commercial units. The mission did not learn much about the nature or extent of these reforms.

Bureaus; roads of lesser importance are the responsibility of the county transport bureaus; and the construction and maintenance of smaller rural roads is left to the communes. These agencies and organizations also operate road transport services.

2.32 In line with these changed operational responsibilities, the burden of financing road construction has shifted to the provinces, counties and communes (Table 2.8). Road maintenance has always been the responsibility of local governments and communes. Funds for trunk road improvement and maintenance and for administration come mainly from a provincial road maintenance tax. Funds for construction of county and commune roads come from the state budget, from extrabudgetary funds and from the communes own accumulation funds. Labor for construction of commune and county-level roads is generally provided by production teams. This may consist of obligatory labor or the laborers will be paid in the form of work points from their production team. Production teams are also responsible for maintenance of commune and county roads; in the case of county roads this may be on a contract basis at a fixed sum per kilometer. Rural credit institutions do not appear to play a significant role in either construction or maintenance of roads.

Table 2.8: HIGHWAY FINANCES, 1979  
(Y million)

	Direct government allocation	From maintenance charges	Counties and communes	Total
Capital improvements	600	(850-1,170)/a	200-300	1,650-1,750+
Maintenance	-	(1,150-1,450)/a	Not available	1,150-1,450+
Administration	-	580	-	580
	<u>600</u>	2,836	<u>200-300</u>	<u>3,380-3,780</u>

/a Exact figures not available.

Source: Highways Bureau, Ministry of Communications.

Education

2.33 Education in China is also quite decentralized. The Ministry of Education is responsible for 35 higher education institutions but responsibility for other higher education and for middle, primary and vocational education is vested in the provinces and other levels of local government. Almost every commune has a middle school and some have a vocational school. The middle schools are basically run by the county education bureau but the communes provide some of the office staff. Most brigades have primary schools which are also officially supervised by the county education department. Some of these schools are funded by the state while some are funded from local sources. In the case of locally funded schools, brigades and communes continue to exert an important influence.

2.34 Financial responsibility for education and training is divided among central and local government, communes, brigades and enterprises, and individuals who pay fees and buy materials and books (Table 2.9). Capital construction is largely financed from the state budget, but production brigades also construct primary schools through self help schemes. Most operating expenditures are financed from the state budget but communes and production brigades pay from welfare funds some expenses including the wages of some teachers.

Table 2.9: EXPENDITURES IN FORMAL AND NONFORMAL EDUCATION  
1979  
(Y billion)

	Ministry of Education	Expenditures by provinces, counties, brigades, enterprises, etc.	Private expenditure (fees, books, etc.)	Total expenditure
Primary education	2.5	1.2	0.7	4.4
Secondary education	3.4	1.1	0.2	4.7
Tertiary education	2.5	1.4	<0.1	4.0
<u>Total</u>	<u>8.4</u>	<u>3.7</u>	<u>1.0</u>	<u>13.1</u>
Of which:				
Investment expenditures	0.7	0.7	-	1.4
Operating expenditures	7.7	3.0	1.3	11.7

Sources: Ministry of Education and data from local authorities, enterprises and universities, colleges and schools.

## Health

2.35 The rural health system in China is a "three-tiered" system with facilities at the county, commune and brigade levels. At the county level a health bureau administers a county hospital (with 50-300 beds and staffed by a college-graduate physician), a county anti-epidemic station and a county maternal and child health station. At the commune level there are health centers with from 10-20 beds and a number of medical workers. Administratively, the commune health center comes under the leadership of the local commune management committee but permission to perform particular operations needs to be obtained from the county health officer who appears to supervise the commune health centers very closely. At the production brigade level there is a health station with two or three paramedics (barefoot doctors) who are expected to care for "ordinary sicknesses" and prescribe drugs. The stations function under close supervision of the commune hospital and the county health bureau.

2.36 The financing requirements of the rural health system are met in a variety of ways and from a variety of sources. In most production brigades a major financing vehicle is the Cooperative Medical Care Insurance Scheme. In some brigades, funds for this scheme (usually about three yuan per brigade member) are taken directly from the welfare fund while in other brigades a fee of Y 2-3 is levied directly on each individual. These funds are used to pay for the operating costs of the health station (including purchase of drugs from the commune health center and electricity and maintenance costs but excluding labor costs). Health aids and midwives are unpaid and barefoot doctors are given work points in the same way as agricultural workers. Construction of health stations is generally done using voluntary labor, with the costs of materials and supplies being provided from the brigade accumulation fund. The state also assists brigade health stations financially by providing subsidized training for barefoot doctors and supplying free family planning supplies and vaccines. The commune health center generally has four major sources of finance. Some of their expenditures are met directly by individual commune members who are charged for each visit to the center. The centers also receive most of the funds from the Cooperative Medical Insurance Scheme in return for provision of drugs. The commune's welfare and accumulation funds are available. In addition, the centers receive cash grants from the county to cover part of the salaries of health workers at the commune level and some of the costs of purchasing equipment and supplies. The investment and operating costs of the county hospital and higher level health facilities are met from the state budget.

F. Mobilization and Allocation: An Overview

2.37 Rural development activities in China have been characterized by a high degree of self-reliance and self-financing. The collective sector has been responsible for most activities and has organized and financed agricultural and industrial investment and development of economic and social infrastructure as well as operating and maintaining facilities and services with little support from other units and organizations. Households have also relied on their own resources for investment and operating expenditures. The state sector has occasionally provided financial assistance to the collective sector but the amount of this assistance has been relatively small and most of the rural resources mobilized by the state have gone to finance government, state enterprise and rural commercial activities in rural areas or have been used outside of rural areas to finance the industrialization program.

2.38 This overall picture of self-reliance and self-sufficiency, however, hides substantial intermediation, both financial and nonfinancial. Within the collective sector in particular there has been much nonfinancial intermediation with the resources of production teams (both labor and profits from agriculture) being used to finance industrial and other activities of brigades and communes. Such intermediation has taken place almost entirely within particular rural collectives: it has been difficult or impossible to arrange such intermediation between or among collectives. There has also been a growing amount of financial savings (particularly of individual households) which have gone mostly to finance the growth of rural commerce and some collective and household investments.

2.39 The growing importance of the banking system and credit as a source of finance has resulted in part from the reduced emphasis on budget financing and the Government's direct efforts to strengthen the role of the banking system. But it also results from the changed production responsibility systems in rural areas. These new systems have increased the autonomy of lower level units and have stimulated demands for various types of assistance and intermediation. The increased autonomy of different units does, however, make it more difficult to organize certain types of nonfinancial intermediation such as production teams providing resources to brigades and communes. The role of banking and financial institutions in mobilizing resources and allocating them to high priority areas has therefore increased and will continue to increase in importance as the new production responsibility systems expand.

### 3. THE AGRICULTURAL BANK OF CHINA

#### A. Background

3.01 After the establishment of the revolutionary government in 1949, steps were taken to nationalize the private banking sector. This process was essentially completed by 1953. In the 1949-53 period the PBC played a major role in controlling the prevailing hyper-inflation inherited from the past and in furthering the socialization of industry, commerce and, later, agriculture. In July 1951 an Agricultural Cooperative Bank was created but was short-lived. In 1955 the Agricultural Bank of China (ABC) was established by the PBC but was abolished in April 1957 on grounds that it duplicated functions of the PBC. An attempt to re-establish the ABC was made in 1963, but the Bank was abolished in October 1965. During the 1960s the basic functions of a rural credit system were carried out by some 100,000 rural credit cooperatives (RCCs), while the more formalized rural banking activities were the responsibility of the Agricultural Finance Department of the PBC.

3.02 This situation continued until February 1979 when a directive of the State Council restored the ABC and urged that it henceforth become the dominant institution in the mobilization of rural savings and the channeling of central and local government funds for rural development (Annex A). This newly-established ABC consists essentially of the staff, offices and other physical facilities of what had been the PBC's Agricultural Finance Department. According to the State Council directive, the ABC is responsible for the "unified management" of all state financial appropriations for the rural economy, with the exception of state funds budgeted for capital construction in agriculture, forestry and hydroelectricity, which continue to be handled by the People's Construction Bank of China. Though the ABC is ultimately responsible to the State Council, the PBC is charged with managing it on behalf of the State Council.

#### B. Objectives and Organization

3.03 ABC's most general objective is to contribute to the effective execution of Government economic policy throughout the rural areas of China. Its activities extend beyond agricultural lending and its loan portfolio is in fact concentrated in rural commerce (Annex D, Table 3.1). In addition to its main tasks of channeling public funds to rural areas, mobilizing rural financial resources and extending credit, the ABC supplies a wide range of banking services to the rural areas, provides leadership to the RCCs, and takes the lead in providing financial guidance to communes, brigades and teams. Decisions regarding the use of ABC resources at all levels are largely made through an iterative planning process in which ABC is an important

participant. The influence of ABC, and its predecessor, in the mobilization and use of resources for rural development has varied over time. In past years the role of the agricultural bank was limited largely to serving as a conduit for state budget funds in support of agriculture. Recent policy reforms have greatly expanded the bank's role, as noted elsewhere in this report. This role continues to evolve in response to national policies and local circumstances. Frequently, factors such as the relative forcefulness, knowledge and financial skills of ABC staff, compared to their counterparts in other agencies involved in the planning process, are key determinants of ABC's influence in the rural financial system at the local level.

3.04 The ABC is headed by a Director who is assisted by six Deputy Directors. It has nine departments with responsibilities for: (a) supervision; (b) personnel; (c) financial allocation; (d) accountant training for communes, brigades and teams; (e) credit cooperatives; (f) commune and brigade enterprises; (g) accounting; (h) planning; and (i) appropriation of government grants and subsidies to the collectives. It also has a unit responsible for enforcement of its rules and regulations (the General Office) and a research institute responsible for policy research and related matters. The planning department plays a major coordinating role in bank operations and is also responsible for the collection of statistics. A similar organizational structure exists at most branches and lower levels (Figure 3.1).<sup>/1</sup>

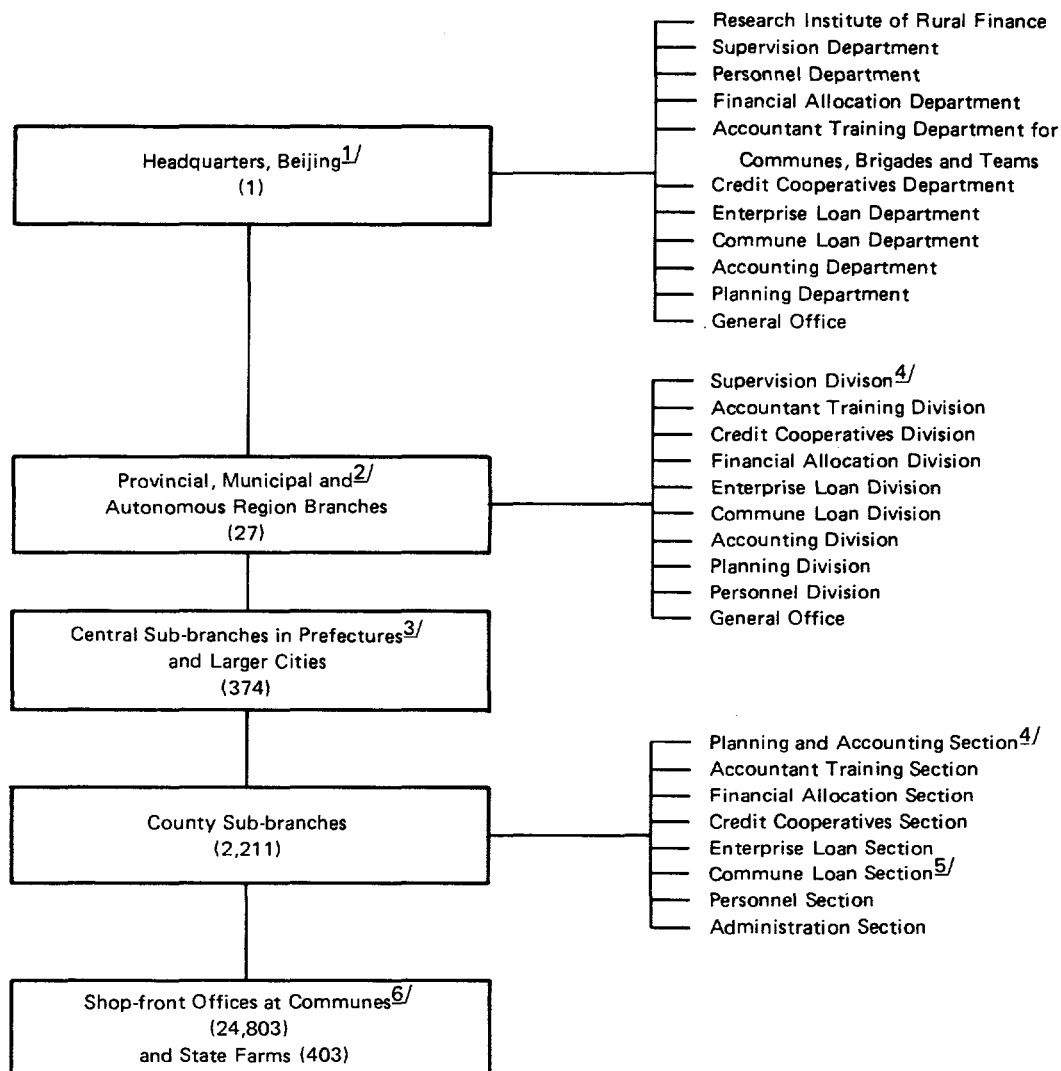
3.05 The staff at the head office in Beijing is surprisingly small (about 250 persons), reflecting the decentralized character of the bank. The headquarters plays a major role, however, in policy level discussions of ABC's total operations, in allocating resources among provinces and major uses, and in approving some of the larger or more controversial loans.

3.06 The ABC has characteristics of both a national bank and a federation of provincial and local banks. Consolidated accounts for the ABC system are prepared at headquarters in Beijing. Provincial branches and lower-level subbranches and offices are considered as independent accounting units, each being responsible for its profits and losses. ABC has authority to move funds from headquarters to the provinces, and vice versa, or across provincial and county boundaries. County-level ABC offices and RCC units are required to deposit excess funds with higher level ABC branches and provincial-level ABCs deposit excess funds with headquarters. All such movements of funds are to be consistent with the national credit plan. ABC headquarters appears to allocate its equity capital among provincial branches roughly in accord with provincial populations. Annual appropriations from the state budget to ABC headquarters ("bank credit funds") are reallocated among provinces on the basis of a national credit plan which takes account of lending priorities and availability of resources. Local (county) planning committees now determine total lending for each county, although the ABC has the autonomy and

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<sup>/1</sup> A reorganization of the ABC which was underway in mid-1982 is expected to reduce slightly the number of departments of the ABC headquarters office.

**CHINA**  
**RURAL FINANCE: A SECTOR STUDY**  
**Figure 3.1: Organization Chart of the Agricultural Bank of China**  
**at Central, Provincial and Local Level**



1/ Figures in brackets indicate number of offices at end of 1980.

2/ The ABC has no branch offices in Beijing or Xizang, where agricultural lending is the responsibility of the People's Bank.

3/ Of which 288 are at prefectural level (largely supervisory) and 86 are commercial offices in the larger cities.

4/ Divisions and sections are established according to size of the area served and volume of business done. ABC organization at these levels differ from area to area.

5/ Also responsible for loans to production brigades and teams.

6/ In addition, the rural credit cooperatives operate about 59,000 offices at commune and state farm level. The ABC also operates 26 training facilities throughout China and 1 factory to produce office supplies, etc.

Source: ABC Planning Department, Beijing.



authority to allocate those funds among particular communes, state farms and other investment activities. County planning committees are involved in allocating loan funds for larger or key projects of major importance.

3.07 The Bank is organized on a pattern similar to the general administrative structure of government. At the end of 1980, it had 27 branch offices in the provincial capitals, municipalities and autonomous regions,<sup>/1</sup> 288 central subbranches at the prefectural level, 86 business divisions at major urban centers, 2,211 subbranches at county level, 24,803 offices at commune level and 403 offices on state farms. The bank is therefore represented at all administrative levels with more than 27,800 offices. In addition, it operates, sometimes jointly with the PBC, 26 banking schools for training of staff. This extensive branch network of offices reflects ABC's role as banker to the rural community as well as its responsibility as the financial agent of Government for the rural areas of China. In addition to the above network, there are about 59,000 RCCs which are effectively part of the ABC network (paras. 3.30-3.31). This means that virtually all of China's 53,000 communes and 2,000 state farms have at least one ABC office or RCC in their area. This extensive national coverage is an element of strength in ABC's total operations.

#### C. Staffing and Training Programs

3.08 Among ABC's 285,000 staff members are some 101,000 loan officers, 28,000 administrative heads, 92,000 accountants and cashiers, 21,000 administrators, and 5,000 planning and statistics workers (Annex D, Table 3.3). Of this total, just under a quarter are women. In addition to these ABC employees, the RCCs employ some 250,000 staff on a full or part-time basis. Little detail is available on the formal qualifications of ABC and RCC staff. A very small portion, probably less than 5%, are university graduates. Most of the local office managers and department heads are graduates of middle-level schools and have had supplementary training in rural finance or accounting. A substantial number of the staff have had long experience with rural banking as employees at ABC's predecessor agency, the Agricultural Finance Department of the PBC.

3.09 Employees at the local level in general are quite well trained in the principles and procedures of rural finance and ABC appears to be able to select suitable candidates from school leavers (middle level schools) for its general staff. At a higher level only a very small number of university graduates have been assigned to ABC and in general it relies on either the graduates of its own technical schools (two years of training after middle

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<sup>/1</sup> The ABC has no branch offices in Beijing or Xizang Autonomous Region, where agricultural lending is the responsibility of the PBC.

level) or inhouse training and part time courses at its banking schools. Older staff are less well-qualified in terms of academic training. ABC staff are generally not trained in project appraisal methodology. But this is a national phenomenon caused in part by inadequate attention in the past to training and by de-emphasis of the accounting and economics professions.

3.10 Details are not available on the training provided in ABC's banking schools. The curriculum appears to be generally balanced, with major emphasis on accounting. Increased focus on the methodology of project appraisal would be desirable, but teachers with the necessary background are generally not available. This is the weakest area in the qualifications of ABC staff and in the operations of the Bank. A comprehensive training program in appraisal methodology could be expected to pay attractive returns in terms of increased efficiency in the use of ABC's financial resources.

#### D. Credit Operations

3.11 The ABC provides short term loans (about 80% of the total portfolio) of less than one year, and longer term loans generally for up to 5 years for the following purposes (Annex D, Table 3.1):

- (a) Commercial loans. These are essentially short term loans to meet working capital requirements for supply and marketing cooperatives, machinery supply companies, etc., all of which are Government enterprises. The volume of these loans fluctuates widely, depending on seasonal requirements, but remains important throughout the year. At December 31, 1980 they totalled Y 30.7 billion (62% of total outstanding loans) and at June 30, 1981 Y 26.7 billion (about 54%).
- (b) Loans to communes, brigades and teams. These loans are for both agriculture and commune and brigade enterprises (CBEs) and include short-term funds for production expenses and working capital and longer term (usually up to 5 years) loans for equipment and buildings. Loans for agriculture include funds to purchase seeds, fertilizers, fuel and other production inputs, as well as farm tools, machinery and animals. Loans to CBEs finance working capital, investments in light industry and agricultural enterprises such as orchards or dairying. At December 31, 1980 short-term loans amounted to Y 5.6 billion; longer term loans totalled Y 8.8 billion (agricultural loans of Y 9.6 billion and CBE loans of Y 4.8 billion). By June 30, 1981, the total of this category, for which no breakdown was available, rose to Y 17.6 billion. This six month change partly reflects normal seasonal variation as well as a real increase in lending;

- (c) Loans to state-owned agricultural enterprises. These are comparatively small amounts (Y 0.9 billion at December 31, 1980) for investment and working capital to enterprises such as state farms, fisheries units, tractor stations and irrigation and drainage pumping stations;
- (d) Loans for crop advances. This comparatively small sum (Y 0.8 billion at the end of 1980) represents loans to commercial or processing departments to be used as down payments to production units for crops contracted for sale to the commercial departments; and
- (e) Loans to rural credit cooperatives. Because deposits of the RCCs at the national level usually exceed loans from the ABC, the ABC is generally a net user of RCC financial resources in the Bank's lending program. However, it also provides some loans to the RCC system to cover short term needs (Y 0.8 billion at the end of 1980).

3.12 In addition to lending its own funds, ABC acts as an agent for the People's Bank in a number of fields, of which the most important have been loans to the commercial departments of the Ministries of Food and Commerce for the purchase of agricultural commodities from producing units. These amounts, which are generally on-lent by ABC on a commission basis, are substantial (Y 18.5 billion at December 31, 1980).

#### E. Financial Resources

3.13 For most of its (net) resources in 1980 of Y 55.3 billion (excluding debt to the People's Bank), the ABC relies on state capital grants and demand and time deposits. As of December 31, 1980, deposits were: (a) Deposits by RCCs (Y 21.1 billion); (b) Deposits (mainly demand) by state farms and other agricultural enterprises (Y 3.7 billion); (c) Demand deposits by rural commercial enterprises (Y 3.0 billion); (d) Deposits by individuals generally living in county towns and larger villages (Y 2.8 billion); (e) Demand deposits by communes and brigades (Y 1.3 billion); (f) Deposits from Government institutions, e.g. hospitals (Y 2.4 billion); and (g) State budget grants (Y 0.7 billion). Savings deposits are divided into fixed-term and liquid types. Fixed-term deposits are made for 6-month to 8-year periods. Minimum deposits range from one to ten yuan for all types of savings accounts. Deposit policy of the ABC and the RCCs emphasizes voluntarism in deposits and withdrawals, confidentiality, and payment of interest on all deposits by individuals and collective units.

3.14 The capital grant from the state totalled Y 22.0 billion by mid-1981 (Y 20 billion in December 1980). ABC also has small deposits from local

governments for on-lending by the Bank. In addition ABC at the end of 1980 had obligations of Y 10.9 billion to the PBC for funds on deposit with the ABC.

#### F. Financial Results

3.15 During 1980, the first full year of its new existence, the ABC had a stated profit of Y 362 million (Annex D, Table 3.2). Revenues were mainly from interest on loans (Y 1.46 billion), agency fees and interest from deposits (Y 695 million) and interest subsidies (Y 170 million from Government to allow for the difference between the (lower) lending rates and (higher) rates paid for savings deposits). Expenditures were mainly for interest paid (Y 885 million), compensation to lower-level units for negative interest rate spreads (Y 170 million), various payments for services and sundry expenses (Y 415 million) and administration (Y 594 million). Administration costs of less than 2% of total resources employed are relatively low by international standards and reflect generally low salaries.

3.16 Bad debt losses are not accounted for separately. It appears that overdues may be quite high (25% and over in some areas).<sup>/1</sup> According to one report,<sup>/2</sup> at the end of 1979 the total value of agricultural loans which could not, or would not, be repaid when due exceeded Y 10 billion. This was probably over half the total value of all rural loans by banks and RCCs outstanding at the time. The ABC now places considerable emphasis on full and timely repayment and appears to be making good progress in dealing with the problem. According to statistics compiled at the end of 1981 recoveries of that year's agricultural loans were over 92% of loans made. The Beijing office estimates that bad debts currently are less than 1% of loans. Adequate allowance for bad debts probably has not been provided in the consolidated accounts. Details available from ABC branches give a ratio of total recoveries against total loans outstanding during the current year, rather than the more meaningful comparison of recoveries against amounts due for payment. In Shandong Province, recoveries were estimated at about 95% of loans outstanding in 1979 and 1980. In Zhejiang Province recoveries, using this same formula, were reported to be 92% in 1980. However, the provincial branch estimated that 25% of the loans were overdue at county level.

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<sup>/1</sup> The terms "bad debts" and "overdues" require definition. Loans in arrears are loans for which amortization payments are overdue. Borrowers with loans in arrears are defaulters. Bad debts are debts which the financial institution considers as nonrecoverable.

<sup>/2</sup> New China News Agency, June 17, 1980; translated in the Foreign Broadcast Information Service, June 18, 1980, p. L7.

### G. A Look at Provincial Operations

3.17 A review of ABC activities in three varied provinces, ranging from quite prosperous Zhejiang to relatively poor Guangxi, indicates considerable differences in the pattern and size of Bank operations. These differences largely reflect relative states of development among provinces and local lending opportunities, although the leadership and development emphasis provided by provincial and local authorities may also be important. Annex D, Tables 3.4 - 3.9, comprise balance sheets and income statements of the Zhejiang, Shandong and Guangxi provincial branches of the ABC. Because of differences in the quality and degree of detail provided by the different provincial branches, the tables are not fully comparable.

3.18 In all three provinces the lending was mainly to rural commercial enterprises and to communes, brigades and teams for agriculture and CBE development. There was much greater relative emphasis on lending to commercial enterprises in Shandong than in Zhejiang and Guangxi. The deposits of RCCs were dominant in Shandong (70-80% of total deposits) less so in Zhejiang (65%) and less than half of all deposits in Guangxi. In Guangxi the ratio of equity funds allocated from headquarters to deposits (1:1) was much higher than in other provinces (about 1:1.5 in Shandong and 1:2.5 in Zhejiang). It is not entirely clear how these allocations are determined in the overall planning process, although consideration of both credit demand and provincial income differentials appear to be important. While ABC headquarters is interested in providing additional assistance to poorer provinces, present emphasis is to encourage development where returns are higher. This often means lending emphasis in the more developed provinces. In this regard it may be significant that Guangxi did not receive any additional loan funds from headquarters between December 1980 and June 1981, whereas both Zhejiang and Shandong received an increase of about 10% (in line with ABC's own proportional increase in capital).

### H. Interest Rates

#### Lending Rates

3.19 During the 1960s interest rates on loans were reduced in line with the reduction in deposit rates; further reductions in lending rates took place in the early 1970s (Table 3.1). Since 1976 lending rates have been increased more slowly than deposit rates and it was not until the beginning of 1982 that major adjustments in interest rates on agricultural and other loans were implemented (Annex D, Table 3.10). The pattern of preferential rates for rural loans remains, as do the lower rates for equipment than for production expense loans.

Table 3.1: INTEREST RATES AND INCREASES IN THE RURAL PRICE LEVEL  
(% per year)

	1952- 1957	1957- 1970	1970- 1977	1978	1979	1980	1981	1982
Rural prices/ <u>a</u>	0.8	2.1	0.7	1.4	4.4	6.0	2.0	n.a.
Interest rate on individual demand deposits/ <u>b</u>	4.6	2.3	2.2	2.2	2.2	2.5	2.9	2.9
Interest rate on individual one year time deposits	12.2	5.2	3.2	3.2	3.8	5.0	5.4	5.4
Interest rate on production expense loans to communes, brigades and teams	8.4	6.0	4.8	4.3	4.3	4.3	4.3	5.8

Sources: /a Weighted average of a composite agricultural price index and an index of prices of industrial goods in rural areas. Data for 1980 and 1981 are based on estimates of the change in the overall retail price index; World Bank Economic Report No. 3391-CHA, Annex A, Table A.27.

/b Hsiao (1971) Table V.6 p. 133, ZGJR No. 1, 4/30/79 and ZGJR No. 4/4/30/80 and Agricultural Bank of China.

/c Chen (1967) Table 10.32, p. 470 and Agricultural Bank of China.

### Deposit Rates

3.20 During the last three years there have been a series of increases in the interest rate payable on individual savings deposits in rural areas. This reverses a gradual downward trend since the 1950s (Annex D, Table 3.11). In April 1979 the interest rate on time deposits was raised and the range of available time deposit instruments was increased. In April 1980 interest rates were increased on both demand and time deposits. And from April 1982 there will be further increases in the rates on one, three, and five year deposits as well as the introduction of an eight-year time deposit.

3.21 Throughout the 1950s and 1960s and for most of the 1970s the real interest rate on private savings accounts has been positive. In 1979 and 1980 the upsurge in inflation resulted in real interest rates that were negative. But in 1981 the rate of inflation appears to have declined and

the real interest rate on both demand and time deposits may have again become positive. By comparison with many other developing countries, China has yet to experience a period of substantial negative real interest rates, largely because the rate of inflation generally has been very low. The history of generally positive real interest rates has probably contributed to the good performance of savings in rural areas. Based on recent savings behavior, the marginal propensity to save in rural China appears to be high, although the scarcity of high quality consumer goods in many areas may be resulting in some forced savings.

3.22 Only in recent years have individuals been allowed to put their savings in longer (3-8 year) fixed-term accounts. Interest rates on demand deposits remain at 2.9%/yr. Until recently ABC made a loss on most of its term deposits because of the interest rate structure (charging 6-7% on medium-term loans; paying 7-9% on 3-8 year deposits). As noted (para. 3.15), the PBC in past years paid an annual subsidy to ABC to offset this loss. In 1980, this was Y 170 million, or less than 1% of the value of total loans outstanding at the end of the year. The recent adjustment in interest rates paid and charged by ABC is expected to reduce or even eliminate this subsidy.

#### I. Appraisal and Supervision of ABC Subloans

3.23 Local offices of the ABCs and RCCs are expected to employ the "system of three check-ups" in the appraisal of subloan proposals.<sup>/1</sup> This system, which was introduced only recently by ABC, involves examination before the loan is granted, supervision during disbursement and post-disbursement review of project impact. There are undoubtedly wide variations in the application of this system among branches and it appears that most emphasis is given to the before-loan enquiry. This step emphasizes cash flow and material balances. No formal financial or economic analysis using discounting techniques is carried out, although pay-back periods are occasionally calculated and used as supplementary criteria for investment decisions. Short- and medium-term production and financial plans are to be prepared by the borrowing unit. Funds needed for investment and working capital are estimated and sources of funds are identified. In developing the borrowing unit's financial plan, ABC staff are to guide the unit in allocating funds between consumption and investment. After production and financial plans are prepared, material balances are to be drawn up which indicate the type, quantity and source of supply of required materials. An important part of the enquiry is to estimate what portion of these materials can be provided locally and how much is to be provided from other sources.

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<sup>/1</sup> The Chinese term, san cha zhi du, might also be interpreted as the "system of three investigations."

3.24 The "second check-up" is to be an on-going process during loan disbursement to ensure proper use of funds. On the basis of this supervisory activity, adjustments in disbursements are to be made to accommodate changes in higher-level policies, production plans of the borrowing unit, or in the availability of raw materials. The principle of properly "matching money with goods" is paramount in this phase of loan appraisal. The "third check-up" appears to be largely in the nature of post-disbursement examination of project impact, although this may also take place during later stages of the disbursement period. This examination compares actual implementation of the project with original targets. A comparison of actual use of funds with earlier stated intent is a key aspect of the analysis. Production achievements are measured against targets and efforts are made to assess experience as a guide to future loan operations.

3.25 The procedure involved in evaluating a proposed investment in a brigade-level factory may provide some insights. It is likely that this investment opportunity would have been mooted for some time - perhaps several years. Before the factory can be built, it must be incorporated in the annual plan, initially at brigade and commune level and subsequently as part of an overall plan at county and provincial level. At this stage ABC staff at county level or higher might be asked to make a judgment (rather broad in most cases) on whether the factory can repay its costs. Availability of raw materials is an important consideration. From examples seen and discussed, ABC uses fairly simple "before and after" calculations in assessing project feasibility. ABC may also assist in considering alternative designs and more accurate costing. Other groups having an input in the planning process will include the commune cadre, the responsible commercial departments at county and provincial level, and county and provincial planning commissions. Decisions by each of these groups will be influenced by overall directives from above (national or provincial levels). Based on these several considerations, a decision to include a factory in the plan is made at the local level. It must then be approved by county and provincial planning authorities.

3.26 After provincial planning authorities have agreed to include the factory in the plan, ABC will again review the loan funds needed for this and other proposed investments, the availability of funds, the availability of raw materials and, finally, consistency with Government policy. ABC often acts as a "broker" to ensure that goods in short supply will be available to implement the project. Increasingly, it is requiring a formal contractual arrangement involving the Bank, the borrowing unit and the supplier of the equipment to be financed. The contract stipulates loan amounts and disbursement schedules, specifies the type, quality, quantity and delivery times for the equipment and indicates the repayment schedule for the borrower.

3.27 In the case of major CBE projects the most important factors influencing the decision to proceed with a project appear to be the conformity of the project to the state plan and the availability of material and



markets. Project proposals appear to be sent forward with little detail; there is little examination of issues of scale, technology, location and timing of proposed projects; and the financial analysis is also quite rudimentary. In making the decision on whether or not to proceed with a project, the local planning committee and the line agencies appear to play the critical role. Proposers of projects only go to ABC with a request for funds after the project has been approved by the planning committee and the relevant government department. These requests are almost always approved. However, in the case of smaller CBE projects and almost all agricultural and commercial projects the ABC plays a much more substantive role - the planning committee decides on the total amount of loans to be made (taking into account available materials and supplies and other sources of finance) and the ABC then decides on the allocation of these resources between different types of project and different areas and communes.

#### J. Accounting Systems and Auditing

3.28 In most provinces ABC has an adequate number of accounting and statistical staff at all levels. Few of these are experienced in comprehensive financial analysis, but they prepare timely, consistent and detailed records. ABC requires the financial accounts to be balanced daily at each office. Summary details are reported by commune-level offices every two weeks by telephone to the county office and commune-level accountants come to the county once per month to reconcile accounts. County offices report monthly to provincial offices which in turn send detailed accounts to headquarters every six months. General office statistics, which vary from province to province but which always compare actual operations with loan targets in the credit plan, are sent forward to provincial levels on a similar schedule. These statistics are quite detailed with reference to types of investments financed, geographic location of subprojects, expected incremental production, etc. An apparent major weakness is lack of detailed information on overdues, as these are generally rolled over and kept nominally current.

3.29 ABC is not effectively audited. While the accounts of ABC headquarters are reportedly audited by the Ministry of Finance, this appears to be only a fairly cursory check. Recent moves to restore auditing in China, and emphasis on financial accountability, will hopefully allow both a satisfactory external auditing of ABC accounts and the commencement of an internal auditing department. These are essential parts of any efforts to improve the efficiency and effectiveness of ABC operations.

### K. Rural Credit Cooperatives

3.30 The rural credit cooperatives commenced in the 1930s as farmers' self-help organizations. After 1949, their number increased substantially. However they later changed from being true farmer cooperatives to having the dual character of a collective financial organization and a basic level unit of the ABC. The number of RCCs is more than twice the number of ABC offices at the local (commune or state farm) level. Some communes may have more than one RCC office, while in more sparsely settled areas one RCC may cover two or three communes. Some RCCs also operate sub-branches and brigade "credit stations." In effect the RCCs are agents of the ABC, in some places on-lending ABC funds on a commission basis, but with a somewhat different focus than local ABC branches. While style of operation varies widely, the RCCs generally are more directly involved with financing and resource mobilization at the commune, brigade and team level than are the local ABC offices. The source of funds for RCCs includes deposits from individuals, communes, brigades and teams, operating profits, member subscriptions and loans from ABC.<sup>/1</sup> Use of funds includes agricultural loans to collectives, loans to commune and brigade enterprises, and loans to individuals.

3.31 At the end of 1980 deposits of the RCCs totalled Y 27.2 billion while loans equalled about Y 8.2 billion (Annex D, Table 3.13). This disparity reflects in part the time of year, as most crops at that time had been recently sold and deposits were relatively high. In general, RCC deposits with ABC exceed ABC loans to the RCCs, i.e., the rural credit cooperatives are net suppliers of funds to ABC. The RCC loan portfolio has grown rapidly - 72% between 1979 and 1980 and another 61% in the first three quarters of 1981 - largely reflecting sharp increases in loans to commune and brigade enterprises and to individuals. By the end of the third quarter of 1981, RCC loans to individuals were nearly half as large in total volume as all agricultural loans to commune and brigades. As production on private plots increases and as the production responsibility system expands, RCCs are likely to become increasingly important in generating deposits and making loans. Loans to individuals could become the fastest growing element in the RCC loan portfolio.

### L. Autonomy of RCCs and the ABC

3.32 ABC's direct control of the local RCC varies from place to place. In some provinces ABC subbranch managers also serve as managers of the RCCs and the two offices are in a common building. In this case they are virtually

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<sup>/1</sup> Funds provided by member subscriptions date from the 1950s and now are relatively insignificant.

one unit and the rationale for maintaining their separate entities is unclear. Elsewhere, there are separate managers and offices and, while ABC has responsibility for the RCC, they operate somewhat more independently. Staff costs of the RCCs are met from local RCC profits. One future policy option would be to incorporate the RCCs even more closely into ABC or perhaps to absorb them fully. This may be possible administratively as salary and employment conditions have now been unified as a result of the directive on the ABC by the State Council in 1979 (Annex A). A possible disadvantage is that peasants may feel less close to the ABC than to their local RCC office which appears to be more oriented towards financial needs of individuals, teams and brigades. At issue is whether absorption of the RCCs into the ABC system would permit more efficient use of ABC and RCC staff and physical facilities.

3.33 Another dimension of autonomy is the relationship of the ABC to the state. Since the mid-1970s the ABC (and its predecessor department in the People's Bank) has moved substantially from a position as a simple financing channel of Government to that of a semi-independent bank. ABC now appears to have considerably more authority regarding individual investment decisions at the local level than did its predecessor several years ago. But policies regarding major areas of emphasis in rural lending continue to be determined largely at the center and local planning committees play key roles in approving large CBE projects. Public policy at the moment favors greater autonomy for the banking system, although specific reforms are being somewhat delayed because of on-going economic readjustments. In terms of international comparisons, ABC is probably more independent than its Romanian equivalent and less than Yugoslav banks. It seems likely that ABC's degree of autonomy will continue to increase, with ever larger discretion in the allocation of resources to individual subprojects which are consistent with overall policy emphasis and plans.

#### 4. COMMUNE AND BRIGADE ENTERPRISES

4.01 It has been noted (Chapter 2) that commune and brigade enterprises (CBEs) are among the most vigorous subsectors in rural China and now account for a significant and rising share of national industrial output, rural cash income and employment. Their continued expansion can be expected as a logical part of the transformation in the rural economy growing out of current policy reforms aimed at increased production and higher rural incomes. CBEs are discussed in some detail in this chapter because of their growing importance in China's rural financial system.

##### A. Chronology of Development

4.02 CBEs had their origins in the family sidelines, village handicraft and small workshops in traditional Chinese society. These activities declined in the mid-1950s, when many raw materials such as grain, cotton and other economic crops came under unified procurement and allocation by the state. To improve their access to supplies, many of these workshops and artisans were organized into cooperatives. With the formation of people's communes and the call for communes to actively develop industries during the Great Leap Forward (1958-60), many of these cooperatives were absorbed by communes. In addition, some state enterprises were transferred to commune ownership, and new enterprises were set up with funds and labor contributed by commune members.

4.03 Disruptions of the Great Leap Forward, and natural disasters forced sweeping cutbacks in CBEs. In addition to widespread technical and economic problems, severe shortages of raw materials and food forced closure of many CBEs and the recall of workers to concentrate their efforts in agriculture. Many other CBEs were disbanded in order to return property to their original owners. By the end of 1961, industrial output from CBEs had declined to Y 1.98 billion from a level more than twice as high three years earlier (Annex D, Table 4.1). With the directive that "generally speaking, communes and brigades should not run enterprises", CBEs declined further. By 1963, value of their industrial output had fallen to only Y 410 million. The severity of the post-Leap retrenchment in CBEs is highlighted by data from Shandong Province, where the number of CBEs was reduced from 120,000 in 1958 to a low of only 138 in 1963.

4.04 CBEs began to revive in the mid-1960s. Their growth was sharply accelerated by the Cultural Revolution 1966-69, when communes and brigades were once again called upon to tap local initiative and use local resources to run enterprises to aid the agricultural mechanization effort. Through the decade of the 1970s CBEs grew very rapidly, with industrial output growing at an average of about 24% per year from 1971 to 1980. Industrial enterprises continue to dominate among CBEs (Figure 4.1) and account for about 10% of

total industrial output./<sup>1</sup> Although most CBE output is accounted for by commune-level enterprises, brigade-level activities are also important (Table 4.1).

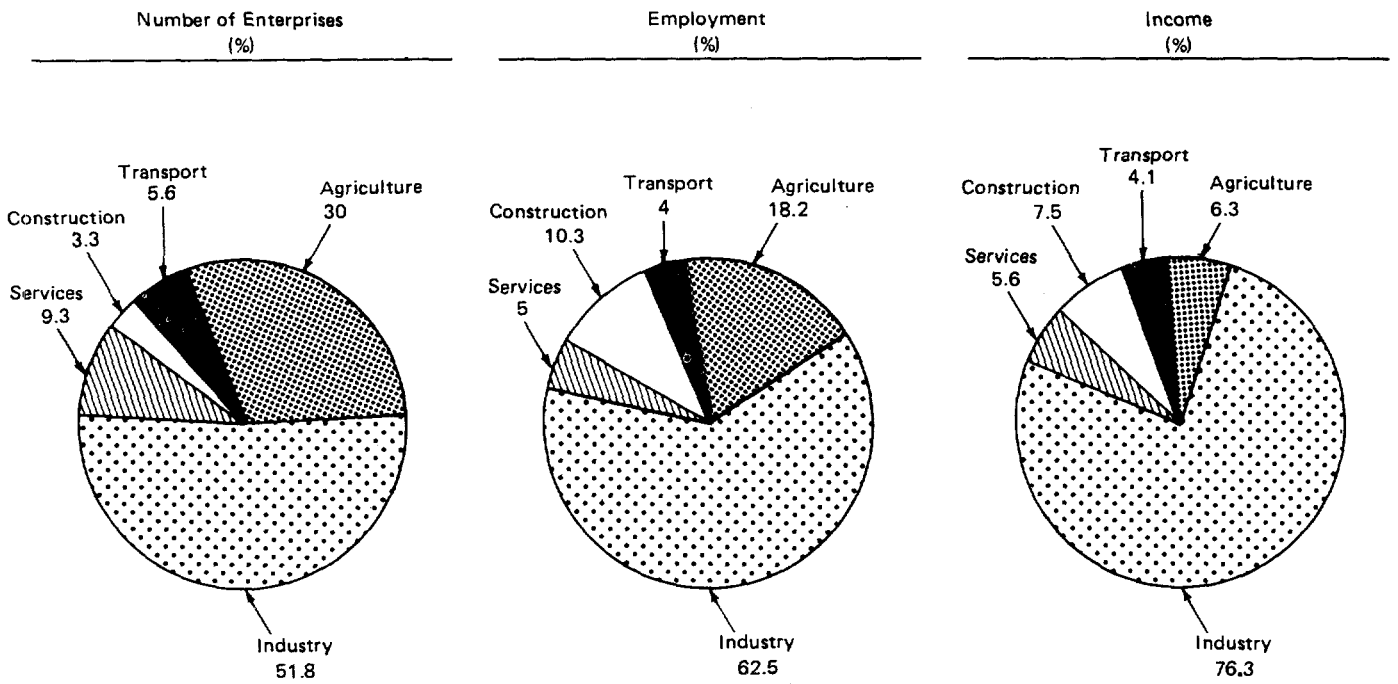
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<sup>1</sup> In national income accounts, the contribution of industrial CBEs is split between industry and agriculture, presenting problems in interpreting data related to their development. While data on industrial output from CBEs cover enterprises owned at both the commune and brigade levels, national income accounts for the industrial sector include only commune-run enterprises which: (a) have at least 10 workers; (b) have permanent buildings and equipment; and (c) operate at least three months per year. Commune-run industrial enterprises not meeting these conditions are excluded from the national count of 400,000-odd industrial enterprises, along with the industrial enterprises run by production brigades and production teams. Output from such "non-industrial" enterprises is included in the aggregate value of agricultural, rather than industrial output. For national income purposes, a commune-run brick kiln is considered an industrial undertaking, whereas similar kilns operated by brigades and teams are considered agricultural.

Another problem in interpreting CBEs' role in the national economy involves the valuation of industrial output. While most industrial enterprises at the commune and brigade level report gross value of output using the factory-reporting method common to all industrial enterprises in China, those engaged in processing of customer-supplied materials report only value-added, or processing fees charged. Because a considerable portion of CBEs undertake processing work for urban industries, the reported CBE value of industrial output contains less double-counting than that of the industrial sector as a whole, thereby underestimating their share in total industrial output. Yang Meitong, Economic Accounting for Commune and Brigade Industries, Rural People's Commune Administration and Management Series (Beijing: Agricultural Press, 1980), pp. 19 and 21.

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Figure 4.1: Relative Importance of CBEs by Number of Enterprises, Employment and Income 1980.



Source: Annual Economic Report of China, (Beijing: Economic Management Press, 1981) Section IV, p. 56.

Table 4.1: ENTERPRISES AT THE COMMUNE AND BRIGADE LEVELS, 1979 /a

	Commune	Brigade
Number of enterprises	320,000	1,160,000
Gross output (1979 prices) (billion yuan)	26.99	22.12
Employment (year-end; million)	13.14	15.59
Average size (by employment)	41 workers	14 workers
Gross output per worker (yuan)	2,054	1,387

/a Source: Bureau of Commune and Brigade Enterprises, Ministry of Agriculture.

B. Administrative Support and Control /1

4.05 Rural industrialization in China has been part of a development strategy whereby prime factors of production were reserved for development of the modern industrial sector, while the lower priority needs of the rural sector were to be met as much as possible by local industries using scattered, low quality resources. A key aspect of this strategy is that rural industries should not be allowed to compete with the modern sector for scarce raw materials. To enforce this principle, an elaborate system of support and control has been set up to guide the development of CBEs.

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/1 This information is based primarily on information obtained by Helen Siu (Department of Anthropology, Williams College, Williamstown, Massachusetts) in visits to Huancheng Commune, Xinhui County, Guangdong Province, during 1976-80.

4.06 The county is the key administrative level in CBE development. The organizations in charge of economic matters include the planning committee office, the office of finance and trade, the office of agriculture, and the office of industry and transport (Annex E, Figure 4.1) as well as the ABC. In general, the planning committee approves production and material allocation quotas for commune enterprises which are directly or indirectly incorporated into the state plan. The office of finance and trade provides funds for major commune enterprise projects (the ABC provides funds for other projects) and helps to market their products through the office's commercial outlets. The office of agriculture supervises specialized agricultural products corporations, which in turn oversee commune agricultural enterprises. The office of industry and transportation is in charge of supervising the county's factories and corporations. The task of direct supervision and control of commune enterprises is vested in the office of industry and transport, although this responsibility is sometimes shared with the office of agriculture.

4.07 There are four outlets for CBE products. One outlet, which is directly incorporated into the state plan, is arranged by the county planning committee and its departments. The second is through sales under subcontracting with state-run factories and commercial departments. This type of operation is considered indirectly incorporated into the state plan. Another is the sales on consignment through supply and marketing companies under the CBE Bureau, and fourth is sales that CBEs make on their own. These latter two outlets are considered outside the state plan. With the exception of sales that CBEs can make on their own, all production assignments pass through the CBE Bureau. Indeed, the procurement of market outlets is among the most important supportive functions performed by the CBE Bureau. In this role, the bureau acts as a matchmaker, matching needs of the commercial corporations and state-run factories with communes that have the production capacity to meet them.<sup>/1</sup>

4.08 Procuring supplies of production materials is another important type of support provided by the county CBE Bureau. After balancing development plans through fixing production and distribution channels for various communes, the CBE Bureau organizes the supply of key production materials in several ways. First, for contracts and production targets that are directly or indirectly incorporated into the state plan, the Bureau applies to the county planning committee for allocation of key production materials. According to quotas set by the committee, the county Material Supply Bureau distributes the supplies to the CBE Bureau. These supplies are in turn allocated by the Bureau to the communes, and the CBEs are notified to collect

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<sup>/1</sup> In Shandong, for example, the province's need for increased gunnysack supplies was transmitted through the Zhangqiu County CBE bureau, which in turn approached the Mingshui Commune with the suggestion that they set up a gunnysack factory. Mingshui was apparently chosen because it had "a relatively good level of management"; it had the financial resources for investment; and it was located in a hemp-growing area.



suppliers from the Bureau's warehouses. Materials thus obtained have prices fixed by the state. For contracts with the Foreign Trade Bureau and its corporations, quotas for production supplies are negotiated between the CBE Bureau, the CBEs involved, and the foreign trade units.

4.09 For production that is outside the plan, i.e., not connected with any state units, CBEs have to procure their own supplies. The county supply and marketing companies under the CBE Bureau helps by keeping in touch with commune and state factories that have surplus materials and by negotiating their sales to interested CBEs. Supplies obtained through state channels have prices determined by the state. Supplies obtained outside the plan often carry higher price tags or involve barter arrangements. CBEs which operate outside the plan are thus at a considerable disadvantage because they must pay higher effective prices for their inputs.

4.10 The primary mechanism by which the CBE Bureau controls commune industrialization is its power to approve or disapprove establishment of new enterprises. Based on guidelines set by provincial and prefectural offices, the Bureau reviews applications made by communes for the establishment of new enterprises. The planning unit in the Bureau investigates the commune's industrial qualifications, its need for construction materials, the level of facilities necessary, the profitability of the planned operation, as well as its potential competition with state enterprises, etc., in relation to the balanced development of all communes in the county. It assesses these applications and forwards them to the county planning committee for approval. Generally, for projects requiring investments of less than Y 10,000, the county planning committee make the final decisions. For larger projects, approval must come from the prefectural planning commission.

### C. Orientation of CBE Development

4.11 Commune enterprises can be divided into four broad categories: (a) Type 1 - oriented towards serving agricultural production; (b) Type 2 - oriented towards local consumption; (c) Type 3 - oriented towards urban and export markets; and (d) Type 4 - those doing subcontracting work for urban factories (Annex D, Table 4.2). Each type tends to require different inputs (from the collective economy as well as from the state administration) and exerts different influences on the agricultural sector (capacity to absorb surplus rural labor, to accumulate funds for the commune, to introduce industrial skill, etc.). Type 2 enterprises require a minimum of inputs from higher-level administrative units in terms of financial, material or institutional support. Because they use local resources and serve only local demand, their supplies and markets tend to be very stable. Their competition with large, state-owned enterprises is also minimal. However, since their expansion is limited by the small size of the commune's market, continued industrial growth at the commune necessitates diversification into

Type 3 and Type 4 enterprises. Since these latter types (along with Type 1) often require greater initial investment as well as external markets and supplies of materials, they are also much more dependent upon support from higher levels of administration and from state factories.

4.12 Because prices in China are administered rather than market-determined, they often reflect policy instead of production costs. As a result, profitability varies a great deal from sector to sector and from industry to industry. In order to aid agriculture, Type 1 and Type 2 industries are to have low profitability to keep prices of output low. The farm machinery repair and manufacturing network reportedly has costs that approximately equal prices. However, heavy industries such as iron and steel, cement and chemical fertilizer frequently have had costs that exceed prices, but their losses were covered by profits from light industries.

#### D. Recent Developments and Current Policy

4.13 Since 1976, emphasis in CBE development has shifted from providing agricultural inputs to providing consumer goods, raising rural income and absorbing surplus labor. Localities are to choose CBE activities that will allow them to exploit their comparative advantage from special endowments of mineral, agricultural or labor resources. Extensive reforms have been introduced in a number of areas: in the conduct of foreign trade and investment, in expanding the role of the market in economic decision-making, in granting enterprises greater autonomy and in changing the systems of remuneration in both agriculture and industry. To encourage CBE development, a series of measures designed to aid commune industrialization have been put into effect. The State Council called for setting up a CBE Administrative Bureau in the Ministry of Agriculture to handle the allocation of funds, materials and equipment assigned by the State Planning Commission and State Materials Allocations Bureau, and to provide overall guidance and better institutional support for CBEs. Counties have been directed to strengthen their bureaus in charge of CBEs, and to take a more active role in their development. Urban industries are urged to "disperse production" to rural factories through subcontracting arrangements. Many provinces have allocated special funds for helping communes and brigades set up enterprises, and the amount of loans by ABC (or its predecessor agency, PBC), granted for CBE development rose by more than 80% from 1979 to 1980./1

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/1 NCNA/10/14/80, in BBC W1107/A/3.

4.14 Various tax concessions were also offered. In 1978 a three-year exemption from industrial and commercial taxes and profit taxes was granted to all existing small iron ore and coal mines, small hydroelectric stations and small cement plants. Provinces, municipalities and autonomous regions were urged to grant tax holidays of 2-3 years to new CBEs that might experience difficulties in meeting tax payments in the initial period. CBEs directly serving agriculture and rural people's livelihood could also be exempted with approval from provincial authorities. To speed development in border regions and minority areas as well as old revolutionary bases in poor regions, their CBEs were to be exempted from profit taxes for a period of five years. Profit taxes for all CBEs are reduced to a flat rate of 20%, with the minimum taxable income raised from Y 600 to Y 3,000./1

4.15 These measures helped to greatly accelerate the growth of CBEs. However, because many of these CBEs were set up in great haste without thorough investigations, supply, marketing and technical problems soon emerged. The call for localities to develop industries to "give full play to their strong points and utilize their local resources" led to establishment of hundreds of textile mills, thousands of wineries, small cigarette factories and consumer appliance manufacturing plants./2 By late 1980, press reports began to complain of a "phenomenon of leaping forward in an indigenous way", which led to serious problems of duplicate construction, such that small plants were "elbowing out" the large and backward plants were "elbowing out" the advanced in obtaining raw materials./3 In the cigarette industry, for example, because many communes and brigades were setting up their own small cigarette factories, the amount of tobacco shipped out of Henan, Shandong, Yunnan and Guizhou, four large tobacco growing areas, had declined by two-thirds since 1978. This situation was said to be irrational since plants in Shanghai and Tianjin, which produce high quality cigarettes using less tobacco compared with small plants, were only "half-open" due to

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/1 "Draft Regulations on Several Questions Concerning CBE Development", July 3, 1979, in Annual Economic Report, Section II, pp. 96-100; Beijing Home Service, 2/4/79, in BBC W1023A/3.

/2 An incomplete survey of seventeen provinces and municipalities found that at least 12,000 distilleries were established in 1980 alone. In Jiangsu Province there were in 1980, 209 plants assembling electric fans, 129 of them CBEs. In Wuxi County alone there were 59 CBE assembly plants. The county's planned output for 1981 was 1.5 million fans, compared with an estimated national demand of four million. JJYJ (3) 1981, pp. 19-20; translated in JPRS, E.A (135), pp. 89-93.

/3 JJYJ (2) 1981, pp. 32-36; translated in JPRS, Economic Affairs (135) pp. 57-58.

the shortage of tobacco./<sup>1</sup> A similar situation existed in the textile and soapmaking industries, where large plants were operating at about two-thirds of capacity, because raw materials were increasingly retained in their producing areas. Aside from competing actively with large-scale industries for scarce raw materials and energy resources, these small commune and brigade enterprises were said to be disrupting central planning by diverting resources intended for other uses.

4.16 In response to these problems, authorities have moved to rescind some concessions made to CBEs only 2-3 years earlier. Tax regulations that took effect in April 1981 tightened up tax incentives. In view of the serious problem of duplication in industries such as cigarette, wine-making, cotton textiles, sugar and watch-making, tax exemptions to CBEs in these industries have been rescinded. Two-to-three year tax holidays for new CBEs must now be approved on a case-by-case basis to avoid further duplication and to ensure that these enterprises do not compete with large-scale, modern industry for raw materials. In May 1981, the State Council issued a 16-point program for the readjustment of CBEs. Communes are not to set up textile mills, cigarette factories and salt processing operations on grounds that these activities are said to be better handled by state enterprises. Provinces are to consider their resource conditions and existing processing capacity before authorizing new investment in selected industries. In the industries affected, existing CBEs with good management and technology are to be incorporated into state plans to be ensured state allocations of needed inputs. Others are to be closed down. In Zhejiang Province, in the first half of 1981 alone, some 5% of the 80,000 CBEs were reportedly closed down or merged. Another report indicated that eventually, some 20% of the CBEs in Hangzhou Prefecture will carry out mergers, conversions or restructuring./<sup>2</sup>

4.17 It is not surprising that in the current period, when localities were encouraged to improve their lot, they have turned to running profit-making enterprises. However, this relatively unrestrained growth of these CBEs has brought them into some conflict with the state sector. At the heart of the problem is the structure of prices in China. Communes and brigades that have been setting up textile mills, cigarette factories, wineries, etc., are aware of the fact that they are creating excess capacity and depriving other factories of raw materials. Under the existing price structure, however, where raw material prices tend to be low and processed consumer goods prices are relatively high, localities are competing to appropriate a larger share of the profits by retaining their raw materials

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/1 Wen Hui Bao (Shanghai) 1/29/81; translated in JPRS, E.A. (120), p. 12.

/2 Zhejiang Daily 4/13/81, in JPRS, Agriculture (156), pp. 49-49.

for processing in their own factories.<sup>/1</sup> Much of the problem of duplication and excessively small-scale production in sugar refineries and other CBEs is attributable to the state policy of allowing high profit rates to prevail in the processing industries.

4.18 The tax system also contributes to these problems. Local (county) governments have much to gain under existing fiscal arrangements. The high industrial commercial taxes levied on these processing industries go to enrich local coffers. Thus, CBEs are not the only competitors with the modern sector for raw materials. Many of the small plants built in recent years have been run by counties and prefectures. With everything else being equal, a county government would prefer processing to take place in county-run plants, profits of which accrue to local revenues. Recent reforms which increase the amount of revenues localities can retain will exacerbate this tendency.

4.19 The development of commune enterprises may also illustrate the potentially competitive nature of the relationship between state ownership and the collectively-owned sectors. From the commune's perspective, these enterprises are an important source of income and employment as well as supplies of industrial goods for agricultural production and people's daily needs. From the state's perspective, they are to supplement large-scale urban enterprises. Because of the commune enterprises' low technical level, they are seen as a marginal sector that should be subordinated to the needs of the state sector. Commune members have long chafed under the restrictions imposed upon their "profit-making" activities, even when the activities could have been justified as for the collective good of the commune members. And they frequently complain about state rulings that have kept them out of profitable industries, in the name of protecting supplies for state enterprises.

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<sup>/1</sup> One of the clearest illustrations of this is the sugar-refining industry. At present, there are some 4,000 indigenous sugar factories run by Communes and brigades in Guangxi Province, some with milling capacities of as little as 2-3 tons per day. A typical CBE factory that has daily milling capacity of 10-15 tons can produce brown sugar at a cost of about Y 540 per ton, which includes costs of Y 340-360 for sugarcane, and Y 200 for fuel, labor, electricity and depreciation costs for machinery. In these mills, it takes as much as 10-12 tons of sugarcane to produce one ton of sugar, compared with a ratio of 8-10:1 in state-run small-scale mills. However, this brown sugar can be sold at a price of Y 900 per ton. After paying an industrial-commercial tax of 30%, net revenues of ¥ 630 leave a substantial profit. Even more important than profitability of these refineries themselves is that they allow the communes and brigades to obtain sugar at a cost of Y 810/ton (540 + 270 in taxes), rather than the retail price of Y 1,540/ton that they would have to pay for sugar purchased from state commercial departments.

4.20 Current economic readjustments are relying largely on a combination of strengthened administrative control over the development of CBEs and a series of concessions over local retention of raw materials. In order to induce agricultural producers to sell raw materials to the state, state enterprises are encouraged to share their profits with producers.<sup>/1</sup> While banning construction of local plants in a number of processing industries, the state has also announced that processing capacity will not be expanded in the cities. In the future, as long as state procurement quotas are fulfilled, ensuring adequate supplies to existing state processing plants, localities will be allowed to keep all additional production of industrial crops for processing in their own plants. Attempts have also been made to reduce the handling fees by reducing profit margins in supply and marketing cooperatives and allowing rural collectives to run their own marketing agencies. In a significant departure from former practice, joint ventures have been set up between state factories and rural collectives. As noted in Chapter 2, establishment of comprehensive agricultural-industrial-commercial enterprises is also being encouraged. These enterprises seem to be designed to allow agricultural producers to capture a larger share of the profits through vertical integration.

#### E. Problems and Prospects for CBE Development

4.21 Six factors have been identified as posing constraints to CBE development in recent years: (a) the uneven geographical distribution of CBEs; (b) agricultural policies that put excessive emphasis on grain production to the detriment of cash crops and subsidiary agricultural production; (c) discrimination against collective enterprises in the allocation of materials and equipment; (d) the difficulties of effectively absorbing CBEs into state plans; (e) inadequate guidance and support from industrial ministries and transport, supply and marketing departments; and (f) the poor management, corruption, wastes and extra-legal activities associated with CBEs.<sup>/2</sup> Among them, the second has been corrected by recent policy. Aside from inducing

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<sup>/1</sup> In Guangxi, for example, sugarcane growers now receive a bonus of Y 7 in addition to the procurement price of Y 43 per ton for cane delivered to state refineries. In Xinjiang, beet growers receive 30% of the profits from the Bayi Sugar Refinery as an added incentive. Zhongguo Nongken (State Farms and Land Reclamation in China) No. 8, 1981; translated in JPRS, Agriculture (171) pp. 81-3 and interviews with Guangxi ABC staff.

<sup>/2</sup> Xue Mugiao, "On the Question of Commune and Brigade Enterprises," in Several Problems Confronting our National Economy (Beijing: People's Press, 1980), pp. 115-120.

production teams to diversify their production by offering greater incentives, brigades and communes are also called upon to set up enterprises in nongrain agricultural production to provide the basis for farm and sideline processing and other consumer goods industries. In Zhejiang Province, for example, the provincial ABC set aside Y 60 million in 1981 for lending to support projects in tea, mulberry, oranges, animal husbandry and fish-breeding. Similarly, in Guangxi Province, orange orchards are being established with a view to developing downstream fruit-processing industries.

4.22 The highly unequal geographical distribution of CBEs remains problematic in terms of potential for widening regional income disparities. At present, the bulk of CBEs are concentrated in provinces with relatively developed industrial sectors. Among the 29 provinces, autonomous regions and municipalities, some 55% of the income of CBEs comes from the 3 municipalities (Beijing, Shanghai and Tianjin) and 4 provinces (Jiangsu, Zhejiang, Guangdong, Shandong), while less than 3% is accounted for by the bottom provinces (Inner Mongolia, Ningxia, Qinghai, Gansu, Xinjiang, Guizhou, Yunnan and Xizang). (See Annex D, Table 4.3 for the provincial distribution of CBEs and employment.) This distribution is even more unequal when only industrial output is considered, since the proportion of CBEs in industry tends to be lower among less developed provinces such as Guangxi, relative to more developed provinces such as Zhejiang. Jiangsu alone accounted for more than 20% the gross value of industrial output among CBEs in 1980, with Guangdong, Shandong and Zhejiang together accounting for another 24.4%.<sup>/1</sup> (Annex D, Table 4.4 shows the ranking of provinces by industrial output from CBEs.) This uneven distribution exists within provinces as well. In Jiangsu, CBEs are concentrated in the Suzhou and Changshou Prefectures. In Shandong, they cluster in the Yantai and Changwei Prefectures. While cautious of again lapsing into the "excessively egalitarian" policies of past periods, those responsible for CBE development are increasingly concerned with this problem of uneven distribution. If the 1979-80 growth rates for CBEs accurately reflect trends for the near future, their uneven development will be exacerbated under the new policies (Table 4.2). Unless measures can be found to stimulate more rapid CBE growth in the poorer provinces, increasingly serious problems of unemployment are likely to emerge in the countryside.

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<sup>/1</sup> Annual Economic Report, IV-55-56.

Table 4.2: RANKING OF GROWTH RATES IN INDUSTRIAL OUTPUT OF CBEs  
BY PROVINCE, 1979-80

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Annual growth rate	Provincial unit
Over 31%	Shanghai, Jiangsu, Zhejiang, Guangdong
21-30%	Qinghai, Xinjiang, Fujian
11-20%	Sichuan, Liaoning, Beijing, Yunnan Tianjin, Shaanxi, Hubei
1-10%	Jiangxi, Shandong, Heilongjiang, Shanxi Jilin, Anhui, Henan, Hunan
0%	Ningxia
less than 0%	Hebei, Guangxi, Gansu, Nei Menggu, Guizhon

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Source: Annual Economic Report of China (1981) IV-56.

4.23 The problems of discrimination against CBEs in the allocation of materials and production equipment, the lack of support from industrial ministries and transport, supply and marketing departments, and the extra-legal activities associated with CBEs are all related to the problem of how to effectively absorb CBEs into the state plan. Because CBEs are not directly administered by industrial ministries, they do not appear as claimants for allocations of raw materials or equipment. "Some cadres say that CBEs are like illegitimate children. They have no home address (hukou), and are therefore not entitled to rice or cloth rations."/1 At present, when only 20% of the CBEs are directly or indirectly incorporated into state plans, most must "rely on themselves" to find markets and sources of raw material supply. When supplies are procured outside the state plan, CBEs must often pay "negotiated" prices that are higher than official prices. It is reported that collectively-run shoe factories in Beijing must pay prices for leather that are 38% higher than state allocation prices./2

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/1 Xue, pp. 117-118.

/2 RMRB 8/21/80, translated in JPRS, Economic Affairs (84), p. 6.



CBEs sometimes also receive lower prices than do state enterprises for the same type and grade of output. The low technical level in many CBEs can be traced to their difficulties in obtaining needed machinery. They are frequently discriminated against in the assignment of newly-trained, high-level technical and managerial staff; this staff would normally be assigned to enterprises in the state sector. CBEs were until recently barred from attending special trade conferences where state enterprises could place orders, appraise competing products, and exhibit their wares.

4.24 In response to these problems, the Government has urged that, when ever possible, CBEs be brought more fully into state plans. In addition to supervising the stateowned enterprises, the planning committees of the different (administrative) levels and the relevant ministries, especially the industrial ministries, are to provide stronger managerial guidance to the CBEs. The production and marketing of CBE products is to be linked to economic plans at the different levels of the national economy. Where they cannot be absorbed into state plans, CBEs are to be freed to interact with one another through the market. If their products are not purchased by state marketing departments, CBEs must be allowed to promote sales on their own. In order to help improve marketing of CBE output, 28 provinces, autonomous regions and municipalities, 65% of the prefectures, and over 95% of the counties have set up CBE supply and marketing companies with a staff of over 30,000./1

4.25 Some of these problems are being alleviated by recent economic reforms that have relaxed supply bottlenecks. With the cutbacks in capital construction and the shift of emphasis from heavy to light industries, enterprises in the machine-building industry have found themselves with substantial excess capacity. In seeking to supplement their production assignments from the state, they are now taking orders from buyers directly. CBEs are major beneficiaries of this development. Plausibly, the CBEs will benefit as much from improved marketing and economic reforms to increase raw material supplies as they will from efforts to incorporate them fully into the state planning network.

4.26 Another difficulty relates to the distribution of income from CBEs among the rural collectives and their constituent members. It was noted that in 1980, CBEs provided about one-third of the total income of people's communes, brigades and teams, and 30% of the gross value of agricultural output. Indeed, a major raison d'être for CBEs has been to help finance agricultural development, and ultimately to raise rural standards of living, particularly among those living in disadvantaged areas. But recent reports in the Chinese press indicate that in some localities the development of CBEs has failed to bring substantial benefit to production teams and their members, in part because CBE income is not always distributed equitably among participants.

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/1 Annual Economic Report, IV-56.

4.27 The mechanisms through which the benefits of CBE development are transmitted to production teams are the wage payments and the contributions made to aiding agriculture from the net profits of CBEs. In 1980, wage payments totalled Y 11.9 billion, and CBEs contributed Y 2.26 billion to farmland capital construction, water conservancy and farm mechanization. These figures represented 17.5% of gross output-value from CBEs and 19% of net profits, respectively.<sup>/1</sup> Recent criticism is that these two components have been small and falling over time, with most of the income from CBEs kept at the commune and brigade levels to finance reinvestment or enlarge bureaucracies rather than benefitting agriculture or the rural peasants.

4.28 Some of these problems of excessively low wage payments have their roots in CBE accounting practices which frequently treat wage costs as a residual to be passed along to production teams. Under the workpoint system, wage payments are dependent upon net income, which is the residual of gross income net of nonwage production costs, taxes, depreciation charge on fixed capital, and management fees levied by the commune or brigade. While this kind of arrangement allows high profitability to be shared between the commune or brigade and the production teams, it also allows economic losses to be passed along to production teams. The share of the wage bill going as payments to teams tends to change in accord with year-to-year fluctuations in net income. By using wage payments to teams as a buffer, communes and brigades can hide to some extent inefficiencies in their enterprise operations unless production teams can bring pressure to force failing CBEs to close, perhaps by withdrawing their members from the enterprise.

4.29 Also problematic is the attitude that many communes and brigades reportedly display towards production teams with regard to reimbursement for labor. In an investigation of the relatively affluent areas of Jiangsu, Zhejiang and Shanghai, a group from the Ministry of Finance reported a widespread phenomenon of CBEs owing backpay and other funds to production teams. In Wuxi, China's most advanced county in the development of CBEs, the group found that even though CBEs set new records in 1978 with output value of Y 430 million and net profits of Y 130 million, they owed production teams a total of Y 26.8 million in overdue wage payments and other transfers. Brigade enterprises were said to account for the bulk of this debt, which has been growing at a rate of Y 5 million per year in recent years. Compared to total collective retained funds of Y 24.6 million for all of the basic accounting units in Wuxi County, including monies set aside for collective accumulation, working capital, and welfare funds, this debt constituted a large financial burden for the production teams. The report cites a number of reasons for this, among them the excessive reinvestment in CBEs and other farmland capital construction, unstable

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<sup>/1</sup> Annual Economic Report, IV 56-57.

markets for CBE products, and poor financial management in communes and brigades./1

4.30 Efforts are being made to correct some of these abuses. The Suzhou Prefectural Planning Commission suggested in 1981 that CBEs formalize the division of their profits into 4 parts: one to be retained by the enterprise for its capital account, one for replenishment of working capital, one for the enterprise's welfare funds, and one for distribution to production teams. Once the ratios have been determined, the disbursement of funds is to be supervised by financial and banking departments./2 In Wuxi County, the ABC County branch helped to draw up contracts with communes and brigades for this distribution of profits. In 1979, 80% of the Y 118.9 million in CBE profits was remitted to communes or brigades. Of the remitted amounts, 50% was set aside as fixed and working capital for enterprises, and the rest was used for water conservancy projects, aiding poor teams, buying farm tools, etc./3 With new channels of financing for CBEs, such as those whereby production teams and individuals can buy shares in the ownership of CBEs, the distribution of income from CBEs may become more systematized and thereby eliminate some of the abuses of the past. The issue of how to divide net revenues among competing claimants of communes, brigades and teams and among workers remains to be fully resolved.

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/1 "The Financial Management Work Must be Strengthened at People's Communes," NYJJWT (9), 1980, pp. 32-34.

/2 NYJJWT (9) 1981, pp. 26-27.

/3 ZGJR (7) 1980, pp. 29-30.

## 5. ISSUES IN DEVELOPMENT OF THE RURAL FINANCIAL SYSTEM

### A. Future Capital and Financing Requirements

5.01 In recent years the Government has placed much emphasis on raising living standards by reducing the share of investment and increasing the share of consumption in national income. But it is also recognized that a reasonable growth rate of investment, as well as improvements in the efficiency of investment, are important for future production and living standards. The economic reforms now being implemented are designed to provide the various institutions in rural areas with additional incentives to increase the amount and efficiency of investment and operating expenditures.

5.02 Two of the greatest challenges for China's rural sector in the years ahead will be to supply the food and raw materials required by population and income growth and to provide employment opportunities for an expanding labor force. Agricultural development programs planned for the 1980s are expected to lead to more intensification and diversification. In the state farm sector five major programs have been prepared for the Sixth Plan period (1981-85) covering food crops, cotton, sugar, rubber and livestock. The estimated annual investment of these programs cost is Y 1.4 billion, which compares with a 1980 investment program of Y 1.1 billion. In the collective sector, recent reforms have opened many opportunities for diversifying into cash crops (both annual and perennial) and officials are in the process of preparing investment programs. In Zhejiang Province, for example, estimates have been made of the financial requirements for development of tea, mulberry, orange and aquacultural products, while in Guangxi programs for expanding sugar and orange production are being prepared. There are many opportunities for increasing foodgrain production through the expansion and improvement of irrigation and flood control systems. In the North China Plain surveys show that critical irrigation and drainage programs have been constrained by a lack of capital (Annex B). The introduction and rapid expansion of responsibility systems in collective agriculture will affect the types of required tools and equipment (for example, reducing the demand for large equipment and increasing the demand for small-scale equipment). In some areas it may also result initially in lower working capital requirements as groups and households reduce excessive use of fertilizers and other inputs. But over the medium term more intensive production systems are likely to result and, with these, increased working capital requirements. A continued expansion of private plots from the 7-8% of arable land in recent years to the 15% allowed under recent policy directives is also expected to result in more intensive land use and increased capital requirements.

5.03 The future capital requirements of commune and brigade enterprises are more difficult to predict because of greater uncertainties as to government policies. Introduction of the production responsibility system in agriculture may improve the efficiency of labor use and make more labor available for other activities.<sup>/1</sup> With almost no legal possibilities for rural-urban migration under current policies, the Government is likely to look to CBEs as a means of rapidly expanding rural nonfarm employment. But many CBEs are inefficient in economic terms and survive only because of distortions in the present price structure and/or because production teams effectively absorb their losses. Some are already being affected by the economic reform program and others would be affected if the Government were to decide to implement any major program of price reform. Moreover, it has been noted that CBEs are concentrated in a relatively small number of provinces and that opportunities for future development of CBEs are much greater in some provinces than others. Zhejiang's CBE sector, for example, is likely to grow much more rapidly than Guangxi's because it has a larger urban sector that can provide markets and subcontracting work. It also has better infrastructural support such as transport facilities, and it probably has a more experienced workforce.

5.04 Nonetheless, certain types of CBE are likely to expand in the future in almost all provinces even if the Government were to introduce a major program of price reform. These enterprises would probably be small and relatively labor intensive and would be directly connected with agricultural development, either providing inputs and services to agriculture, processing agricultural commodities or supplying consumer goods. To the extent, therefore, that agriculture expands rapidly, so too will the capital requirements of agriculturally-related CBEs. In more highly developed areas near urban or export markets, the growing integration between CBEs and state enterprises is also likely to create strong new demands for investment finance and working capital.

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<sup>/1</sup> China already has one of the world's highest population densities (the ratio of the rural population to hectares of arable land of about 8.5:1; this compared with about 2.5:1 in India) and opportunities for further absorption of labor into agriculture at acceptable levels of remuneration are extremely limited. The Beijing Review recently stated that with the introduction of the system of responsibility in agriculture, "surplus labor in the countryside is expected to be as high as 50%." (October 12, 1981, p. 3). After a visit to five provinces (Anhui, Zhejiang, Jiangxi, Jiangsu and Henan), a study group from the Party School of the CCP Central Committee reported that popularization of the responsibility system has generated surplus labor in rural areas which amounts to "over one-third of the total labor force" (RMRB 9/1981, FBIS, Daily Report, 9/9/81, K14.) Local surveys suggest, e.g., that in Guizhou about one-third of the province's labor force is redundant (Guizhou Social Sciences, (4) 1981, p. 49), while a survey of Henan's Kaifeng Prefecture found that more than 40% of the area's workers are no longer needed in agricultural production (NUJJWT).

5.05 Food processing appears to be a particularly promising industry for further development at commune and brigade levels. It is labor-intensive and typically does not require complex machinery or technical skills. And it appears to have considerable potential for growth. At present, about two thirds of consumer income is spent on food. With basic calorie requirements already met for the bulk of the population, higher incomes are likely to translate into increased demands for processed foods. CBEs accounted for less than 10% of the food processing industry's output in 1980, but this proportion can be expected to increase significantly with the recent policy decision to encourage more processing in the countryside.

5.06 Another activity requiring more rapid development is the production of hand tools and small-scale agricultural equipment. The 1980 output of small farm tools from CBEs fell to 1978 levels, largely because of insufficient supply of raw materials, particularly wood. Recent increases in the supply prices for these raw materials have further reduced supply of farm tools and equipment by cutting already thin profit margins in the production of such goods. As a result, many enterprises are diverting wood and steel allocations for farm tool production to more profitable uses. The production responsibility system has created large new demands by households for farm tools and equipment - up 30-50% over recent years in some areas. Price reform and adequate financing are required to deal with this growing scarcity.

5.07 Capital requirements in other areas of rural development can also be expected to be large and expanding, especially in commerce and in transport. In commerce the increased amount and diversification of commodities in circulation and the expansion of collective and individual enterprises can be expected to more than offset any improvements in the efficiency of the existing commercial system. Demands for working capital will continue to grow. In transport there is also expected to be a substantial increase in investment needs as efforts are made to improve the road system which is currently a bottleneck to both agricultural and some CBE development. For example, in many provinces a major constraint to expanded production of fruits and dairy and aquatic products is the bottleneck in getting such products to the market before they spoil. The rural education and health systems will also have additional capital requirements.

#### B. Sources of Finance

5.08 In assessing the future availability of various sources of finance for rural development, account must be taken of the nature and progress of economic reform. In the past, financing for most agricultural and CBE expenditures, and also for some expenditures on transport, education and health, came from the rural collectives own resources and, more particularly, from the production teams. In the future, funds of the rural

collectives are likely to continue to be an important source of financing for development expenditures. But the new production responsibility systems may affect the amount as well as the use of such resources. In areas where the household responsibility system has been introduced, individual households are likely to assume responsibility for financing from their own resources some expenditures (such as agricultural input expenses) that were previously the responsibility of production teams and were financed mostly from the teams' retained earnings. In the case of other expenditures (such as road maintenance), such a switch of responsibilities may not be feasible. In these instances, other means of organizing such work and financing such expenditures may have to be found.

5.09 State budgetary funds have been and will remain an important source of finance for major capital construction in agriculture and development of certain economic and social services. The state budget has also been used as a source of support, albeit modest, for commune and state farm expenditures but this support has been declining and further declines can be expected. Extrabudgetary funds may make up some of the difference but these are more likely to be used for investment in county-run enterprises. There will also be continued and even increasing demands on the fiscal system for transport and other infrastructure construction and maintenance.

5.10 The demands on the rural credit system are expected to increase significantly. Agriculture, industry and commerce will continue to account for most of these demands but the range of institutions and the types of activity requiring credit financing can be expected to increase. This is recognized by the Government and emphasis is now being placed on strengthening the role of the banks in mobilizing and allocating resources in rural areas. In attempting to strengthen their role, however, a number of issues need to be addressed.

#### C. Economic Reform and the Autonomy of Rural Financial Institutions

5.11 A stronger, more independent rural banking system can fulfill two important roles. At the micro level it can help to improve the efficiency of development expenditures; at the macro level it can influence the overall level of economic activity. To carry out these roles effectively, however, moves to strengthen the banks and increase their autonomy should be considered in relation to other economic reforms. Attention needs to be paid to the relationship between banking reform on the one hand and price reform, investment and demand management reform, fiscal reform and production responsibility reform on the other.

5.12 Price reform and banking reform need to be considered together. At present the price structure under which prices reflect neither costs nor scarcity is likely to result in profit motivated enterprises making socially suboptimal production and investment decisions. In rural areas this applies particularly to CBE development but also to certain types of agricultural development. If rural financial institutions are given more autonomy, there is a possibility that they could compound the problem by using the same set of distorted prices to make socially suboptimal financing decisions. Accordingly, if they are to be given more autonomy in decision-making then either the price system needs to be reformed to remove distortions' or banks (including the ABC) need to be provided with some guidance on priorities and on the economic prices that should be used in addition to financial prices in making investment decisions (paras. 5.30-5.34).

5.13 The nature and extent of autonomy granted to banks should be considered in relation to the available mechanisms for planning and managing the overall level of economic activity. At the present time, investment demand is planned in the sense that the planning agencies attempt to determine the overall amount of investment and consumption and to ensure that output plans are in conformity with input availabilities. At the local level the most important factors influencing the decision to proceed with a project are the conformity of the project to the state plan and the availability of materials and markets. There are problems with the present system - micro-imbalances frequently occur and the most economically efficient projects are often not selected - but the system does provide some mechanisms for influencing overall demand. If rural financial institutions were to be given more autonomy in determining how much they lend, as well as for what projects they lend then mechanisms (such as reserves and required reserve ratios) may have to be found to ensure that the central government is able to retain some degree of control over the overall money supply.

5.14 Banking reform and fiscal reform need to be closely coordinated. The Government's present policy of replacing budgetary grants for many projects with bank loans is expected to be extended. But more consideration needs to be given to the types of institution and expenditures that might benefit from a judicious mixture of grant and credit resources. Under the present system certain enterprises have been able to evade cutbacks in state budgeted investment appropriations by seeking various kinds of loans. A clearer understanding of the functions of credit in relation to fiscal allocations and the types of enterprises and projects that should benefit from different types of finance might help to overcome such problems. Attention also needs to be paid to the respective roles of the fiscal and banking systems in mobilizing resources in richer provinces for use in poorer provinces.



5.15 Finally it is important that banking reform and increased autonomy for institutions like ABC be considered in relation to the financial independence of borrowing units. Greater emphasis on credit financing and a more autonomous ABC are both intended as means of achieving improvements in the efficiency of rural development expenditures. But in order to accomplish this, borrowers must also have autonomy so that they are influenced by interest rates and by profit and loss considerations. It is also important that both banks and borrowers realize that borrowers cannot expect to be always bailed out by the state if they perform badly and that there are risks of bankruptcy and loan defaults. This has always been true in the collective sector and as a result of recent reforms in the state enterprise sector it is now beginning to be accepted that inefficient, loss-making enterprises should not receive additional state support.

#### D. Organization and Management of the ABC

##### Relationship of ABC to Other Institutions

5.16 ABC is the major institution in rural areas in the mobilization of savings and in the channelling of savings and government funds for rural development. But other banking institutions are also involved in rural areas and their relationship to ABC needs careful consideration. ABC was created out of the Agricultural Finance Department of the PBC and ABC still carries out a substantial volume of business on behalf of the PBC. In particular ABC acts as the agent for the PBC in providing commercial loans to subunits of the Ministries of Food and Commerce. It would seem useful to assess the costs and benefits of organizing the work in this way and determine whether it would not be more appropriate to incorporate such work into the normal operations of ABC which already covers lending to other rural commercial organizations.

5.17 The PCBC is also involved in financial activities in rural areas. It handles state budget funds for capital construction in agriculture, forestry and hydroelectricity and in certain cases also lends to state farms and to commune and brigade enterprises. The interest rate structure is different from that of ABC. Such an overlap of responsibilities with ABC may make it difficult for ABC to carry out its responsibilities for unified management of state financial appropriations for rural development. It is likely to provoke institutional rivalries and may well result in inefficiencies in resource allocation and staff deployment. In the absence of a clearer division of responsibilities between the two institutions, close coordination of activities is clearly essential.

5.18 There is also some overlap of responsibilities between ABC and the RCCs but in this case there is already close coordination. Indeed RCCs

are really the basic level units of ABC and ABC and RCCs often share offices and staff. RCCs were originally established as farmers self help organizations but, as with supply and marketing cooperatives, they have now ceased to be cooperatives in anything but name. Their interest rate structure is the same as ABCs and they have the same salary and employment conditions. In these circumstances an assessment needs to be made of whether improvements in efficiency might result from incorporating the RCCs fully into the ABC.

#### Decentralized Credit Management

5.19 In keeping with the Government's overall emphasis on decentralization and as a means of encouraging basic-level branches to attract more deposits and make profitable loans, the credit management system in ABC is now quite decentralized. Under the present system, total planned deposits to a particular branch are added to any funds appropriated from above for the branch's use and then total planned loans plus planned deposits with higher levels are subtracted from this sum. The only target handed down from above is that the actual difference between deposits plus appropriations and loans made plus planned deposits with higher levels at the end of the year must be greater than or equal to the planned difference. If the bank branch attracts more deposits, it can increase loans by an equal amount as long as this condition is not violated. Provisions are made to take care of seasonal or unexpected variations in the difference.

5.20 Such an incentive to local ABC branches to attract more deposits and make more loans was not very significant when average deposit rates were higher than average lending rates and branches required subsidies from above. But this has now changed and local branches will be encouraged to make more loans in support of economic development. Unless such loans are very closely tied to the availability of materials and supplies, there is a strong possibility that such a system of decentralized credit management will be inflationary. The reason is the multiplier effect. A large proportion of the bank loan will be returned to the bank in the form of deposits: part of the loan will be kept by the borrower as a deposit in its own bank account; part will be used to pay for supplies and will be credited to the supplier's bank account; and part will be paid out in wages, some of which is returned in the form of individual savings deposits. Thus, bank loans create bank deposits. To guard against the risk of credit inflation and to ensure that local bank branches act in the national interest, credit will have to remain very closely tied to the availability of materials and supplies or mechanisms will have to be developed to ensure that higher level branches have some control over the amount of credit provided by lower level branches.

### The Local ABC and the Production Responsibility Systems

5.21 The appropriate organization of ABC and RCC activities at the local level needs to be considered in relation to the new production responsibility systems and the demands that these systems are imposing on ABC and RCC branches. As a result of these systems, changes in the pattern of ABC and RCC lending are already becoming apparent. Loans to individuals are increasing more rapidly than loans to collective units; loans to individuals are being used more for production purposes and less for consumption purposes; and short-term production loans and loans for medium and small size equipment are increasing more rapidly than loans for large equipment and capital construction. ABC and RCC branches are also having to work with a much larger number of customers and address some new and difficult issues. One issue, for example, is whether repayment of general production expenses and small production equipment loans should continue to be the responsibility of the production team or whether it should be the responsibility of the commune members who practice a particular production responsibility system.

5.22 Such changes call for a strengthened and expanded presence of ABC and RCC at the local level. It will almost certainly be necessary to expand the work of RCC branches below the commune level and to establish more credit stations at the brigade, and perhaps the production team, level. It will also be necessary to improve the quality of staff working in these local offices so that they are able to deal with a much broader range of requirements and clients than has been the case hitherto.

### Credit Discipline

5.23 A fundamental principle of a sound credit system is that loans must be repaid in full and on time. This has not been fully adhered to in the past, with the result that some financial resources made available to China's rural credit system have been lost or not put to fully effective use. Three major reviews of PBC's rural loan portfolio in the 1950s, 1960s and early 1970s resulted in the rephasing of some debts and the write-off of others. Substantial overdues and bad debts were reported to be serious problems of China's rural credit program in the 1970s. The banking system has recently emphasized the importance of timely repayment as a means to maintain the financial integrity of the system.

5.24 Various factors may contribute to loan default. There appears to be need to examine the reasons for default in China's rural lending program and identify those factors which have been most important. Natural disaster is almost certainly a key element and one for which proper allowances should be made. But another major factor is that loans have not always been properly appraised, with the result that repayment capacity of the borrower frequently is not adequate to service the loan. In other cases, short-term loans have been used to finance medium-term investments, frequently resulting in a cash

flow problem and loan default. In the past, particularly during the decade of the Cultural Revolution, credit abuse has been abetted by political factors. Each of these factors must be guarded against.

5.25 The basic requirements to minimize arrears are: (a) to appraise projects carefully; (b) to have the credit institution exercise strict credit discipline; (c) to resist political pressures which may result in the financing of unsound projects or discourage timely repayment; and (d) to impose appropriate sanctions against defaulters. The recent policy decision to impose penalty interest rates on overdue loans is a welcome step and should be adopted on a universal basis. The ABC might also consider the establishment of an arrears limit for local ABC offices and branches, violation of which will result in the cut-off of loans funds from higher level branches. Where this limit is already exceeded, a time-phased program should be instituted to reduce arrears to the required level. Methods for collection of arrears might usefully be regularized.<sup>/1</sup> The importance of keeping ABC's arrears under control cannot be overemphasized. This requires an effective data system which permits the arrears position to be determined accurately and quickly and which indicates the composition of arrears by age and loan category. The ABC does not appear to have such a system at present.

#### Methods of Project Appraisal

5.26 The post-1978 economic reforms and subsequent budgetary stringencies have emphasized the need for greater economic rationality in the making of investment decisions at all levels. This concern is likely to lead to new arrangements for project analysis and selection, the development of new techniques and criteria for project appraisal, and training programs for users of these new techniques and criteria. ABC's present system of appraising loan proposals was described in Chapter 3.

5.27 Financial analysis. The ABC and the RCCs now carry out some financial analysis of proposed projects but this analysis could be improved by more systematic collection, compilation and analysis of data. The starting point for a sound financial analysis of most projects would be an

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<sup>/1</sup> A satisfactory system might include several features: (1) at least three weeks before repayment is due, a notice would be sent to the borrowing unit which specifies amount to be paid, due date, and penalties for late payment; (2) if payment is not received within seven days of the due date, a reminder should be sent; (3) if within 21 days after due date payment has not been made, the defaulting unit should be visited by a member of the collection unit to determine reasons for default. Where extenuating circumstances exist, re-scheduling may be recommended. If this is not appropriate, legal action against the defaulting unit should be considered.

investment and production plan for the entity implementing the project. Such a plan would show for each year the land and labor resources to be used in the project, the expected production and the investment and operating expenditures, all valued at the prices that the project entity will actually receive or pay. On the basis of such plans, financial projections can be prepared for the project entity showing the value of output arising from the project activity, the costs of production, loan receipts and repayments and the cash surplus or deficit. For many rural projects in China such projections would provide a sufficient basis for determining the financial desirability of the project. In the case of very large or complex projects it may be beneficial to carry out a more sophisticated financial analysis by preparing separate income and expenditure statements, sources and applications of funds statements and balance sheets.

5.28 In carrying out such analyses, it is necessary to take account of the situation with and without the project, rather than before and after the project. The before and after comparison fails to account for changes in production that would occur without the project and may therefore lead to an erroneous statement of the benefits attributable to the project investment. In the case of agricultural projects, for example, production may continue to grow, albeit more slowly, even without the project. It is important to take this into account in assessing whether and at what point in time a new project to accelerate production growth should be implemented.

5.29 A set of financial projections based on the expected situation with and without the project, supplemented by technological, commercial and managerial assessments, will in most cases provide the ABC or other government agencies with sufficient information for determining whether or not a project should be approved. It is then necessary to determine how projects should be compared. One common measure in use in China is the payback period which shows the length of time from the beginning of a project required for the net benefits to equal the cost of the capital investment. This rough measure is deficient because it fails to consider earnings after the payback period and does not take into account differences in the timing of expenditures and revenues. A more rigorous and useful measure would be the internal rate of return which is a measure of the earning power of the money invested in a project. The merits of this approach appear to be widely appreciated among ABC staff, although there are as yet no systematic plans for its introduction.

5.30 Economic analysis. Improvements in the technical, managerial, commercial and financial analysis of projects are critical steps in the development of a good overall system for project appraisal. But in certain cases it may be necessary to go beyond such assessments and carry out an economic analysis of proposed projects. In contrast to financial analysis which focuses attention on the costs and benefits for a specific production unit that is implementing the project and wants to maximize its incremental

net income, economic analysis examines the costs and benefits of a project for the society or country as a whole, with the objective of maximizing national income. These two streams of costs and benefits may not be the same in part because the specific items of costs and benefits may be different between the two analyses. Transfer payments such as taxes, subsidies, loans and debt service are included in a financial analysis but would not be included in an economic analysis because they do not represent changes in national income. The prices to be attached to such costs and benefits will also be different if economic costs differ from financial costs.

5.31 To arrive at a set of costs and benefits for an economic analysis of the project, it is necessary to adjust the financial costs and benefits by removing direct transfer payments, (which do not represent use of real resources), and by adjusting financial prices to economic values. In the case of a traded good, for example, its economic price might be viewed as the world price because the economic impact of domestic production or use of particular commodities depends at least partly upon the prices at which they can be bought or sold abroad. The economic cost of labor is in principle the amount that a worker employed by a particular project would have contributed to national production had he not been employed by that project. In rural China, because of the substantial amount of underemployment, this may well be below the prevailing wage and in some places may approach zero. On the other hand, the economic cost of land in land-scarce China may be relatively high since, in the absence of a particular project, the land could have been used for some other productive purposes. In the case of many agricultural projects which involve changes in technology or cropping patterns, the economic cost of land (which is the net value of production foregone when the land is taken out of its next most productive use) is already taken into account in the with and without project comparison. But in the case of industrial projects involving use of agricultural land, a more explicit assessment of the economic cost may have to be made. An assessment also needs to be made of the economic value of nontraded goods, taking account of the composition of such goods in terms of traded goods, labor, land, etc.

5.32 Careful consideration must also be given to the appropriate interest rate to be used in discounting cost and benefit streams and as a yardstick against which to measure the project's internal rate of return. In the case of financial analysis, use would probably be made of the prevailing interest rate for the type of projects being considered. But in the case of economic analysis, the economic interest rate should reflect the cost to the economy of using investment funds in one particular project rather than another. This may differ from the financial interest rate. In China a key question appears to be the minimum acceptable economic rate of return on a project below which it would be preferable for the funds concerned to be used for current consumption. This is a policy matter that needs to be determined by the Government.

5.33 The significance of economic, as distinct from financial, analysis of proposed projects is dependent on the degree of divergence between financial and economic prices and between minimally-acceptable financial and economic rates of return. Managers of rural production units in China, if well trained in project analysis, are not likely to propose projects which are financially unviable but economically viable. They may however propose projects which are financially viable but economically unviable. A preliminary review of rural prices in China suggests that such situations are most likely to occur in the production of certain cash or industrial crops such as rubber (where the world rubber price is significantly below the financial price in China while the world price of fertilizers for rubber production may be above the financial price) and in the case of rural industries. In addition, such situations will arise more generally when the minimum economic rate of return is above the minimum financial rate of return. Better appraisal techniques and more information regarding the relationship of financial and economic prices in China will be necessary to improve the project selection process in these circumstances.

5.34 The issue of project appraisal systems and methodologies cannot be looked at in isolation from other economic reforms but there are a number of measures that could be taken that would be of value to the process of rural project selection, irrespective of what other changes might take place. One important measure would be for ABC and the RCCs to begin to improve their own system and procedures for project appraisal. Such improvements might usefully include the development of a simple project appraisal handbook which provided a checklist of issues that needed to be examined in the course of project identification and preparation. This guide would explain clearly and succinctly how the costs and benefits of different type of projects are to be evaluated and how projects should be compared in terms of economic and financial returns. The procedures for economic analysis would be discussed but the priority, at least initially, would be on more systematic collection of data and a more rigorous assessment of financial costs and benefits. The China Investment Bank is now in the process of preparing an appraisal handbook for its operations. Much of the material in that handbook, expanded as appropriate to deal with agricultural and agro-industrial lending, might be prepared and made available for the use of ABC and RCC staff.

5.35 Attention also needs to be paid to the training of project proposers and appraisers in the techniques of project analysis. Such training would also be very important for selected commune cadres because they frequently are responsible for the development of many complex and costly projects. In view of the large size of ABC and RCC staff and the large number of commune cadres, implementation of such a training program would be a very demanding task. Careful consideration needs to be given to the type of training that different levels of official would require and how such training programs would be implemented. The focus initially would probably be on the training of trainers.

Information Flows, Technology and CBE Development

5.36 This report has noted the uneven development of CBEs among and within provinces and the rapid growth of those enterprises in the better endowed agricultural areas or in locales with access to urban markets and advanced technology. The likely trend in the foreseeable future is one of continued concentration of CBE development and widening income disparities between communes and brigades with vigorous CBE development and those without significant CBE activity. CBE development essentially follows agricultural prosperity, markets and modern industry and technology. Thus, land productivity, proximity to major industrial and urban centers and availability of a few crucial inputs will be major determinants of the regional pattern of future CBE development. For poor communes actively seeking CBE opportunities, location and resource endowments are essentially unalterable. But knowledge of markets and improved technology through better information is a variable over which authorities have some control. Improved information systems could be one means to spur CBE development in disadvantaged areas.

5.37 There are at least two dimensions to this issue. First, it is important to promote research and development (R&D) of appropriate technology for CBEs because of their potential importance. The efficient use of available labor is an important consideration in this regard. This R&D aspect of CBE technology is largely outside the purview of rural financial institutions. But apparent needs in this area suggest that the Government might usefully adopt policies aimed at promoting more effective research in small scale enterprises. Also, enterprises need to be assisted in securing the necessary funds for adapting technology to particular local needs. Under current regulations governing the use of CBE revenues, most small enterprises can utilize no more than about 5% of profits for new product development costs. With this modest outlay, most CBEs find it very difficult to mount an effective effort in adaptive research. More generous allowances for using profits to finance research-related activities seem advisable. Consideration might also be given to the use of bank loans to local research institutes to finance highly focused product development work which links research to CBE production.

5.38 A second basic issue is general lack of access by smaller CBEs to information on available improved technology. These enterprises frequently do not understand developments in new technology and, even more important, have not established channels to obtain that information. Measures to expand technical consulting work by research institutes, colleges and universities and to disseminate available technology would seem useful. A larger role in this area by the ABC, perhaps through the establishment of a technology unit within the institution, may be appropriate.

5.39 In addition to supplying financial assistance, ABC can play a useful role in coordinating credit with provision of other services. Some of this is already being done through what ABC officials refer to as their



weizhu gonzuo, which can be loosely translated as "extra-curricular work" or consulting services. This activity includes identifying profitable investment opportunities, arranging for equipment, construction materials, and skilled technical workers and seeking market outlets and sales contracts. In some areas, the availability of financial resources may be a less binding constraint on CBE development than lack of information about markets and sources of raw materials and credits. In providing this information, the ABC and RCCs can play an important supplementary role to the CBE bureaus. This activity needs to be continued and strengthened.

#### E. Interest Rates and Prices

5.40 Review of the possible future role and structure of rural interest rates in China must take account of the evolving functions of the financial system and other changes in economic policy. It has been pointed out that during the 1960s and early 1970s the banking system in China was viewed largely as a supplier of funds to serve production. There was little regard for financial accounting or controls. Credit and cash plans were handed down through the hierarchy with little room to exercise local initiative. Recent banking reforms have strengthened the role of the banking system. Accompanying these changes are other more general reforms including budgetary devolution, the granting of more autonomy to state enterprises and to communes, and greater reliance on material incentives and on market mechanisms. One significant result is that interest rates are playing an increasingly important role in allocating financial resources. Current policy suggests this trend will continue.

#### Deposit Rates

5.41 One important issue is the appropriate level of deposit rates in China. It appears that the availability of consumer goods has in the past been a more important determinant of an individual's decision whether to save or consume than the level of real interest rates. Even in the last two years the large increase in individual deposits seems to have occurred mainly because the rapid growth of rural incomes was not matched by an equivalent increase in supplies of high quality consumer goods, house construction materials, etc. The Government has also been encouraging deposits largely as a means of absorbing excess private purchasing power that might otherwise have exacerbated inflationary pressures, especially in the private market. Changes in the attitudes of both individuals and the state toward savings can be expected over the next few years as increased emphasis is given to consumer goods production and more attention is paid to the need to mobilize individual and other savings for investment. In this changed environment the level of real interest rates can be expected to play a more decisive role in the determination of the amounts of rural savings. Efforts should be made to ensure that, at the very least, the interest rates on time deposits remain positive in real terms.

5.42 Attention also needs to be paid to the appropriate structure of interest rates on demand and time deposits. To encourage more long-term savings, the Government has increased the range of fixed term deposits available to individuals and, more recently, has increased relatively more the interest rates paid on longer-term time deposits. Efforts are also being made to encourage longer term savings by state enterprises (such as state farms) by permitting such institutions to maintain time as well as demand deposits, albeit at lower interest rates than are paid on equivalent deposits for individuals. Other organizations including government authorities, party committees and nonprofit state institutions are also allowed to earn interest on fixed term deposits (a change from past policy), but their demand deposits still bear no interest. Some further changes in these regulations may be appropriate to attract additional savings. However, government and state organizations are already required to deposit at the bank all funds except for a small cash reserve. Therefore, the introduction of interest bearing demand deposit accounts for such institutions would only attract additional deposits if such institutions are able to increase the overall efficiency of their operations.

#### Lending Rates

5.43 As with deposit rates, the issue of the appropriate future level and structure of lending rates is dependent on the pace of economic and financial reform and the role interest rates are expected to play in a reformed management system. One objective of the current reforms is to increase the role of banks and other financial institutions in seeking out and financing sound development projects. But such changes are unlikely to occur unless appropriate incentives, including the possibility of increased profits, are provided to these institutions. At a minimum, this requires that lending rates should be higher than deposit rates by a margin sufficient to cover administrative costs and provide some profit as an incentive to increase lending. Until recently, such a positive differential did not exist for the ABC and the RCCs. Subsidies, albeit small relative to the volume of lending, had to be provided by the PBC to cover the negative spread between average deposit and average lending rates. The recent increase in lending rates is to be welcomed because it should result in a positive spread between deposit and lending rates and thus provide ABC and RCCs with more incentives to lend. Such a positive spread should be maintained in the future.

5.44 Another objective of current reforms is to increase the role of banks in guiding the financial activities of enterprises and other basic level economic units. An important measure in this regard is the substitution of interest-bearing loans for state budget grants to finance working and fixed capital expenditures of certain borrowers. In the case of some borrowing units, however, banks have still not gained much leverage because

interest payments remain a small proportion of production costs and have relatively little effect on profits. This is accounted for in part by the structure of prices which results in certain industrial and commercial enterprises earning large profits. But it is also a reflection of the relatively low level of interest rates. The recent increase in rates should therefore make it more feasible for the banks to exercise greater financial control over basic level economic units.

5.45 Higher interest rates on ABC loans will also enhance the efficiency with which major borrowers such as the NFSMC use credit resources. Excessive inventories of processed agricultural products or low quality consumer goods are reported to be a serious management problem with many commercial organizations. Low interest rates on ABC loans to these units have undoubtedly been a contributing factor to inventory accumulation.<sup>/1</sup> Working capital is typically an important input into the operation of these commercial units and higher costs on borrowed funds is likely to encourage more efficient use of those funds. Perhaps no less important in this regard is the new authority of banks to levy extra interest on overdue loans, on loans for excessive working capital and inventories and on loan funds diverted from working capital to cover cost overruns on capital construction or for other unsanctioned purposes. The ABC reportedly has not yet used this authority. It would seem to be a valuable tool in ABC's efforts to enhance its role in rural financial management.

5.46 Lending rates can also have an allocative function, by being used to determine which specific projects are actually financed. In the past the decision on what projects were to be financed by credit had little to do with either the views of the banks or with the level of interest rates. Even now it appears that the availability of raw materials and supplies and the allocation of such supplies to specific projects are the critical factors. But it is the intent of Government that banks should play a more important role in project selection. This role will be easier to play if the level of real lending rates is set so as to bear some relation to the opportunity cost of capital. But it must be stressed that interest rates are only one of a set of prices. Poor correlation between financial profitability and economic profitability may reflect not only the differences between lending rates and the opportunity cost of capital but also differences between the financial and the economic prices of many goods and services. Given the present structure of prices in China, where differences between economic and financial prices are sometimes wide, there is no guarantee that increasing lending rates alone and using these rates to influence the choice of project will lead to a more efficient selection of projects and technological choices. Indeed, it could well result in the exact opposite, viz., less

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<sup>/1</sup> The most important factor, however, has probably been the requirement that commercial units purchase whatever is produced, irrespective of quality, marketability, etc. Efforts are now being made to address this problem.

resources being allocated for efficient agricultural projects and more resources being allocated for inefficient industrial projects. Ultimately, China can be expected to benefit greatly from general price reform. But adjustments in interest rates should be viewed as an essential part of more far-reaching price reforms.

5.47 The Government is well aware of the need to consider interest rates in relation to other prices and in fact the relatively advantageous terms on agricultural loans have been justified partly as a means of offsetting the relatively low prices for some agricultural products. Since 1979, however, prices of many agricultural products have been raised significantly, implying that there may now be less need for a general subsidy on interest rates to agriculture. Indeed, the recent changes in interest rates have significantly reduced this subsidy, at least for equipment loans. The recent changes, however, still permit commune and brigade enterprises, which are mostly industrial enterprises and benefit from relatively favorable prices, to enjoy the same advantageous terms on loans as do agricultural activities. Some thought should now be given to whether an upward adjustment in interest rates on CBE loans would be appropriate, particularly when they are keyed to profitable industrial activities.

#### F. The ABC and External Assistance

5.48 The role of external assistance in China's rural financial system will be mainly catalytic, in view of the relatively small amounts of outside funding compared with annual lending by the ABC, the RCCs and other banks. But if carefully designed, this assistance could be useful in helping strengthen the system and improve rural financial management. In determining the most appropriate role for external assistance, the issues raised in this Chapter would need to be discussed. More specifically, there would need to be an understanding on the methodology to be used in identifying and appraising subloans, including appropriate consideration of financial and economic criteria. The issue of the level and structure of interest rates would also have to be discussed including the need to ensure that lending rates are positive in real terms and that ABC's interest rate structure provides it with adequate incentives to seek out profitable lending opportunities and with sufficient revenues to meet its costs of operations. Auditing procedures and programs of staff development would also need to be discussed. In addition it would be necessary to clarify the extent of ABC's autonomy in selecting and financing investment proposals, consistent with the state plan, which are financially attractive and economically sound.

5.49 The design and character of any World Bank-supported projects with the ABC can be determined only after further study of needs and opportunities and discussions with ABC and other government officials. The Bank's understanding of the possible scope and nature of lending opportunities in the rural sector remains limited. It should be enhanced by more detailed analysis of credit needs for agriculture, agro-industry, other CBEs and rural commerce. Much of this work can probably be done as part of project identification and preparation activity. The first World Bank-supported lending operation in this area is likely to be a limited effort, but a first step in a possible longer-term involvement with the ABC and the rural credit system. The first operation might focus on one or two provinces, and a small number of agricultural or agro-industrial production activities, with a view to gaining experience on which to base an expanded operation in future years. Areas of lending emphasis might be selected on the basis of both economic growth and income distribution criteria, i.e., subprojects would be economically and financially sound and a substantial portion would be located in relatively disadvantaged areas. Employment creation should be a consideration in selection. The ABC, working with the World Bank, would be expected to identify investment possibilities which reflect these considerations. The International Fund for Agricultural Development (IFAD) is also supporting China's rural credit system. A possible division of responsibility between the World Bank and IFAD is that IFAD would focus its resources directly on food production, while the World Bank might also consider support of a broader range of ABC investment opportunities in agro-industry, other types of CBE development and agricultural support services e.g., processing and storage. Possibility for cofinancing with IFAD should be explored.

5.50 Proceeds of a World Bank loan might be used in a number of ways. The majority of funds would be made available to augment the loan funds of the ABC and RCCs. It seems likely that some resources could also be used productively to acquire office equipment and computing facilities necessary to improve the collection and analysis of financial information within ABC's operations. Some loan funds could also be reserved for training of higher-level technical and managerial staff in short-term and degree programs in China and abroad. Training programs in office management, data processing and financial analysis and project appraisal appear to be required. Funding for some consulting services to ABC might also be useful to assist in setting up modern accounting and data management systems. As part of its technical assistance not funded by any loan operations, the World Bank would be prepared to assist in preparation of a project appraisal handbook for ABC and RCC staff. Plans are underway for a course by the Economic Development Institute (EDI) in China on agricultural investment analysis. This is potentially one of the most valuable measures which the World Bank can take in the near-term to assist the ABC. Careful planning and preparation for this course is required. External assistance in strengthening ABC's institutional capabilities, and in particular, its methodology in financial and economic analysis of investment opportunities, is ultimately likely to be as valuable as the financial resources which are provided.

CHINA

RURAL FINANCE: A SECTOR STUDY

State Council Circular on the Restoration of the  
Agricultural Bank of China (February 23, 1979) /1

In order to strengthen the management of agricultural support funds, to serve better the rapid development of agricultural production and realization of the four modernizations, the State Council has restored the Agricultural Bank of China, in accordance with the Party Central Committee's decision. Notification of relevant matters is now made as follows:

1. The Agricultural Bank of China is an institution directly under the supervision of the State Council, under the administration of the People's Bank of China. Its primary responsibilities are unified management of agricultural support funds, centralized handling of rural credit, leadership of rural credit cooperatives, and development of rural financial affairs. The scope of its operations has the following aspects:

- (a) For agricultural allocations by the fiscal organs, down payments by commercial units, all kinds of credits and loans granted by financial institutions, as well as agricultural support funds raised by operational supervision organizations, etc., the Agricultural Bank and the rural credit cooperatives shall be responsible for careful examinations, clearance before funds are disbursed, planning for issuance of loans, and supervision of the use of funds. For allocations for capital construction in agriculture, forestry and irrigation, the Construction Bank shall continue to be responsible for supervision of disbursements.
- (b) The Agricultural Bank and rural credit cooperatives shall handle deposits, loans and credits for rural people's communes, production brigades, production teams, commune and brigade enterprises, state-run agricultural enterprises, combined agricultural-industrial-commercial enterprises and supply and marketing cooperatives, etc. Special savings accounts and all kinds of loans and credits sponsored by all other organizations and units shall be settled up and henceforth shall not be offered. Loans made from agricultural support funds raised by commercial, supply and marketing, and foreign trade organizations shall hereafter be converted to down payments.

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/1 From Zhongguo Jinrong (Chinese Finance) 1979, No. 1, pp. 15-17, Working translation by Ms. N. Lichtenstein, Legal Department, World Bank, December 1981.

- (c) Deposits, loans and credits for the basic accounting units in rural people's communes, commune and brigade enterprises and commune members shall be under the unified management of rural credit cooperatives. The Agricultural Bank shall handle deposits, loans and credits for organizations, groups, schools and enterprises established by the state in rural areas, as well as the settlement of accounts between urban and rural areas and management of cash reserves, etc.
- (d) The Agricultural Bank shall provide assistance in accounting to basic accounting units of rural people's communes and shall assist communes and brigades in the management of funds.

2. The primary sources of funds for the Agricultural Bank of China are state allocations for agricultural loans and credits, unrestricted funds allocated by the People's Bank, all deposits with the Agricultural Bank, surplus accumulations of the Agricultural Bank, and foreign exchange loans or credits which have been approved by the state for use in agricultural development. Measures for the use, planning and management of allocations from local financial reserves for agricultural use, and local finances allocated for agricultural loans and credits through local offices of the Agricultural Bank, shall be decided by local revolutionary committees. The Agricultural Bank's lending and cash balance plans at each level should be reported to that level People's Bank, to bring it into line with the unified state plan for lending and cash balances.

3. The Agricultural Bank should handle matters according to economic regulations, and bring fully into play the use of credit to stimulate and control economic activities. Clear distinctions shall be drawn between loan and credit funds and financial assets. Agricultural loans and credit shall not be diverted to improper uses nor approved for use in disaster relief. The use of funds from a commune's or brigade's own funds, financial allocations, and lending by the Agricultural Bank and rural credit cooperatives should be subject to overall planning with regard to all proper arrangements, and reasonable uses. Agricultural Bank and rural credit cooperative lending should be used primarily to support the production of commercial goods. Each locality and each organization shall preserve the independence of management of loan and credit funds bestowed on financial institutions by the state, and shall not order banks and rural credit cooperatives to appropriate and recall loans in violation of state regulations, nor compel communes and brigades to use credits and loans for things not desired by the masses.

4. Organs at every level of the Agricultural Bank of China shall create conditions to implement financial accountability. A service charge should be made for handling financial allocations. In making credits and

loans (other than special cases), interest should be charged. In the case of special low-interest, or interest-free long-term loans and credits made available by decision of the center and the locality, it should be clear that the center and the locality or entrusted departments shall allocate the funds for the loans and credits and the Agricultural Bank shall be responsible for making and administering them, but shall not be responsible for cash advances. Economic relations between the Agricultural Bank and the People's Bank, between higher and lower levels of the Agricultural Bank, between branches and between the Agricultural Bank and rural credit cooperatives shall be handled as operational relations between financially accountable units. Interest shall be charged on these transactions. Surpluses of the Agricultural Bank shall be turned over to financial organizations according to a fixed ratio, and losses will be compensated by financial organizations according to policy. Specific measures on these matters will be promulgated separately.

5. The Agricultural Bank of China shall establish offices at each level from top to bottom. At the center, one head office shall be established, with certain offices under it. Branches shall be established in provinces, cities and autonomous regions, as provincial level organs, with certain offices under them. Central subbranches shall be established at the prefectural level, and subbranches at the county level. Rural offices and rural credit cooperatives shall be placed under the leadership of the Agricultural Bank. In communes where an office of the Agricultural Bank has not been established, the rural credit cooperative shall undertake the duties of a business office. With the restoration of the Agricultural Bank of China, the personnel component shall be appropriately increased. Newly added personnel, who shall serve as staff and workers and whose labor quota shall be laid down by the Agricultural Bank, shall principally be used to strengthen offices at basic levels.

6. Rural credit cooperatives are financial organizations within the collective ownership system, and serve as basic organs of the Agricultural Bank. At present, the tasks of the rural credit cooperatives are great and manpower is inadequate. In order to strengthen rural financial work, credit cooperatives shall establish appropriate manpower allocations for each province, city and autonomous region. The management, political treatment, welfare and grain rations of credit cooperative staff and workers shall be consistent with that of employees of the Agricultural Bank. Credit Cooperatives shall implement fully the policy of running a people's commune industriously, prudently and democratically, and shall continuously raise the level of management and administration. No unit shall practice egalitarianism and indiscriminate transfer of resources, nor misappropriate the funds of credit cooperatives.

7. The work of the Agricultural Bank of China shall be carried out under the dual leadership of the head office and the revolutionary committee of the province, city or autonomous region. In operational matters, the



leadership of the head office shall prevail; in aspects of party work and political and ideological work, the local leadership shall prevail. The transfer, appointment and removal of cadres of the Agricultural Bank of China shall be administered according to the measures used by the People's Bank of China. Revolutionary committees at all levels shall conscientiously strengthen leadership over the Agricultural Bank, and strive to establish and strengthen Agricultural Bank offices at every level during 1979.

CHINA

RURAL FINANCE: A SECTOR STUDY

Credit Needs in the North China Plain

A Case Study of Production Teams in Northwestern Shandong,  
Northern Anhui and Eastern Henan/1

The Setting

1. The Huang and Huai River Basins comprise parts of the North China Plain in Hebei, Henan, Shandong, Anhui and Jiangsu Provinces. The area is subject to erratic rainfall and temperature extremes. Despite considerable improvement in recent years in water control from extensive water conservancy works, agriculture continues to be vulnerable to drought and flood. Much of the cultivated land is low-lying, poorly drained and increasingly affected by salinity. Although relative poverty dominates, examples of successful development can be found among some communes. This co-existence of progressive and low-income production units within a limited geographical area provides an opportunity to search for factors which may explain these differing rates of development.

2. A useful starting point is a comparison of the circumstances and performance of relatively progressive production teams with their opposites. The underlying statistics pertain to eight production teams (of which four are relatively prosperous, four are poor) selected from four counties in three provinces (Yucheng and Qihe Counties in Shandong, Suixi in Anhui and Ningling in Henan). These particular combinations were chosen to contrast the performance of teams which have participated in a state-assisted development program with those which have not. The counties studied are typical of northwestern Shandong, northern Anhui and eastern Henan. The eight production teams are statistically profiled in Tables 1-7. Data refer to 1980. The four teams labelled A, collectively referred to below as Team A, are the poorest and most representative of their counties (although Qihe and Ningling Team A are somewhat worse off than average). This generalized Team A is handicapped by saline soil and limited irrigation facilities. Its crop yields in 1980 were in the vicinity of national averages in 1957. It is at the starting point of the development spectrum. Generalized Team B, on the other hand, is well along the development road by

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/1 Adapted from fieldwork by Mr. T. Wiens (consultant to the World Bank) as part of the preparation of the Bank-supported North China Plains Agricultural Project. The analysis is reported in greater detail in Wiens' "Poverty and Progress in the Huang and Huai River Basins."

local standards, although only a few years earlier its situation was not unlike that of Team A. The essential difference is a state-supported pilot project for Team B in which at least Y 50/mu /1 has been invested in water conservancy and mechanization. Funding of the program has come from state grants, loans, local accumulation funds and team labor. "Bootstrapping" has been complemented by outside finance as part of the means to progress for Team B.

3. The contrasts between Teams A and B are not always sharp. The amount of land per worker ranges from 3-9 mu, but doesn't differ systematically between the teams. At first glance, there appears to be no clear difference in the portion of cultivated land that is irrigated. But since a well which lacks a pump is nevertheless counted as "irrigating" a piece of land, this statistic is meaningless. For example, Ningling A has only one pump for six wells, reflecting lack of finance, and yet the figure for its irrigable area (Table 1) would require six wells operating at maximum efficiency. Reported costs of irrigation, electricity and "other" (which includes diesel fuel) in Table 4 indicate that Team B is applying much more water, a consequence of the pilot program in which this team participates. Retained land (private plots) as a percentage of total area varies from the extremes of the advanced Yucheng B which allocates none, to Ningling B, which allocates near the maximum currently allowed. On average, this portion hovers around 8%.

4. Differences in cropping patterns between Teams A and B are also subtle. There appears to be no systematic difference between the teams in the portions allocated to the basic grain crops (wheat, maize). But Team B places much more emphasis on cotton ( a lucrative cash crop). Somewhat surprisingly, Team B does not generally multiple crop to a greater extent than A. However, Team B is clearly more mechanized and the additional horsepower largely reflects power sources for driving the critically important tubewells.

5. Crop yields for Team B are higher, particularly in the case of wheat, where reliable irrigation makes the greatest difference (Table 2). The income effects of higher yields are dramatic (Table 3). Gross income of Team B is 70-400% higher than that of team A. Significantly, Team A has very little cash income and hence little capacity to service any loans it may seek. Most of its crop sales are destined to meet procurement requirements and its sells little or nothing at above quota prices (Table 6).

6. Team B fares much better in this regard. Because of higher yields and a greater production of nonfood-grain crops (for which quota requirements are low or nonexistent), a high proportion of its sales are at above-quota prices. Higher grain yields also result in greater gross income from animal husbandry, i.e., more collective pigs slaughtered or sold and at higher

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/1 One mu equals 0.667 ha.

weights due to the greater availability of feedgrain and crop by products./<sup>1</sup> The positive impact of higher grain yields on private animal rearing is equally dramatic. In short, once a team escapes from a subsistence orientation through higher crop yields, its cash income and its debt service capacity can rise sharply. The structure of procurement pricing reinforces this tendency, even though additional burdens, such as higher grain quotas and pressure to raise more collective pigs, offset the potential gains to some extent.

7. Of course, part of the additional gross revenues of Team B are plowed back or absorbed in the form of increased input use (Table 4), which is responsible for the higher yields in the first place. The leap in Team B's use of modern inputs - chemical fertilizers, pesticides, machinery services, electricity, etc - is striking. Cost of traditional inputs - seed, recycled straw, feed for draft animals, pig manure, etc. - do not increase as rapidly or else decline, so that the percentage differences in total income from crop production between Teams A and B is about the same order of magnitude as differences in gross revenues.

8. Team A's lower crop yields create an income problem which constrains development. The team cannot set aside enough cash or commodities to provide more than a minimal amount of working capital (the "production fund"). It also makes smaller contributions to grain reserves and to reserves to cover depreciation of existing equipment. It lives from hand to mouth and has virtually no cash to cover operating costs for the next production cycle. Its team members receive no cash as distributed income. Team B is better off in these respects, particularly in its cash distribution. But comparing the size of the production fund with costs of production (Table 4, 5), it is obvious that both teams require external finance to cover operation costs.

9. How does a team make the transformation to higher productivity and income levels? In many parts of North China, the answer lies largely in the extent and effectiveness of irrigation. Outside capital becomes a critical consideration. In this region the possibilities for surface irrigation are quite limited; indeed, rivers and streams frequently dry up during times of drought. Powered tubewells provide the only reliable source of water, although faulty design or capital scarcities have created difficulties. Most of the teams in this sample have, or had, serious salinity problems, compounded by inadequate drainage works. Poor teams can, as in the case of Ningling A, construct a drainage system with their own labor. However, unless irrigation facilities are soon to be provided, the motivation to improve drainage will not be strong.

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<sup>1</sup> However, since costs of collective swine rearing exceed revenues from this activity, the benefit accrues to the state rather than Team B. This is a "hidden tax" on the more prosperous team.

10. But tubewells require capital - about Y 270 per well to hire a drilling rig and specialists - and team labor. To equip the well requires at least Y 1,000 if electricity is available or Y 1,500 if a diesel engine is needed. But, typically, the rural credit cooperative or the local office of the ABC will be reluctant to lend for more than the working capital requirements of the poor teams, in view of their usual inability to repay larger loans. If a poor team can scrape together 50-70% of expected cash costs from its own funds, it may be able to borrow the remainder. Ningling's Team A was able to borrow all the capital required for drilling six wells. Unfortunately, for lack of further capital, it was able to acquire only one pump. Most of its wells remain inoperable; investment in the needed pumps would generate attractive returns. Ningling's Team B, in contrast, was able to invest Y 2,300 of its own funds in 1979 and borrow Y 1,800 to add three fully-equipped wells. However, in the absence of adequate credit, most of the other progressive teams started their road to development through the fortuitous receipt of a state capital grant from the pilot project in which they were participating.

11. In summary, the path from poverty to steady progress in much of the area surveyed is rather obvious. Bootstrapping alone will not suffice. Cash investment of about Y 500 per family is required, as are ample supplies of shallow underground water. But even where these two conditions are met, success requires improved planning, coordination and management in the development effort. Statistics for a larger number of teams included in other pilot projects in the region indicate that income growth frequently has been no greater than for those teams outside the projects. One apparent reason is that project coordination and management and participant incentives have been weak or inconsistent. Specifically, improved irrigation was not always accompanied by completed drainage systems or sufficient supplies of chemical fertilizer. Occasionally, wells were sunk too close together or into saline aquifers. Some project works were poorly maintained; wells were unequipped or inoperative and repair and support services were inadequate. While the potential for development in the region is good, improvement in a wide range of agricultural support services is needed to realize this prospect. Larger supplies of credit are a necessary, but not sufficient, element in this effort. Neither local savings nor the resources of local governments are currently sufficient to provide the seed capital for many teams.

CHINA

RURAL FINANCE: A SECTOR STUDY

Basic Statistics for Teams (A = Unimproved; B = Improved) /a

	Shandong		Shandong		Anhui		Henan	
	Yucheng A	Yucheng B	Qihe A	Qihe B	Suixi A	Suixi B	Ningling A	Ningling B
<u>Population (persons)</u>	145	327	188	160	116	201	213	180
Persons/mu cultivated	0.3	0.3	0.5	0.4	0.3	0.4	0.4	0.7
<u>Labor force (persons)</u>	65	131	64	55	45	87	110	78
Agricultural	63	131	57	50	40	84	99	73
Sideline activities	-	-	-	-	1	-	4	-
Industry	-	-	5	5	4	3	-	3
Other (professionals)	2	-	2	1	-	-	7	2
<u>Cultivated acreage (mu)</u>	420	1,206	420	460	373	556	480	282
Collective	385	1,206	390	420	346	525	438	246
Paddy field	-	-	40	1	-	-	-	-
Upland	385	1,206	350	420	346	525	438	210
Irrigated	310	800	-	-	-	-	328	176
Unirrigated	75	406	-	-	-	-	110	34
Retained Land /b	35	0	30	40	27	31	42	36
<u>Sown area (mu)</u>	638	1,100	540	660	552	815	598	296
Crop: Wheat (%)	45.4	36.4	27.8	36.4	38.0	40.6	41.8	37.2
Maize	44.7	36.4	29.6	34.8	3.1	1.2	23.4	22.0
Rice	-	-	7.4	-	-	-	-	-
Sweet potato	-	-	-	-	26.3	20.9	6.7	5.1
Kaoliang (Sorghum)	-	4.5	7.4	-	0.9	6.1	6.7	5.1
Millet	-	2.3	1.9	1.5	6.5	-	6.7	6.8
Soybean	7.4	2.3	7.4	1.5	8.3	14.7	10.0	20.3
Peanut	-	-	-	-	1.8	1.5	2.2	-
Sesame	-	-	-	-	-	7.4	-	-
Cotton	-	18.2	9.2	12.1	3.3	5.2	2.5	3.7
Jute	-	-	7.4	-	6.0	-	-	-
Squash	0.9	-	-	-	-	-	-	-
Vegetables	-	/b	1.9	2.3	-	-	-	-
Green manure	-	/b	-	11.4	-	3.8	-	-
Unidentified	1.6	-	-	-	-	1.3	-	-
<u>Machinery (hp)</u>	60	335	24	72	12	56	22	30
<u>Indicators of intensity</u>								
Multiple cropping index (%)	171	157	138	157	155	161	157	155
Machinery per mu (hp)	0.16	0.29	0.06	0.17	0.03	0.11	0.05	0.14
Labor days/cult. mu	40	35	21	30	33	33	22	13

/a All data in Tables 1-7 were collected from production units in preparation of the proposed World Bank-supported North China Plains Agricultural Project.

/b Private plots.

CHINA

RURAL FINANCE: A SECTOR STUDY

1980 Crops Yields on Collective Sown Acreage  
(tons/ha)

Crop	Shandong		Shandong		Anhui		Henan	
	Yucheng A	Yucheng B	Qihe A	Qihe B	Suixi A	Suixi B	Ningling A	Ningling B
Wheat	1.215	3.788	0.606/a	2.280	1.222	2.280	0.720	3.075
Maize	1.995	4.058	1.918	3.660	3.320	1.875	1.095	2.190
Sweet potato	-	-	-	-	2.738	4.408	1.406	3.998
Sorghum	-	2.280	0.372	-	0.850	1.875	0.188	0.998
Millet	-	0.938	0.372	2.565	1.641	-	0.563	3.000
Soybean	1.125	0.923	0.667	1.148	0.769	0.938	0.600	1.050
Green beans	-	-	-	-	0.378	0.525	-	-
Peanut	-	-	-	-	0.450	1.425	1.043	-
Sesame	-	-	-	-	-	0.323	-	-
Cotton	-	0.827	0.113	0.840	0.299	0.488	0.375	0.109
Jute	-	-	0.300	-	0.265	-	-	-
Squash	3.000	-	-	-	-	-	-	-

/a Yields on retained land (2 ha) were 1.0 tons/ha.

CHINA

RURAL FINANCE: A SECTOR STUDY

Composition of Gross Value of Collective Income, 1980,  
(yuan/collectively cultivated mu)

	Shandong		Shandong		Anhui		Henan	
	Yucheng A	Yucheng B	Qihe A	Qilie B	Suixi A	Suixi B	Ningling A	Ningling B
Total collective revenue	46.81	115.40	22.89	114.58	46.74	80.37	27.47	90.65
of which from:								
<u>Cultivation</u>	39.79	110.49	22.89	101.35	42.87	75.67	N/A	N/A
<u>Cash income</u>	2.87	81.80	5.48	65.23	13.92	37.70	-	18.86
<u>Grain procurement</u>	2.21	3.48	-	17.85	5.38	7.42	-	0.59
Above-quota grain	-	-	-	5.71	4.20	8.54	-	5.41
Addition to reserves	-	2.57	-	-	-	3.09	-	-
<u>Cotton procurement</u>	-	-	3.85	28.57	2.03	3.33	N/A	N/A
Above-quota cotton	-	44.78	-	11.90	0.26	8.45	N/A	N/A
<u>Oilseed quota</u>	-	-	-	0.35	0.49	0.49	N/A	N/A
Above-quota oilseed	-	5.14	-	-	-	1.50	N/A	N/A
<u>Other procurement</u>	-	-	1.74	-	-	-	-	-
Straw/firewood	0.66	4.15	-	0.71	1.70	-	N/A	N/A
Fruit	-	6.21	-	-	-	-	-	-
Feed to PC members	-	3.93	-	-	-	-	-	-
Other	-	11.52	-	0.48	-	4.88	N/A	N/A
<u>Commodity income</u>	18.73	28.68	17.30	36.11	28.95	37.97	N/A	N/A
Distributed grain	13.93	17.12	15.13	24.76	16.25	22.71	14.84	8.94
Distributed straw	2.79	-	1.21	2.86	0.87	1.35	0.26	2.09
Distributed vegetables	1.23	1.95	0.96	3.10	-	-	2.47	6.10
Distributed veg. oil	0.78	-	-	0.94	0.58	0.38	-	0.41
Distributed cotton	-	1.33	-	1.03	0.74	1.15	0.37	-
Straw recycled	-	2.61	-	3.43	-	-	-	-
Other (seed, feed)	-	5.68	-	-	10.51	12.38	N/A	N/A
<u>Animal products</u>	0.96	2.07	-	0.99	0.84	0.84	N/A	N/A
Pigs sold	0.25	0.34	-	0.52	-	-	N/A	N/A
Pigs slaughtered	0.52	1.07	-	-	-	-	-	-
Shoats sold internally	0.18	0.26	-	0.48	-	-	N/A	N/A
Shoats sold on market	-	0.40	-	-	-	-	N/A	N/A
Sale of cattle	-	-	-	-	-	0.84	N/A	N/A
<u>Fisheries</u>	-	-	-	-	-	0.14	-	-
<u>Sideline activities</u>	1.04	0.70	-	0.34	2.26	0.25	N/A	N/A
<u>Regular labor income</u>	-	0.20	-	-	1.54	0.11	N/A	8.13
PC and brigade industry	-	0.12	-	0.34	1.54	0.11	N/A	6.50
Outside PC	-	0.08	-	-	-	-	N/A	1.63
<u>Temporary labor</u>	1.04	0.50	-	-	0.72	0.13	N/A	N/A
Brigade industry	-	-	-	-	0.72	0.13	N/A	N/A
Transport work	1.04	-	-	-	-	-	N/A	N/A
<u>Other</u>	5.01	2.14	-	11.89	1.61	3.48	N/A	N/A



CHINA

RURAL FINANCE: A SECTOR STUDY

Composition of Collective Production Costs, 1980  
(yuan/collective cultivated mu)

	Shandong		Shandong		Anhui		Henan	
	Yucheng A	Yucheng B	Qihe A	Qihe B	Suixi A	Suixi B	Ningling A	Ningling B
<b>Total costs</b>	19.70	52.08	8.64	59.88	27.56	40.86	13.86	34.13
of which from:								
<b>Cultivation</b>	16.16	35.92	8.26	44.95	15.34	31.13	9.68	25.61
of which:								
Seeds	2.62	1.66	2.50	3.42	5.59	7.69	2.97	3.25
Chemical fertilizers	3.65	15.51	2.65	18.62	2.90	7.38	2.28	12.20
Beancakes	2.18	-	-	-	-	-	-	-
Other chemicals	0.03	1.00	0.13	1.90	0.07	0.95	0.23	0.41
Recycled straw	2.60	-	-	-	-	-	-	-
Pig manure (purchased)	0.54	NC/a	1.50	4.76	2.71	3.40	-	-
Plow animal feed	0.66	-	-	0.95	-	4.70	0.82	4.88
Machine plowing	0.91	4.81	0.64	0.95	0.03	0.77	0.68	0.41
Other machine use	-	-	-	2.38	-	0.19	-	-
Electricity	-	2.09	-	2.38	0.81	0.34	-	-
Irrigation	2.21	5.62	0.38	-	-	0.15	0.23	0.81
Plastic sheet	-	-	-	-	0.11	0.31	0.18	0.20
Machine repair	1.59	1.45	0.46	1.19	0.43	0.76	1.37	2.85
Small tool repair	0.70	1.09	-	0.71	1.53	0.67	0.46	0.61
Other	1.07	2.69	-	4.09	0.69	-	0.46	-
Unused materials	-	-	-	-	3.18	-	-	-
<b>Animal products</b>	1.28	11.18	0.31	2.24	6.95	6.98	-	-
of which:								
Feedgrains	0.65	3.73	0.30	1.19	4.23	4.70	1.64	4.88
Other fine feed	-	1.49	-	-	-	-	-	-
Forage purchased	-	5.59	-	-	-	-	-	-
Feed processing fees	0.05	-	0.01	0.48	-	0.38	0.18	0.16
Other expenses	0.58	0.35	-	0.57	2.72	1.90	0.07	2.03
<b>Fisheries, etc</b>	-	0.25	-	0.27	-	-	-	-
<b>Management</b>	0.30	0.79	0.06	0.17	0.92	2.12	N/A	N/A
<b>Taxes</b>	1.07	0.95	0	0.56	2.49	3.03	N/A	N/A
<b>Other</b>	1.95	3.00/b	-	11.68/c	1.86	1.41	N/A	N/A

/a NC not counted in costs, because paid for in workpoints.

/b Including depreciation.

/c Losses on vegetables, subsidies for errands, entertainment.

CHINA

RURAL FINANCE: A SECTOR STUDY

Distribution of Net Income, 1980  
(yuan/collective cultivated mu)

	<u>Shandong</u>		<u>Shandong</u>		<u>Anhui</u>		<u>Henan</u>	
	<u>Yucheng A</u>	<u>Yucheng B</u>	<u>Qihe A</u>	<u>Qihe B</u>	<u>Suixi A</u>	<u>Suixi B</u>	<u>Ningling A</u>	<u>Ningling B</u>
<u>Net income</u>	27.10	66.39	14.24	54.70	19.18	42.91	22.08	66.43
<u>Distributed income</u>	21.00	39.80	14.22	46.96	18.01	37.67	17.58	61.66
of which:								
Cash	-	20.73	-	16.72	0.03	12.09	-	19.05
Commodities	21.00	19.07	14.22	30.24	17.99	25.59	17.58	42.62
<u>Accumulation</u>	5.02	26.59	0.02	7.74	1.15	5.24	4.50	4.77
of which:								
Grain reserves	-	4.65	-	-	-	-	-	-
Depreciation fund	-	1.16	-	-	-	-	-	-
Production fund	1.28	19.57	-	4.76	0.70	5.24	2.06	4.77
Other	3.75	1.21	0.02	2.98	0.45	-	2.44	-
of which:								
Welfare fund	1.41	-	-	-	-	-	-	-
Public accumulation	2.35	-	-	-	-	-	-	-

ANNEX B  
Table 5

CHINA  
RURAL FINANCE: A SECTOR STUDY  
Distribution of Grain and Other Productions, 1980  
(jin of unprocessed product/collective cultivated mu)/a

	Shandong		Shandong		Anhui		Henan	
	Yucheng A	Yucheng B	Qihe A	Qihe B	Suixi A	Suixi B	Ningling A	Ningling B
<u>Total grain distributed</u>	360	404	167	567	310	462	139	411
of which:								
1979 residual	-	26	16	115	-	8	N/A	N/A
1980 production	360	378	151	453	310	454	N/A	N/A
<u>Sold to state</u>	13	26	-	118	52	107	-	43
of which:								
Quota sales	13	26	-	36	38	60	-	9
Above-quota sales	-	-	-	82	14	46	-	34
<u>Rations</u>	166	182	121	250	172	252	102	306
<u>Seed</u>	22	17	25	59	38	52	18	29
<u>Feed</u>	12	76	4	82	44	44	16	19
of which:								
Collective animals	6	27	4	39	44	44	N/A	N/A
Private animals	6	49	-	42	-	-	N/A	N/A
<u>Reserves</u>	-	19	-	-	-	-	-	-
<u>Production grain /b</u>	147	81	18	59	4	-	2	10
<u>Other crops:</u>								
<u>Seed cotton</u>	N/A	52	2	26	2	29	N/A	N/A
Sold to state	N/A	51	2	25	1	18	N/A	N/A
Quota sales	N/A	N/A	2	3	1	-	-	-
Above-quota sales	N/A	N/A	-	23	/c	12	N/A	N/A
Distributed	N/A	2	-	1	1	2	1	/c
<u>Oilseeds</u>	N/A	N/A	N/A	N/A	5	5	N/A	N/A
Sold to state	N/A	N/A	N/A	N/A	1	3	N/A	N/A
Quota sales	N/A	N/A	N/A	N/A	1	1	N/A	N/A
Above-quota sales	N/A	N/A	N/A	N/A	/c	2	N/A	N/A
Market sales	-	-	-	-	2	-	-	-
Distributed	N/A	N/A	N/A	N/A	1	1	4	N/A

/a One jin = 0.5 ka.

/b Grain used to provide rations for laborers on county water works, tractor drivers, cadres on official business, etc.

/c Less than 0.5.

CHINA

RURAL FINANCE: A SECTOR STUDY

Application of Nitrogenous Fertilizer  
(kg/ha; nutrient weight)

	<u>Shandong</u>		<u>Shandong</u>		<u>Anhui</u>	
	<u>Yucheng A</u>	<u>Yucheng B</u>	<u>Qihe A</u>	<u>Qihe B</u>	<u>Suixi A</u>	<u>Suixi B</u>
Wheat	-	105	9	156	32	68
Maize	32	90	48	62	88	48
Sweet potato	-	-	-	-	21	68
Kaoliang	-	-	-	-	-	45
Millet	-	-	-	-	125	-
Peanut	-	-	-	-	-	45
Cotton	-	60	38	281	83	60
Jute	-	-	23	-	-	-

CHINA

RURAL FINANCE: A SECTOR STUDY

Principal Persons Met and Places Visited by the Rural Credit Mission  
November 2-21, 1981

Agricultural Bank of China, Beijing (November 1-4)

Mr. Lei Tiansheng	Director, Department of Planning, ABC/Beijing
Mr. Lin Ziheng	Director, Department of Rural Industries, ABC/Beijing
Mr. Tong Yizhong	Loan Projects Office, Foreign Investment Control Commission, Beijing
Mr. Yang Jinsheng	World Bank Division, Ministry of Finance, Beijing
Mr. Zhu Ping	World Bank Division, Ministry of Finance, Beijing
Mr. Fang Xuerong	Interpreter, ABC/Beijing
Mr. Luo Jia	Staff member, ABC/Beijing
Ms. Mei Yadong	Staff member, ABC/Beijing
Ms. Yang Siling	Staff member, ABC/Beijing

Shandong Province (November 5-9)

Mr. Cheng Chunji	Deputy Manager, ABC/Shandong Provincial Branch
Mr. Tang Maotung	Deputy Director, Bureau of Planning, ABC/Shandong Provincial Branch
Mr. Wu Fen	Director, Bureau of Accounting, ABC/Shandong Provincial Branch
Mr. Yen Feng	Director, Bureau of Brigade and Commune Enterprises, ABC/Shandong Provincial Branch
Mr. Wu Xinchih	Section Chief, Bureau of Brigade and Commune Enterprises, ABC/Shandong Provincial Branch
Mr. Yen Shaohua	Director, General Affairs Office, Finance Commission, Shandong Provincial Government
Mr. Xi Jianyou	Staff member, Foreign Affairs Bureau, Shandong Provincial Government
Mr. Xiao Shunxing	Secretary, General Affairs Office, Shandong Provincial Government
Mr. Li Dunjen	Accountant, ABC/Shandong Provincial Branch
Mr. Jiao Chixiu	Deputy Director, Mingshui People's Commune, Changchiu County

Mr. Gao Weihung	Deputy Director, Office of Industrial and Sideline Affairs, Mingshui People's Commune
Mr. Chang Xuling	Manager, Gunny Sack Factory, Mingshui People's Commune
Mr. Ma Dunjing	Director, ABC Office, Mingshui People's Commune
Mr. Lu Deshan	Manager, ABC County Subbranch, Licheng County
Mr. Chao Xuechin	Deputy Manager, ABC County Subbranch, Licheng County
Mr. Jiang Yihai	Deputy Section Head, Planning Office, ABC County Subbranch, Licheng County
Mr. Chang Xinwen	Chief, Central Subbranch ABC/Jinan City
Mr. Han Men	Staff member, Foreign Affairs Office, Licheng County
Mr. Wang Chiyi	Director, Liupu People's Commune, Licheng County
Mr. Chao Yensheng	Director, Fruit Processing Factory, Liupu People's Commune
Mr. Sun Yutang	Director, ABC Office, Liupu People's Commune
Mr. Lu Xinging	Accountant, ABC Office, Liupu People's Commune

Zhejiang Province (November 11-15)

Mr. Zhu Jili	Deputy Manager, ABC/Zhejiang Provincial Branch
Mr. Wan Xizhu	Deputy Director, ABC/Zhejiang Provincial Branch
Mr. Sun Changda	Deputy Director, Agricultural Committee, Zhejiang Province
Mr. Jin Liangin	Deputy Director, Office of Commerce and Trade, Zhejiang Province
Mr. Zhen Kuaihua	Deputy Director, ABC/Zhejiang Provincial Branch
Mr. Zhang Yuijin	Staff member, ABC/Zhejiang Provincial Branch
Ms. Yan Fenfen	Staff member, ABC/Zhejiang Provincial Branch
Mr. Yan Dalong	Staff member, ABC/Zhejiang Provincial Branch
Mr. Wong Haifu	Leader, Shanwang Production Brigade, Hongshan People's Commune, Shao Shing County
Mr. Chen Xingwo	Assistant Leader, Shanwang Production Brigade
Mr. Ye Chenhe	Tea production technician, Shanwang Production Brigade

Mr. Liu Jintang	Staff member, Office of Foreign Affairs, Shao Shing City
Mr. Xu Yifan	Staff member, ABC County Subbranch, Shao Shing County
Mr. Fen Dianjie	Staff member, ABC County Subbranch, Shao Shing County

Guangxi Autonomous Region (November 17-20)

Mr. Yan Zhongyuan	Deputy Manager, ABC/Guangxi Autonomous Regional Branch
Mr. Liu Baihui	Director, General Affairs Office, ABC/ Guangxi Autonomous Regional Branch
Mr. Lu Shuren	Director, ABC/Guangxi Autonomous Regional Branch
Mr. Seng Leizhan	Section Chief, ABC/Guangxi Autonomous Regional Branch
Mr. Chei Jenchao	Deputy Manager, ABC/Guilin City Sub- branch
Mr. Tang Xienyu	Section Chief, ABC/Guilin Prefectural Subbranch
Mr. Chen Huanjiao	Vice-chairman, Planning Committee, Xing Hu County

Guangzhou Province (November 21)

Mr. Fu	Manager, ABC/Guangdong Provincial Branch
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**Table 1.1: DEPOSITS AND LOANS OF THE STATE BANKING SYSTEM**  
(In billion yuan)

Items /a	End- 1979	End- 1980	End 2nd quarter 1981	End 3rd quarter 1981	End 4th quarter 1981
Deposits	134.00	165.87	175.32	182.67	203.30
Deposits by enterprises	46.89	57.31	56.19	58.80	70.15
Deposits by the treasury	14.87	16.20	26.75	23.80	19.49
Capital construction funds /b	13.13	17.18	18.80	21.75	22.92
Deposits by government departments and organizations	18.49	22.95	26.01	27.81	27.49
Savings deposits in cities and towns	20.26	28.25	32.34	34.13	35.41
Deposits in rural areas /c	20.37	23.98	15.23	16.38	27.84
Deposits by international monetary institutions	-	3.43	5.38	5.38	5.41
Currency in circulation	26.77	34.62	30.64	33.32	39.63
The banks' working funds /d	42.79	47.73	50.45	50.45	49.71
The banks' surplus	4.95	2.72	1.64	2.16	1.72
Others	7.75	8.06	1.00	1.19	5.02
<u>Total Credit Funds</u>	<u>216.26</u>	<u>262.43</u>	<u>264.43</u>	<u>275.17</u>	<u>304.79</u>
Loans	203.96	241.43	239.44	247.98	276.48
To industrial production enterprises /e	36.31	43.16	43.85	45.67	50.89
To industrial supply and marketing enterprises and materials supply departments /e	24.22	23.60	23.90	22.87	24.12
Commercial loans /e	123.23	143.70	135.22	141.55	163.91
Short- and medium-term loans for buying equipment	0.80	5.55	5.86	6.51	8.38
Industrial and commercial loans to urban collective and individual enterprises /e	5.75	7.83	8.34	8.87	9.92
For advance payments to purchase farm products	0.69	0.79	1.83	1.61	0.74
To state farms /e	0.67	0.94	1.32	1.57	1.68
To rural communes and production brigades	12.29	15.86	19.12	19.33	16.84
Gold purchases	1.22	1.22	1.22	1.22	1.20
Foreign exchange purchases	2.06	-0.85	3.25	5.28	6.22
Balances with the IMF	-	3.61	3.50	3.67	3.87
Money advanced to the Ministry of Finance /f	9.02	17.02	17.02	17.02	17.02
<u>Total Credit Funds Used</u>	<u>216.26</u>	<u>262.43</u>	<u>264.43</u>	<u>275.17</u>	<u>304.97</u>

/a This list covers state credit funds, meaning those used by the PBC, ABC (but not the rural credit cooperatives, for which figures are given in Annex D (Table 3.13)).

/b This category is hard to interpret since the Construction Bank (PCBC) is supposed to handle capital construction appropriations. Most likely, it includes capital construction appropriations to be used by production enterprises themselves as opposed to investment funds for specialized construction companies.

/c Presumably includes deposits by rural credit cooperatives in the ABC as well as other rural deposits not in the former.

/d Includes allocations for bank credit funds in the state budget and the accumulated profits which the bank is allowed to keep (BJR, No. 29, 7/20/81, p. 23).

/e Loans of circulating funds (working capital).

/f An accumulated budget surplus was run down in 1979, so the actual budget deficit for that year was 17.06 billion yuan (Wang Bingqian (1980), p. 51).

Source: BJR No. 29, 7/20/81, p. 21 and ZGJR, various issues.



Table 2.1: STATE BUDGET REVENUES, 1950-80  
(In billion yuan)

Items	1950	1957	1965	1977	1978	1979	1980
Total revenue	6.519	31.019	47.332	87.446	112.112	110.327	108.520
Of which:							
Enterprise profits	0.869	14.418	26.427	40.235	57.199	49.290	43.520
Tax revenue	4.898	15.489	20.430	46.827	51.928	53.782	57.170
Industrial and commercial tax	2.363	11.312	16.549	40.090	45.129	47.269	50.140
Salt tax	0.269	0.631	0.733	1.181	1.083	0.962	0.920
Customs duties	0.356	0.579	0.570	2.623	2.876	2.600	3.350
Agricultural tax	1.910	2.967	2.578	2.933	2.840	2.951	2.770
Foreign borrowing	0.302	0.699	0.006	0.061	0.151	3.639	4.300
Other revenues	0.450	0.413	0.469	0.323	2.834	3.616	3.530

/a Not including foreign loans.

Sources: Ministry of Finance.

Table 2.2: STATE BUDGET EXPENDITURES, 1950-80  
(In billion yuan)

Items	1950	1957	1965	1977	1978	1979	1980 (Actual)
Total expenditure	6.808	30.421	46.633	84.353	111.095	127.394	121.27
Of which:							
Capital construction	1.250	12.371	15.849	30.088	45.192	51.469	41.94
Modernization investment	-	-	-	1.710	3.777	4.364	5.31
Working capital	n.a.	2.082	2.755	6.568	6.660	5.206	3.67
Product development	n.a.	0.229	2.523	2.235	2.547	2.838	2.73
Geological survey	n.a.	0.627	0.771	1.726	2.015	2.167	2.26
Industry, transport and commerce	n.a.	1.236	1.591	1.443	1.779	2.104	2.29
Agricultural support	n.a.	0.799	1.729	5.068	7.695	9.011	8.21
Education, culture and health	0.502	2.776	4.559	9.020	11.266	13.212	15.63
Defense	2.801	5.511	8.676	14.904	16.784	22.266	19.38
Administration	n.a.	2.168	2.534	4.332	4.909	5.687	6.68
Other	n.a.	2.622	5.646	7.259	8.471	9.070	13.17

Source: Ministry of Finance.

Table 2.3: SOURCE OF FINANCING OF CAPITAL CONSTRUCTION INVESTMENT, 1950-81

Year	National budget (billion yuan)	% of total	Other/a (billion yuan)	% of total
1950	1.041	91.8	0.093	8.2
1952	3.711	85.2	0.645	14.8
1957	12.645	91.4	1.184	8.6
1977	29.439	80.8	7.002	19.2
1978	39.593	82.6	8.362	17.4
1979	39.497	79.0	10.491	21.0
1980	28.1	52.1	25.8	47.9
1981	20.8	48.6	22.0	51.4

/a Includes investments by localities using financial reserves and reserves for capital construction, investments financed by foreign loans, and investments made with extrabudgetary funds.

Source: 1950-79 from State Statistical Bureau document, 1980. 1980 and 1981 from State Statistical Bureau communiques.

Table 2.4: RURAL SAVINGS DEPOSITS BY COMMUNE MEMBERS, 1976-80

Year	Year-end balance ----- (Million yuan)	Increase over previous year -----	Average p.c. year-end balance ----- (Yuan)	Average p.c. incremental savings -----
1976	3,901	-	4.8	-
1977	4,650	749	5.7	0.9
1978	5,570	920	6.7	1.0
1979	7,843	2,273	9.3	2.6
1980	11,703	3,860	13.7	4.4

Sources: Various press reports and communiques.

Table 2.5: AVERAGE PER CAPITA RURAL SAVINGS DEPOSITS  
BY COMMUNE MEMBERS BY PROVINCE, 1980 (In yuan)

Province	1980 year-end balance p.c.	1980 incremental savings p.c.
Gansu	6	1
Guangdong	29	8
Guangxi /a	n.a.	4
Hebei	19	7
Henan	22	8
Hubei /b	9	4
Jiangsu	22	6
Liaoning	29	8
Nei Monggol	13	4
Ningxia	16	n.a.
Qinghai	17	3
Shaanxi /c	12	1
Shanghai	n.a.	28
Shanxi	26	n.a.
Sichuan	11	4
Tianjin /d	40	n.a.
Xinjiang	12	4
Zhejiang	25	8
Average all Provinces	14	5

/a Balance as of end-November 1980; increase is compared with the balance at the end of 1979.

/b Balance as of 12/20/80; increase over 12/20/79.

/c Balance as of end-November 1980; increase is compared with end-November 1979.

/d Balance as of end of first quarter 1981 (figure mentioned directly in report).

Sources: Various press reports and communiques.

**Table 3.1: CONSOLIDATED BALANCE SHEET OF THE AGRICULTURAL BANK OF CHINA,  
DECEMBER 31, 1980 AND JUNE 30, 1981  
(billion yuan)**

	Dec 31 1980	Jun 30 1981		Dec 31 1980	Jun 30 1981
<u>Deposits</u>			<u>Loans</u>		
Deposits of rural credit cooperatives	21.09	13.72	Loans to rural commercial enterprises /c	30.73	26.68
Demand deposits of state farms	3.66	3.47			
Deposits of working capital by rural commercial enterprises	2.96	3.11	Loans to communes, brigades and teams	14.40/d	17.58
Deposits of individuals	2.77/a	3.88	Loans to state-owned agricultural enterprises	0.90	1.32
Deposits of government agencies/b	2.38	2.48			
Deposits of working capital of communes, brigades and teams	1.34	1.51	Loans for crop advances	0.77	1.84
State budget grants	0.65	1.02	Loans to rural credit cooperatives	0.82	1.54
Subtotal, ABC deposits	<u>34.85</u>	<u>29.19</u>	Subtotal, ABC loans	<u>47.62/e</u>	<u>48.96</u>
Various other obligations	10.88	10.03	Loans on behalf of other organizations	18.52/f	14.58
Funds from local governments for onlending by ABC	0.05	0.05			
State capital grant	20.00	22.00			
Other items	-	2.27			
Accumulated net gain, 1980	0.36	-			
<u>Total</u>	<u>66.14</u>	<u>63.54</u>	<u>Total</u>	<u>66.14</u>	<u>63.54</u>

/a Of which Y 2.22 billion are time deposits and Y 0.55 billion are demand deposits.

/b At prefecture level or below. These are categorized as "nonproductive" (i.e. service) agencies. No interest is paid on those deposits.

/c Largely to units of the National Federation of Supply and Marketing Cooperatives. This figure excludes funds used in the purchase of grains. Major crops financed are cotton, tobacco and some perishables.

/d Includes Y 5.57 billion for short-term production loans and Y 8.83 billion in medium-term loans for equipment purchase. Alternatively, this total includes Y 4.83 billion in loans for commune and brigade enterprises and Y 9.57 billion in agricultural credit to communes, brigades and teams.

/e Excluded are loans of Y 1.6 billion to individual commune members.

/f The ABC acts as the Government's fiscal agent in passing these funds to commercial departments of the Ministries of Food and Commerce for the purchase of grains and other agricultural products from producing units.

Source: Planning Department, ABC, Beijing.

Table 3.2: CONSOLIDATED INCOME STATEMENT OF THE AGRICULTURAL BANK OF CHINA, 1980 /a  
(million yuan)

	Income		Expenditure
Interest received on ABC loans	1,464	Interest paid on savings deposits	579
Agency fees and interest earned on deposits at higher levels /b	695	Interest paid on loans from PBC and agency fees paid	177
Grants from the PBC to compensate for negative interest rate spread	170	Compensation paid to RCC for losses and negative interest rate spreads	129
Other income	97	Compensation paid for negative interest rate spread between savings and agricultural loans	170
		Financial expenses excluding salaries and supplies	415
		Salaries and bonuses /c	210
		Various operational expenses	79
		Construction and maintenance of branch offices	262
		Miscellaneous /d	43
<u>Total</u>	<u>2,426</u>	<u>Total</u>	<u>2,064</u>
		<u>Accumulated Net Gain</u>	<u>362</u>

/a ABC losses on loan write-off due to national disasters are met through state budgetary grants provided to another account.

/b Includes fees on PBC funds onlent to commercial departments for purchase of agricultural products.

/c Salaries totalled Y 186 million.

/d Includes losses due to, e.g., death of loan recipient.

Source: Planning Department, ABC, Beijing.

Table 3.3: STATISTICS ON PERSONNEL AND ORGANIZATION  
OF THE AGRICULTURAL BANK OF CHINA, 1980

Organizational unit	No. of units	Staff classification	No. of staff
Head office	1	Year-end total of staff and workers	284,655/a
Provincial branches	27	Of which:	
Prefectural branches	288	Planning and statistics personnel	5,323
County branches	2,211	Accountants and cashiers	91,986
Prefectural branch business departments	86	Loan officers	101,515
Commune branches	24,803	Department directors	27,958
State farm offices	403	Administrative officers	21,467
Training schools	26	Service personnel	12,378
Office supply factory	1	Other	24,028
<u>Total</u>	<u>27,846</u>	Total wage bill (in million yuan)	186.13

/a Of which 65,472 are female.

Source: Planning Department, ABC, Beijing.



**Table 3.4: BALANCE SHEET OF THE GUANGXI BRANCH OF THE ABC,  
DECEMBER 31, 1980 AND JUNE 30, 1981  
(million yuan)**

	Dec 31 1980	Jun 30 1981		Dec 31 1980	Jun 30 1981
<u>Deposits</u>			<u>Loans</u>		
Deposits of rural credit cooperatives	368	226	Loans to rural industrial and commercial enterprises /c	1,012	882
			Loans to communes, brigades and teams	582	665
Deposits of individuals	117	133	Loans to state-owned agricultural enterprises	22	24
Deposits of government agencies /a	-	-	Loans for crop advances	42	50
Deposits of working capital of communes, brigades and teams	275	314	Loans to rural credit cooperatives	18	19
Subtotal, ABC deposits	<u>760</u>	<u>673</u>	Subtotal, ABC loans	<u>1,676</u>	<u>1,640</u>
Various other obligations	137	195	Loans on behalf of other organizations	/d	/d
Fund from local governments for onlending by ABC	37	43			
Funds from ABC, Beijing /b	707	707			
Other items	46	52	Other	27	30
Accumulated net gain, 1980	16	-			
<u>Total</u>	<u>1,703</u>	<u>1,670</u>	<u>Total</u>	<u>1,703</u>	<u>1,670</u>

/a At prefecture level or below. These are categorized as "nonproductive" (i.e. service) agencies. No interest is paid on these deposits.

/b Allocated by ABC, Beijing, from equity.

/c Largely to units of the National Federation of Supply and Marketing Cooperatives.

/d Amounts not shown in Balance Sheet.

Source: Planning Department, ABC, Guangxi.

Table 3.5: INCOME STATEMENT OF THE GUANGXI BRANCH OF THE ABC, 1980 /a  
(million yuan)

	Income		Expenditure
Interest received on ABC loans	49.02	Interest paid on savings deposits	10.59
Agency fees and interest earned on deposits at higher levels /a	14.23	Interest paid on loans from PBC and agency fees paid	8.61
State grant to compensate for negative interest rate spread	5.71	Compensation paid to RCCs for losses and negative interest rate spreads	7.80
Other income	0.83	Financial expenses excluding salaries and supplies	3.56
		Salaries and bonuses	9.32
		Various operational expenses	2.62
		Construction and maintenance of branch offices	9.05
		Miscellaneous	2.16
<u>Total</u>	<u>69.79</u>	<u>Total</u>	<u>53.71</u>
		<u>Accumulated Net Gain /b</u>	<u>16.08</u>

/a Includes fees on PBC funds onlent to commercial departments for purchase of agricultural products.

/b ABC losses on loan write-off due to national disasters are met through state budgetary grants provided to another account.

Source: Planning Department, ABC, Guangxi.

Table 3.6: BALANCE SHEET OF THE SHANDONG BRANCH OF THE ABC,  
DECEMBER 31, 1980 AND JUNE 30, 1981  
(million yuan)

	Dec 31 1980	Jun 30 1981		Dec 31 1980	Jun 30 1981
<u>Deposits</u>			<u>Loans</u>		
Deposits of rural credit cooperatives	2,557	1,521	Loans to rural industrial and commercial enterprises /c	3,197	2,200
Demand deposits of state farms	123	114	Loans to communes, brigades and teams	839	1,130
Deposits of working capital by rural commercial enterprises	154	187	Loans to state-owned agricultural enterprises	41	19
Deposits of individuals	46	39	Loans for crop advances	60	164
Deposits of government agencies /a	147	266			
Deposits of working capital of communes, brigades and teams	38	13	Loans to rural credit cooperatives	4	30
Subtotal, ABC deposits	<u>3,065</u>	<u>2,140</u>	Subtotal, ABC loans	<u>4,141</u>	<u>3,543</u>
Various other obligations	7,171	7,183	Loans on behalf of other organizations	7,572	7,405
Funds from ABC, Beijing /b	1,401	1,522			
Other items	-	103			
Accumulated net gain, 1980	76	-			
<u>Total</u>	<u>11,713</u>	<u>10,948</u>	<u>Total</u>	<u>11,713</u>	<u>10,948</u>

/a At prefecture level or below. These are categorized as "nonproductive" (i.e. service) agencies. No interest is paid on those deposits.

/b Allocated by ABC, Beijing, from equity.

/d Largely to units of the National Federation of Supply and Marketing Cooperatives.

Source: Planning Department, ABC, Shandong.

Table 3.7: INCOME STATEMENT OF THE SHANDONG BRANCH OF THE ABC, 1980  
(million yuan)

	Income		Expenditure
Interest received on ABC loans	127.37	Interest paid on savings deposits	49.10
Agency fees and interest earned on deposits at higher levels /a	40.17	Interest paid on loans from PBC and agency fees paid	1.11
State grant to compensate for negative interest rate spread	8.60	Compensation paid to RCCs for losses and negative interest rate spreads	9.82
Other income	1.63		
		Financial expenses excluding salaries and supplies	12.73
		Salaries and bonuses	11.37
		Various operational expenses	7.17
		Construction and maintenance of branch offices	9.77
		Miscellaneous	0.49
<u>Total</u>	<u>177.77</u>	<u>Total</u>	<u>101.56</u>
		<u>Accumulated Net Gain /b</u>	<u>76.21</u>

/a Includes fees on PBC funds onlent to commercial departments for purchase of agricultural products.

/b ABC losses on loan write-off due to national disasters are met through state budgetary grants provided to another account.

Source: Planning Department, ABC, Shandong.

Table 3.8: BALANCE SHEET OF THE ZHEJIANG BRANCH OF THE ABC,  
DECEMBER 31, 1980 AND JUNE 30, 1981  
(million yuan)

	Dec 31 1980	Jun 30 1981		Dec 31 1980	Jun 30 1981
<u>Deposits</u>			<u>Loans</u>		
Deposits of rural credit cooperatives	1,097	1,020	Loans to rural industrial and commercial enterprises /d	1,020	1,124
Demand deposits of state farms	127	113	Loans to communes, brigades and teams	632	673
Deposits of working capital by rural commercial enterprises	144	157	Loans to state-owned agricultural enterprises	8	12
Deposits of individuals	207	245	Loans to rural credit cooperatives	24	34
Deposits of government agencies /a	100	99	Subtotal, ABC loans	<u>1,684</u>	<u>1,843</u>
Deposits of working capital of communes, brigades and teams	34	22	Loans on behalf of other organizations	1,681	1,885
Subtotal, ABC deposits	<u>1,709</u>	<u>1,656</u>	Various funds	30	36
Various other obligations /b	117	102	Cash	108	105
Headquarters allocation /c	635	715			
Transactions with other banks and offices	888	1,253			
Other items	107	127			
Accumulated net gain, 1980	47	16			
<u>Total</u>	<u>3,503</u>	<u>3,869</u>	<u>Total</u>	<u>3,503</u>	<u>3,869</u>

/a At prefecture level or below. These are categorized as "nonproductive" (i.e. service) agencies. No interest is paid on those deposits.

/b The ABC acts as the Governments' financial agent in passing these funds to commercial departments of the Ministries of Food and Commerce for the purchase of grains and other agricultural products from producing units.

/c Allocation by ABC, Beijing, from equity.

/d Largely to units of the National Federation of Supply and Marketing Cooperatives. This figure excludes funds used in the purchase of grains. Major crops financed are cotton, tobacco and some perishables.

Source: Planning Department, ABC, Zhejiang.

Table 3.9: INCOME STATEMENT OF THE ZHEJIANG BRANCH OF THE ABC, 1980  
(million yuan)

	Income		Expenditure
Interest received on ABC loans	57.39	Interest paid on savings deposits	38.41
Agency fees and interest earned on deposits at higher levels /a	44.24	Interest paid on loans from PBC and agency fees paid	3.07
State grant to compensate for negative interest rate spread	10.67	Compensation paid to RCCs for losses and negative interest rate spreads	1.19
Other income	0.09		
		Financial expenses excluding salaries and supplies	1.78
		Salaries and housing	7.50
		Various operational expenses	6.36
		Construction and maintenance of branch offices	5.64
		Miscellaneous	1.20
<u>Total</u>	<u>112.39</u>	<u>Total</u>	<u>65.15</u>
		<u>Accumulated Net Gain /b</u>	<u>47.24</u>

/a Includes fees on PBC funds lent to commercial departments for purchase of agricultural products.

/b ABC losses on loan write-off due to national disasters are met through state budgetary grants provided to another account.

Source: Planning Department, ABC, Zhejiang.

Table 3.10: HISTORICAL TREND OF INTEREST RATES ON VARIOUS LOANS  
(% per year)

Item	Aug. 1953	Oct. 1955	Jan. 1958	Jan. 1959	May 1961	Before Sept. 1972	After Sept. 1972	Before Jan. 1982	Current
To state industrial enterprises for working capital	5.40 5.76	5.76	5.76	5.76	7.20	5.76	5.04	5.04	7.20
To state commercial enterprises for working capital	8.28	7.20	7.20	7.20	7.20	7.20	5.04/a	5.04	7.20
To agricultural collectives and state farms for production expenses	9.00	7.20	5.76	7.20	5.76	5.76	4.32	4.32	5.76-8.64
To individual peasants	14.40	10.80	8.64	7.20	5.76	-	-	4.32-5.04	5.76-8.64
- For production	12.00	10.80	8.64	7.20	-	-	-	4.32	5.76-7.20

/a One source states that this change took place in 1971.

Sources: To individual peasants for production 1953-59, V. Hsiao (1971), Table V-5, p.131. All others 1953-61, Chen (1967), Table 10.32, p.470. Before and after September 1972, Casson (1973), p.91. Before January 1982 and current from China Finance and Trade Journal December 31, 1981.

Table 3.11: INTEREST RATES ON LOANS TO  
AGRICULTURE, INDUSTRY AND COMMERCE (% per year)

Organization or institution/ type of loan	Interest rate	
	Before Jan. 1, 1982	After Jan. 1, 1982
<u>Communes, Brigades and Teams</u>		
Agricultural production expenses	4.32	5.76
Agricultural equipment	2.16	4.32
<u>Commune and Brigade Enterprises</u>		
Working capital for enterprises serving agricul- ture or supplying basic necessities	4.32	5.76
Working capital for enterprises serving large- scale industry or exports	5.04	7.20
Equipment for enterprises serving agriculture or supplying basic necessities	2.16	4.32
Equipment for enterprises serving large-scale industry or exports /a	5.04	5.04
Loans for small hydroelectric stations	2.16	2.16
<u>State Farms and Other State Agricultural Enterprises</u>		
Working capital	4.32	5.76
Equipment and loans for perennial crops and pro- cessing industries	4.32	5.04
<u>State Industrial and Commercial Enterprises</u>		
Working capital	5.04	7.20
Procurement prepayment /b	4.32	5.76
Equipment and repairs		
One year or less	5.04	5.04
1 - 3 years	5.04	5.76
3 - 5 years	5.04	6.48
<u>Individual Peasants</u>		
Natural disasters	No interest	No interest
Other loans	4.32-5.04	5.76-7.20

/a If one year or less.

/b For commercial enterprises.

Sources: Agricultural Bank of China and China Finance and Trade Journal, Decem-  
ber 31, 1981.



Table 3.12: INTEREST RATES ON INDIVIDUALS' BANK DEPOSITS  
(% per year)

Type of deposit	Aug. 1953	Oct. 1955	Jan. 1958	Jan. 1959	Before Apr. 1979/a	Apr. 1979	Apr. 1980	Apr. 1982
Demand deposits (passbook)	5.4	2.9	2.9	2.2	2.2	2.2	2.9/a	2.9
Time deposits								
Six-month term	9.6	5.0	5.0	-	-	3.6	4.3	4.3
One-year term	14.4	7.9	7.9	4.8	3.2	4.0	5.4	5.8
Three-year term	-	-	-	-	-	4.5	6.1	6.8
Five-year term	-	-	-	-	-	5.0	6.8	7.9
Eight-year term	-	-	-	-	-	-	-	9.0

/a Where rates have changed between 1959 and 1979, information on the timing of such changes is not available.

/b Increase took effect in July 1980.

Sources: 1953, 1955, 1958 and 1959 are from Hsiao (1971), Table V-6, p. 133. 1979 both are from ZGJR, No. 1, 4/30/79, p. 22; 1980 is from ZGJR, No. 4, 4/30/80, p. 18.

Table 3.13: DEPOSITS AND LOANS OF RURAL CREDIT COOPERATIVES  
(In million yuan)

Items	End- 1979	End- 1980	End 2nd quarter 1981	End 3rd quarter 1981	End 4th quarter 1981
<u>Total Deposits</u>	<u>21,588</u>	<u>27,234</u>	<u>23,154</u>	<u>24,351</u>	<u>31,961</u>
Deposits by communes and brigades	9,833	10,548	4,939	5,704	11,324
Deposits by commune- and brigade-run enterprises	2,193	2,947	1,927	2,184	2,973
Deposits by commune members	7,843	11,703	14,446	14,550	16,955
Others	1,719	2,036	1,842	1,913	709
<u>Total Loans</u>	<u>4,754</u>	<u>8,164</u>	<u>12,937</u>	<u>13,143</u>	<u>9,638</u>
Agricultural loans to communes and brigades	2,254	3,454	6,627	6,215	3,571
Loans to commune- and brigade-run enterprises	1,415	3,111	3,850	4,027	3,546
Loans to individual commune members	1,085	1,599	2,460	2,901	2,521

Source: Beijing Review, No. 29, 7/20/81, pp. 21-22 and ZGJR, various issues.

Table 4.1: DEVELOPMENT OF COMMUNE AND BRIGADE ENTERPRISES, 1958-80

Year	Number /a ( '000)	Gross value of output /b (billion yuan)	Gross value of industrial output /c (billion yuan)
1958	n.a.	6.0	4.20
-			
1961	n.a.	n.a	1.98
-			
1963	n.a.	n.a.	0.41
-	-	-	-
1971	n.a.	n.a.	3.77
-			
1974	n.a.	15.0	n.a.
1975	800	-	-
1976	1,115	27.33	24.30
1977	1,390	31.12	n.a.
1978	1,520	43.14	40.50
1979	1,450	49.11	n.a
1980	1,430	59.61	52.80

Sources:

- /a 1975: Chen Yonggui's Speech at the Second Tachai Conference, p. 41.  
1976,1979: The World Bank, China: Socialist Economic Development  
Annex A, Table 6.9.  
1977: NCNA 12/4/78, in BBC W1012/A/19.  
1978: JJYJ(2) 1980, p. 13.  
1980: BJR(29) 7/20/81, p. 7-8.
- /b 1958: Annual Economic Report of China (1981), Section IV, p. 55.  
1974: Xue (1980), p. 112.  
1976,1979 The World Bank, China: Socialist Economic Development,  
Annex A, Table 6.9.  
1980: NCNA 11/18/81, JPRS, Agriculture No. 176, p. 23-24.
- /c 1958: Estimated as 70% of gross output-value.  
1961 }  
1963 }  
1971 } Annual Economic Report (1981), Ibid.  
}  
1976 }  
1977: Xue (1980), pp. 112-114.  
1978: 1978 figure is reported to be 25.4% greater than 1977  
figure. NCNA 9/10/79, in BBC W1049/A/9-10.  
1980: Annual Economic Report (1981), Ibid.

Table 4.2. TYPES OF COMMUNE AND BRIGADE ENTERPRISES

Type	Examples	Technical level	Sources of market	Profitability	Source of materials	Prospects for expansion	Need for institutional support
Serving agricultural production (1)	"Five small industries: farm implements and machinery, chemical fertilizers, coal mines, power stations.	high	local/ internal	low	external	limited	high
Serving local consumption (2)	Grain mills, oil presses, brick kilns, etc.	low	local/ internal	low	local	limited	low
Processing local agricultural goods for urban and export markets (3)	food-processing, paper, handicrafts	medium	external	high	local/ external	high	high
Subcontracting for urban factories (4)	machine-building, plastics, garments, paper	high	external	medium	external	high/medium	high

**Table 4.3: CHARACTERISTICS OF COMMUNE AND BRIGADE ENTERPRISES BY PROVINCE, 1979**

	Commune & brigade enterprises				Commune house holds ( <sup>000</sup> )	Output of CBEs per commune household (yuan)
	No. of enter- prises ( <sup>000</sup> )	Employees ( <sup>000</sup> )	Gross output (Y bln)	% of gross total output /a ( <sup>000</sup> )		
<b>Southwest Region</b>						
Sichuan	130	1,874	1.911	3.89	19,490	98.1
Guizhou	24	276	0.273	0.56	4,790	57.0
Yunnan	24	469	0.497	1.01	5,150	96.5
Xizang	-	-	-	-	310	-
<b>Northwest Region</b>						
Shaanxi	41	601	0.777	1.58	4,910	158.2
Gansu	20	251	0.363	.74	3,010	120.6
Qinghai	3	40	0.080	.16	470	170.2
Ningxia	6	54	0.109	.22	530	205.7
Xinjiang	16	201	0.305	.62	1,690	180.5
<b>Central South Region</b>						
Henan	70	1,551	2.649	5.39	13,450	197.0
Hubei	114	1,576	1.957	3.98	8,030	243.7
Hunan	126	2,080	2.842	5.79	10,630	267.4
Guangxi	37	708	0.841	1.71	5,910	142.3
Guangdong	89	2,067	3.344	6.81	9,650	346.5
<b>East Region</b>						
Shanghai	5	596	2.098	4.27	1,230	1,705.7
Jiangsu	72	3,350	7.475	15.22	12,350	605.3
Zhejiang	79	2,083	3.186	6.49	7,990	398.8
Anhui	43	816	1.065	2.17	9,140	116.5
Fujian	40	1,059	1.265	2.58	4,170	303.4
Jiangxi	41	808	1.210	2.46	5,290	228.7
Shandong	202	3,290	5.347	10.89	15,150	352.9
<b>North Region</b>						
Beijing	5	263	1.010	2.06	930	1,183.9
Tianjin	4	254	0.818	1.67	810	1,009.9
Hebei	118	1,845	3.785	7.71	10,540	359.1
Shanxi	83	880	1.563	3.18	4,910	318.3
Nei Monggol	17	254	0.411	0.84	2,780	147.8
<b>Northeast Region</b>						
Liaoning	32	988	2.305	4.69	4,910	469.5
Jilin	16	352	0.675	1.37	2,990	225.8
Heilongjiang	23	496	0.949	1.93	3,700	256.5
<b>Total</b>	<b>1,481</b>	<b>29,093</b>	<b>49.11</b>	<b>100.00</b>	<b>174,910</b>	<b>280.8</b>

/a In 1970 prices.

Sources: (1) State Agricultural Commission.  
(2) Bureau of Commune and Brigade Enterprises, Ministry of Agriculture.

Table 4.4: RANKING OF PROVINCIAL LEVEL UNITS BY INDUSTRIAL  
OUTPUT FROM CBEs, 1980

Provincial value of industrial output from CBEs	Province level unit	Combined output as % of total
Over 10 billion yuan	Jiangsu	2.1
3-5 billion yuan	Guangdong, Shandong Zhejiang	24.4
2.1-3 billion yuan	Henan, Hebei, Liaoning, Sichuan Shanghai	26.3
1.1-2 billion yuan	Hunan, Hubei, Shanxi	10.1
0.6-1 billion yuan	Beijing, Tianjin, Jilin, Heilongjiang, Fujian, Jiangxi, Anhui, Shaanxi	14.3
0.1-0.5 billion yuan	Guangxi, Nei Menggu, Yunnan, Guizhon, Gansu, Xinjiang	3.5
Less than 0.1 billion	Qinghai, Ningxia, Tibet	0.2
<u>Total</u>		<u>100.0</u>

Source: Annual Economic Report of China (1981) IV p. 55-56.

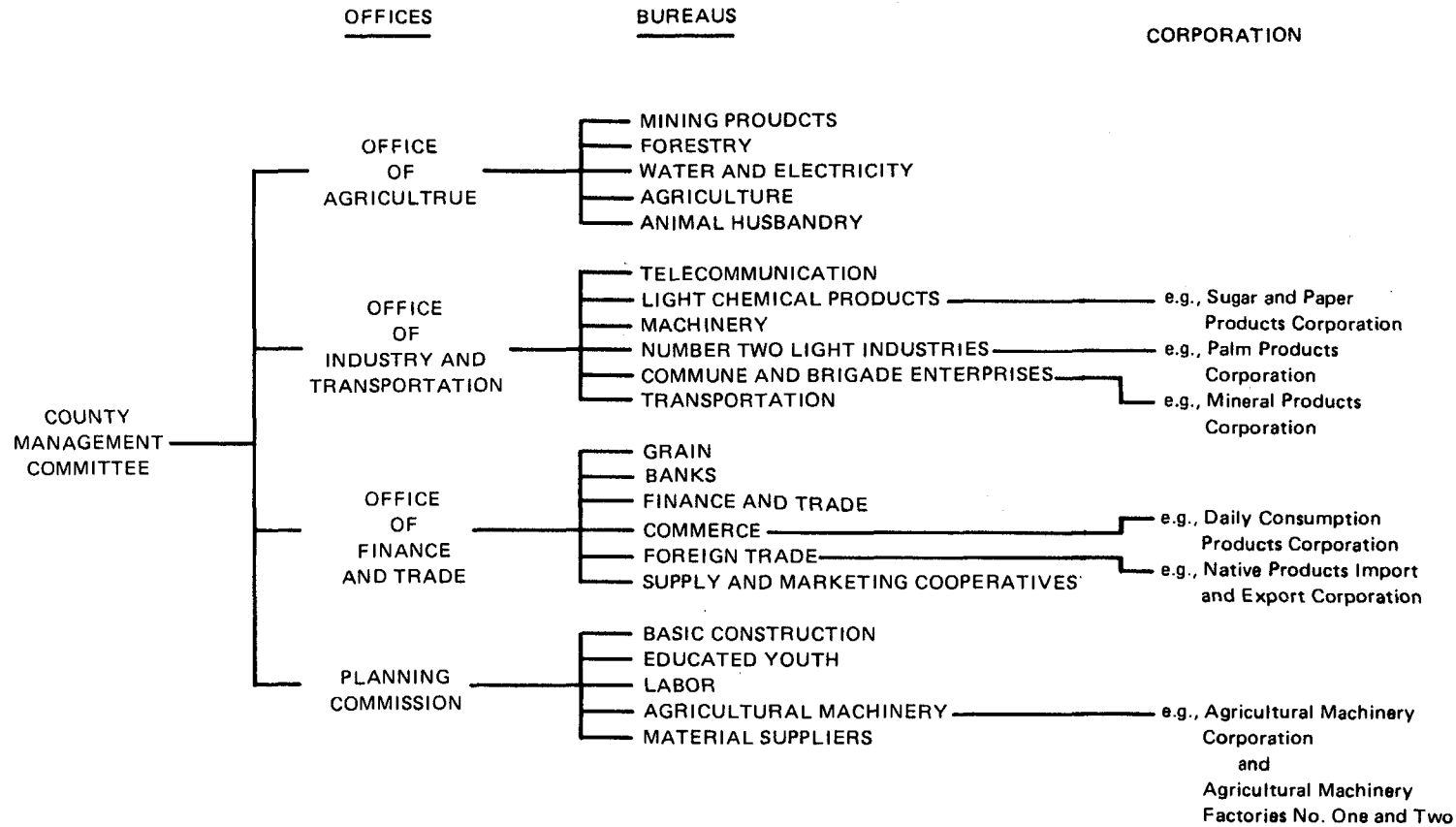
Table 4.5: ASPECTS OF CBE DEVELOPMENT IN THREE PROVINCES, 1980  
(million yuan)

	Shandong	Zhejiang	Guangxi
1. <u>Number of CBEs</u>	18,000	80,000	31,000
<u>Output value</u> (or gross revenues)	5,818	4,800	910
<u>Employment (million)</u>	n.a.	2.4	0.59
2. <u>Number of CBEs in Industry</u>	10,000	n.a.	n.a.
Output value	2,900	4,100	n.a.
Employment (million)	3	1.8	n.a.
3. <u>Total Profits (all CBEs)</u>	1,020	n.a.	106
4. <u>Total Assets (all CBEs)</u>	n.a.	3,300	447
Fixed capital	n.a.	n.a.	250
Working capital	n.a.	n.a.	197
5. <u>Total Loans Outstanding</u> (end of 1980)	680	720	n.a.

Source: Data collected in provincial visits by the World Bank Rural Credit Mission, November 1981.

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**Figure 4.2: County-Level Economic Administrative Structure, Xinhui, Guangdong.**



Source: Christine Wong and Helen Siu, "Whither Commune Industries: Effects of Policy Shifts on Rural Industrialization," Paper presented at the New England Regional Conference of the Association for Asian Studies, Wesleyan College, Middletown, CT, October 17- 18, 1981.

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