

# **JOT-CREDIT PROBLEMS OF RURAL CREDIT COOPERATIVE AND SUGGESTIONS: THE CASE OF XIN LE COUNTRY, SHIJIAZHUANG CITY, HEBEI PROVINCE, CHINA**

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## **ABSTRACT**

The rural credit cooperative is an important part of financial system in China. The jot credit provided by rural credit cooperative serves as an important financial tool for its members. The reformation of rural credit cooperatives on 2014 has further strengthened the important of jot credit in Hebei province, China. However, there are problems in the jot credit as shown by the increasing income gap between the rich and poor. This warrants a study to unveil the problem of rural credit cooperative's jot credit and suggestions to improve the jot credit. Using the case of Xin le Shijiazhuang, Hebei province, this paper aims to explore the rural credit cooperative's jot credit problem and suggest potential solutions. Results reveal that there are high demand for loan among the peasants. However, the tedious application procedure, rigidity in the duration and terms of loan, are the problems that discouraging jot credit usage among the peasants. It is suggested that the scope of service, duration and terms of loan to be expanded to meet the diverse needs of peasants. In addition, the nimble rate should be implemented on the jot credit by stages. The jot credit is the new direction of the credit business development. Peasants have high enthusiasm in repayment and the non-performing loan is in a downward trend. Meanwhile the jot credit, to certain extent, still has some problems to be tackled.

**Keywords:** Rural Credit Cooperative; Jot-Credit Problems; Xin Le Country.

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## 1. INTRODUCTION

In China, the jot credit was introduced in the early 1970s, with the goal to eliminate poverty and develop the agricultural industry. In parallel to the rapid economic development in China, the household disposable income per capita among the rural residents has increased substantially. The provider of jot credit, rural credit cooperative becomes an important part of financial system in China. Rural credit cooperative is one of the important types of financial organizations. Rural credit cooperative consists of various members and the democratic management is practicing (Du, 2012). It is mainly for members and provides financial services to its members as a financial institution. Rural credit cooperatives is an independent enterprise legal person, with all its assets shall undertake liability for the debts of the rural credit cooperatives.

In October 2004, the rural credit cooperatives are further reformed in Hebei province, China. The Hebei province rural credit cooperatives association was founded on 29 June 2005. As a formal rural credit cooperative, it is authorized by the provincial government for management functions. As of late 2011, the Hebei province has three municipal association, eight offices, and a total of 154 county-level association (rural cooperative banks and rural commercial banks). The rural credit cooperatives association in Hebei province has a total of 1949 outlets with 53,926 employees.

Financially, by the end of 2015, the Hebei province's rural credit cooperatives has the balance of RMB970.07 billion, a net gain of RMB104.15 billion from a year earlier, a growth rate of 12.03% (which is higher than the average growth rate of bank of 0.56%)., the loan balance is RMB608.37 billion (represents an increase of RMB80.66 billion as compared to last year). The market share of rural credit cooperatives in terms of deposits and loan market of Hebei province is 20.39% and 19% respectively, and ranked top among the banking financial institutions (Xie et al., 2006). Thus, it is clearly shown the important of jot credit sector and its significant influences to economic development of Hebei province, China.

However, as shown by statistics, the income inequality between the rich and poor household is increasing unceasingly in China. At the same time, there are a lot of problems in the rural sector of China (Lin and Ling, 2010). The compulsory education fund, the retirement subsidy and cooperative medical subsidy for rural are obviously low.[7] Financial support or providing of fund from the government to the rural and agricultural sector appears insufficient to tackle the problems. In this context, the jot credit provided by the rural credit cooperatives is imperative. We need to unveil the problem of rural credit cooperative's jot credit problem and suggestions to improve the jot credit.

There are two theories that rationalized the need of existence of jot credit from credit union. First, according to the theory of asymmetry information, the two sides that

engaged into a contract in a financial market are always have asymmetry of information. Specifically, the lender (financial institute) has less information as compared to the borrower. This asymmetry information could lead to moral hazard and adverse selection that could lead to increase of interest rate, or to the extreme, the collapse of the financial market. Hence, the access to credit could be limited due to asymmetry information and the existence of jot credit from rural credit cooperative is rationalized.

Second, according to the theory of agricultural financing, the rural household especially the poor, have low financial credibility to obtain loan from financial institute. Their financial credibility is further reduced by the unique characteristics of agricultural sector such as high variation in income earned. Therefore, to alleviate the rural poverty and increase the agricultural production, we need to have policy that establishes the non-profit financial institution for fund allocation, i.e., jot credit from rural credit cooperative.

According to the Xinle government, it is well known that the Xin le rural credit cooperative's jot credit is developing and facing problems in its development (Xinle government information, 2013). The rural jot credit represents a new direction in credit operation development, develops rural economy, and increases rural peasants' income. However, partly due to the human resource problem, the rural jot credit faces some problems in its developing process. These problems need to be unveiled and the related suggestions are urgently needed. This paper aims to unveil the rural credit cooperative's jot credit problem and explore potential suggestions, using the case of peasant household in the Xin le Shijiazhuang, Hebei province. The empirical and normative analysis are employed in the present paper.

## **2. RESEARCH DESIGN**

The peasants in the Xin le city's rural areas are the targeted population of the present study. Three villages of Xin le city (rural areas) are selected: Matoupu, Dongzhuang, and Tiancunpu. These villages are selected based on their unique characteristics. The Matoupu village has the largest population and highest gap between rich and poor among the rural villages. This village is a good representation to the middle and lower level rural peasants in Xin le city. The Dongzhuang village's peasants are in the average level by consumption and be a good representation of the deposit and lending of Xin le city. Tiancunpu, a village with the ethnic minority of Hui, is a good representation to the ethnic minority in rural jot credit. These three villages were visited and a total of 86 questionnaires had distributed. The information solicited are related to the jot credit cooperative, credit condition, and others. We interviewed the peasants, and also the local credit union jot credit staff. This field survey approach provides a few advantages: enable the widespread of selection of respondents, focus on gaining the relevant materials, and enable the random selection of respondents among the three villages. In addition, the secondary information that related to the rural jot credit were collected as

well (Wang, 2002). The numerical and descriptive statistics analysis are used to analysis the jot credit problems.

### 3. RESULTS AND ANALYSIS

#### 3.1. *The general situation of rural credit cooperatives' jot credit in Xin le City*

In general, the jot credit, acting as microfinance loan, is to facilitate the needs of fund of peasants in agricultural production and operation. The peasants need funds for their daily operations such as planting, breeding, purchase of agricultural machine and tools. The loan amount is small and the loan application process is quick and convenience to the peasants. The loan amount ranges from RMB50,000 to RMB100,000 and the jot credit cooperative has the authority to determine the interest rate charged on the loan (the rate is usually 0.8to 2.3 times higher than the benchmark interest rate of Central Bank). The higher interest rate is need to cover the operation cost and ensure the sustainability of jot credit cooperative.

The rural credit cooperative provides the jot credit and also other financial services to the peasants in the agriculture sector. Table 1 presents the amount of loan distributed and deposit received over the period of 2006 to 2016. From Table 1, it is clearly shown that the amount of loan increases over the period of 2006 to 2012, for instance, for agricultural loan, it increase more than 60%, from 2006 to 2012.

**Table 1:** The rural credit cooperative loan amount 2006-2012

<b>Project/time</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Agricultural deposit	124267	134183	159219	178124	203143	258160	313191
Agricultural loan	57997	64449	67431	73832	84810	93449	94510
Various loan grand total	73749	86844	97219	13874	143120	158182	191939

*Source:* According to 2006-2012 Xin le agriculture letters at the end of the year information disclosure announcement.

*Note:* unit in ten thousand RMB

#### 3.2. *The loan demand of peasants*

In terms of the demand for loan among the rural peasants, from Table 2, it is clearly shown that around 61% of the peasants indicate their demand for loan. The loan could be demanded for the purpose of agricultural production or personal needs. We further investigate the peasants' demand for loan. The peasants were asked to indicate the purpose of the loan. Table 3 presents the use of the loan demanded. There are four main purpose of loan: agricultural production, factory-running, buying house and medical services. Factory-running is the main purpose of loan. There are around 62% of the peasants indicates their purpose of loan is for factory-running. This finding reveals the

high demand of fund for the peasant to meet their need to expand their agricultural business factory-running investment. The second main purpose of loan is buying house (26.74%). It is followed by medical services (7.07%) and agricultural production (3.4%). The finding that around a quarter of the peasants are demanding loan for buying house indicate that the crazy of pursuing real estate as happened in the rural community.

**Table 2:** Peasant household's demand degree to loan

	<b>Need loan</b>	<b>Does not need loan</b>	<b>Total</b>
Frequency	53	33	86
%	61.62	38.38	100

**Table 3:** Purpose of loan

	<b>Agricultural production</b>	<b>factory-running</b>	<b>Buying house</b>	<b>Medical services</b>
Frequency	2	33	14	4
%	3.40	62.79	26.74	7.07

It is important to note that there are around 40% of the peasants do not demand for loan (see Table 2). It is interested to know why these peasants do not need the loan, especially it is because the accessibility of the loan or it is really that there is no need for the loan. We investigate further into this contention. Table 4 presents the reasons why the peasants do not demand for loan. It is found that there are around 6% of the peasants do not demand the loan due the reason that the loan application procedure is tedious. The application procedure becomes the barrier of the demand of loan. This highlights the important of structural reform in the loan application procedure. On the other hand, around 60% of the peasants indicate that they have no special need for the loan and around 25% of the peasants said that they already have sufficient cash. This shows that majority of the peasants have average income that could maintain their daily expenditure and there is no demand for loan. Nevertheless, due to low number of observation for peasants who do not demand for loan, we are not able to ascertain the other reasons that the peasants give up the jot credit.

**Table 4** Reasons for no demand of loan

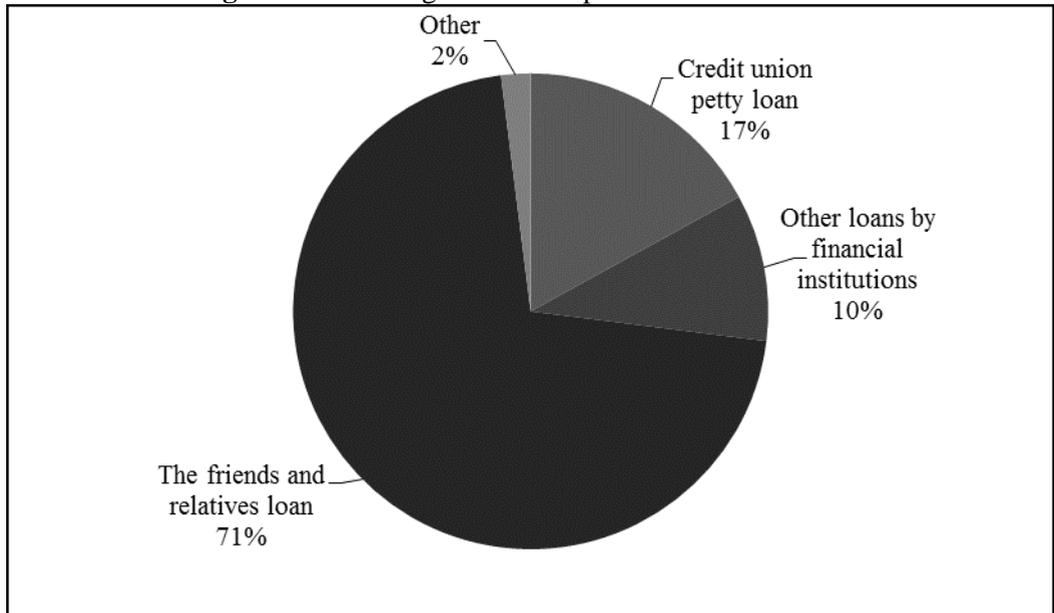
	<b>Have sufficient cash</b>	<b>No special need</b>	<b>Loan procedure is tedious</b>	<b>Other</b>
Frequency	8	20	2	3
%	24.24	60.61	6.06	9.09

In short, the demand analysis indicates that there are high demand of loan among the peasants and mostly for the purpose of their factory-running and house buying. A small amount of peasants do not demand for loan because they already have sufficient cash or do not have special need for loan, which implies that they have earned sufficient income for their daily expenditure.

### 3.3. *Financing methods of peasants*

From the above demand analysis, it can be seen that most of the peasants demand for loan. How this demand of loan could be satisfied? We explore the financing methods of the peasants and examining the rule of jot credit cooperatives. Figure 1 presents the financing methods that used by the peasants. Majority of the peasants satisfy their loan demand by borrowing from friends and relatives (71%). On the other hand, the jot credit cooperatives meet the 17% of the total loan demand, which is the second largest financing method (after borrowing from the friends and relatives).

**Figure 1:** Financing methods of peasants who need loan



### 3.4. *Jot credit repayments analysis*

Since the jot credit of rural cooperative is an unsecured loan, repayment is a concern for the jot credit's sustainability. Thus, the willingness of the peasants to repay the jot credit is solicited. It is found that all the peasants in the sample indicates the repayment to the jot credit is their first choice whenever they have ideal fund or cash. This implies that the peasants have high repayment concern to the job credit even it is an unsecured loan. The interviews with the credit union jot credit staff reveal that the non-performing loan of jot credit is reducing. As at the end of 2012, the amount of non-performing loan was reduced by RMB57.33 million as compared to the beginning of 2012; similarly, by percentage, the non-performing loan was reduced by 10.56%, from 43.08% (beginning

of 2012) to 32.53% (end of 2012). This shows the high enthusiasm and commitment of peasants toward the jot credit that they have obtained.

#### **4. CONCLUSIONS AND SUGGESTIONS**

This paper aims to explore the rural credit cooperative's jot credit problem and provide potential suggestions, using the case of peasant household in the Xin le Shijiazhuang, Hebei province. It is found that there are high demand for loan among the peasants, however, the tedious application procedure of jot credit has hindered some of peasants to opt for jot credit. Peasants with urgent need on loan will certainly avoid the loan with tedious procedure. The demand analysis reveal that among the peasants who need loan, it is only less than twenty per cent of them choose jot credit of rural credit cooperative. It is believed that besides the tedious application procedure, high interest rate is the main barrier. The reason why most of the peasants choose to fulfil their loan demand by borrowing from relatives and friends is the low interest rates. Moreover, the jot credit product is found to be less flexibility and not matching with the diverse demand of peasants. Jot credit needs to be more diverge in terms of its credit use, specified amount, deadline and other aspects, to meet the peasants' loan demand. For instance, majority of the peasants requires to have loan period of one to two years, however, the jot credit is offered with duration of within one year. In short, the tedious application procedure, rigidity in the duration and terms of loan, are the problems that discouraging jot credit usage among the peasants.

There are a few suggestions which could be potential solutions to the jot credit problem. First, as suggested by Cao (2012), we must expand the scope of services of jot credit and broaden jot credit clients. The duration and terms of loan should be make flexible in order to match with the needs of peasants. For instance, the loan duration should be determined based on the actual operating condition of agricultural productions and the purpose of loan usage. The old wisdom, "one size cannot fit for all", should be applied in jot credit and flexibility in terms and duration of loan will enhance the productivity of loan usage. Second, the nimble rate should be implemented on the jot credit. Although the government is currently providing the rural jot credit cooperative some flexibility in determine its interest rate charged, the floating range allowed seems limited. This dampens the enthusiasm and motivation of financial institutions to provide jot credit. Therefore, the implementation of market-oriented interest rate is the inevitable choice. The implementation can be divided into stages and hierarchical, step by step slowly. This is to ensure that the jot credit financial institutions not only provide long-term financial services to peasants, but also to meet the financial needs of peasants. Thus, it helps to achieve the social and economic function of rural jot credit.

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