

A Study on Agricultural Policy Finance:

Evolution and International Comparison

INTRODUCTION

Agricultural policy finance is a special and unique existence. It is born and developed in the modern economic system but serves the traditional agriculture industry. It's produced in the market economy, while established and operated by the government. It exists in most countries but is categorized as a niche market, with different characteristics and developing patterns compared to commercial finance. In the 21st century, the global economy has experienced drastic fluctuations, and eventually policy finance has been paid more attention. Due to its fundamental position, versatility as well as natural weakness, agriculture undoubtedly needs support and protection from government to ensure its sustainable development. As the basic means of supporting agriculture, agricultural policy finance integrates government dominance, bank credit and fiscal allocation into a comprehensive and effective system, and has been widely set up to support and protect agriculture in various countries, especially in several developed countries. Agricultural policy finance has played a principal and irreplaceable role in the rural financial market, and has gradually become the core in the overall framework of the national agricultural support and protection system.

From a global perspective, both developed and developing countries have generally established agricultural policy finance to support and protect their agriculture industry. In broad terms, most developed countries have set up relatively complex and fully functioned agricultural policy financial institutions or systems. For example, the U. S. government has built a systematic bank-based agricultural policy financial system, which provides comprehensive policy financial support to agricultural and rural areas. In contrast, developing countries mostly establish separated agricultural policy financial institutions to carry out policy-based business. According to Hans Dieter Seibel's research, 56 agricultural policy banks have been established in 58 developing countries, some of which have single function while others are multi-functional. There are typical differences among the levels of economic development, institutional environment, resource endowment, and so do the functions and operating models in

different countries. However, as the market-oriented policy tool, agricultural policy finance is always playing a significant role in implementing national agriculture-related policies, in achieving strategic goals, implementing counter-cyclical regulation and etc. At the same time, being the micro level banking entity of the market economy, agricultural policy finance institutions have accumulated ample practical experiences in the fields of functional positioning, governance mechanism, operation model, external relationship and etc.

China is a large agricultural country with relatively poor per capita resources. Since the establishment of the People's Republic of China, the government has been persistently paying great attention to agriculture, rural areas and farmers, which led to historic transformation in the development of the above agro-related areas. In 1994, the Agricultural Development Bank of China (hereafter called ADBC) was founded as the only agricultural policy bank in China. Over decades, ADBC insists on its mission as a policy bank, and continuously enhances its ability to serve the development of agro-related areas, focuses on system reformation and mechanism innovation, and explores the internal governance rules. ADBC has made irreplaceable contributions to the development of agro-related area, as well as the great cause of building a moderately prosperous society in all respects. Over time, the ADBC itself has become a large bank and made substantive progress in high-quality development, while disseminating Chinese ideas and experiences to international agricultural policy banks in supporting the development of agro-related areas.

The world is undergoing unprecedented changes. China is now at the crucial stage to fulfill the Chinese dream of great national rejuvenation. The most prominent weakness of building a great modern socialist country lies in three areas, which are 'agriculture, rural areas and farmers'. Finance is the core factor of modern economy, as financial support is crucial to not only accelerating the supply-side structural reform in agriculture, but also building a new system of agricultural support and protection, implementing the Rural Revitalization Strategy, promoting ecological progress and realizing agricultural and rural modernization. Thus higher requirement for agricultural policy finance has been put forward. An international vision is considered on how to better play the role of agricultural policy bank, and how to integrate fiscal and financial resources to strengthen the support of agricultural and rural areas.

Considering new circumstances and opportunities from the multiple perspectives, this research selected 26 agricultural policy financial institutions from 21 countries (see Table 1). The sampled countries, which are selected as the key research objects according to four different income types, cover a wide range of developed and developing countries from Asia, Europe, Africa, South America and North America. Emphasizing on the theory, practice and pertinence, the book systematically sorts out the development history of agricultural policy finance, business dynamics, sources of funds, risk management, evaluation and assessment, external relations and so on. This

book also further explores the driving forces and development patterns of agricultural policy finance, clarifies its cause and effect, draws conclusions on basic component elements, operating rules and practical paths. Finally, all these research makes it possible to summarize experiences and mistakes, and further explores how policy finance in China can better support agriculture. Hopefully, the statements and opinions in this book could lead to a more thorough discussion from the perspectives of politics, industry and academia, and eventually contribute to further promotion of the roles of China's agricultural policy banks in the new era.

Table 1: Basic Information on Agricultural Policy Financial Institutions of Representative Countries

Type	Country	Development level	Name of bank/institution
High income country	United States	Developed country	Commodity Credit Corporation
	United States	Developed country	Farm Credit System
	United States	Developed country	Farm Service Agency
	United States	Developed country	Rural Development Administration
	United States	Developed country	Federal Crop Insurance Corporation
	United States	Developed country	Federal Agricultural Mortgage Corporation
	Germany	Developed country	Landwirtschaftliche Rentenbank
	France	Developed country	Credit Agricole
	Canada	Developed country	Farm Credit Canada
	Japan	Developed country	Japan Finance Corporation
	South Korea	Developed country	National Agricultural Cooperative Federation
Medium-high income country	Russia	Developing country	Russian Agricultural Bank
	South Africa	Developing country	Land and Agricultural Development Bank of South Africa
	Brazil	Developing country	The Brazilian Development Bank
	Mexico	Developing country	National Funds for Farming, Rural, Forestry and Fisheries Development
	Thailand	Developing country	Bank for Agriculture and Agricultural Cooperatives
	Malaysia	Developing country	Agrobank
	Turkey	Developing country	Ziraat Bank
Medium-low	India	Developing country	National Bank for Agriculture and Rural Development

income country	Ghana	Developing country	Agricultural Development Bank
	Morocco	Developing country	Crédit agricole du Maroc
	Pakistan	Developing country	Zarai Taraqiati Bank Limited
	the Philippines	Developing country	Land Bank of the Philippines
	Vietnam	Developing country	Vietnam Bank for Social Policies
Low income country	Tanzania	Developing country	Tanzania Agriculture Development Bank
	Ethiopia	Developing country	Development Bank of Ethiopia

The original intention of this book is threefold. First of all, it is dedicated to providing international intelligence of how Chinese agricultural policy bank better performs its duty in the new era. How to fully implement the role of agricultural policy bank is always a historical topic. Agricultural policy finance, originated more than a century ago in several developed countries, now has deeply rooted in many countries worldwide with abundant operation experiences and accumulated practices. This book mainly aims at comparing different agricultural policy financial institutions from various countries, sorting out the laws generally followed by major countries as well as looking for the internal driving factors and necessary evolution path of its development. Based on these fundamental discussions, this book could shift the focus to a series of more substantial tasks, such as summarization of experiences and lessons in order to foster strengths and circumvent weaknesses, and exploration of new ways to support agriculture, which usually embody innovating products and improving services. The overall purpose of this research is to establish a sound and comprehensive framework, to strengthen the pioneer role of agricultural policy finance in rural finance, while to better serve ‘agriculture, rural areas and farmer’ and other national strategies including food security, rural revitalization, economic transformation, and high-quality development.

Secondly, this book is dedicated to providing reference value on policy finance to perfect agricultural support and protection system in China. From a global perspective, most large agricultural countries have built a complete and efficient national agricultural support and protection system, with clear agricultural support policies, and with agricultural policy finance institutions as important carriers of policy implementation. As a policy tool, the agricultural policy bank plays a key role in the national agricultural support and protection system. The extensive business scope, complete functions and related system arrangements of agricultural policy banks worldwide have important reference value.

Thirdly, this book is dedicated to providing a development path for building a modernized high-quality agricultural policy bank. As China’s economy shifts from the stage of rapid growth to the stage of high-quality development, the agricultural policy bank in China has also started a new journey of high-quality development. Established in 1994, ADBC has gained numerous achievements during the past 25

years, but for the ambition of becoming a century-old bank, it needs to not only base on the national conditions and keep confidence in its system, but also learn from international experience. The history of agricultural policy finance, especially some major countries' that adopts more advanced corporate governance and operating mechanism during the end of the 20th century and the beginning of the 21st century, which significantly improve financial efficiency, clarify functions and objectives, as well as promote sustainable development, is significantly conducive to increasing perceptual cognition, stimulating rational thinking, and exploiting new ideas for development.. There are many important implications and reference value for adhering to the orientation of policy banks to a modern way with high-quality development by evaluating the past experiences.

Finally, this book is dedicated to providing different sectors of the society with valuable reference in understanding of the agricultural policy finance. The research team hope this research can provide the government and regulator with further reference in decision making, and also hope it can serve as guidance when agricultural policy banks launch internal and external reforms. The research team also hope this research could motivate scholars to further conduct relevant academic research, and give practitioners more inspiration and practical experience of agricultural policy finance.

To make a comprehensive and scientific study on agricultural policy financial institutions in various countries, this book utilized various research methods. The research team conducted field research in relevant international agricultural policy financial institutions, consulted a considerable amount of literature and materials, and analyzed the most representative institutions in this area. This book starts with how the concept of agricultural policy finance emerged and evolved, then turns into discussion on its development history, functions, and business scope. Based on these conceptual analyses, a series of more specified topics successively unfold in the rest parts, in terms of source of funds, operation mode, risk management, evaluation and assessment, regulatory mode, external relations of international agricultural policy finance and etc. In the end, some instructive attempts are made to summarize relevant models, rules and experiences.

This book consists of 2 parts, with a total of 22 chapters.

The first part focuses on Evolution and Development. Through the horizontal analysis on comparison of agricultural policy financial institutions, and the vertical analysis on the evolution traces, this part systematically summarizes the general rules and individual characteristics of agricultural policy financial operation. The following 10 chapters are included in the first part.

Chapter I: *The Concept, Function and Fundamental Types of Agricultural Policy Finance*. The first chapter defines the concept and connotation of agricultural policy

finance. It further discusses the elements, characteristics and functions of agricultural policy finance, and summarizes the existing forms and distribution of representative agricultural policy financial institutions.

Chapter II: *The Emergence and Development of Agricultural Policy Finance*. The second chapter explores the origin of agricultural policy finance, and summarizes the formation methods and characteristics of the representative agricultural policy banks in different periods. Meantime, it discusses the development history and analyzes the evolution trends.

Chapter III: *The Proprietorship Forms, Governance and Control of Agricultural Policy Financial Institutions*. This chapter introduces the ownership forms, institutional models and corporate governance of agricultural policy financial institutions, and briefly compares the similarities and differences of corporate governance in different countries.

Chapter IV: *The Driving Factors of the Emergence and Development of Agricultural Policy Finance*. The certain internal driving forces and external factors commonly exist behind the process of its emergence, transformation and development. This chapter demonstrates these issues from the aspects of market failure, government failure, international trade rules, anti-poverty, counter-cyclical adjustment, etc.

Chapter V: *The Product, Service and Development Logic of Agricultural Policy Finance*. This chapter focuses on the boundary of products and services provided by a typical agricultural policy bank. Then it turns to more detailed discussions on major financial products and services, as well as the key areas and products of credit support. The rest part gives classification of financing periods and interest rates, and analyzes the logic and laws of the development of agricultural policy financial products and services.

Chapter VI: *The Source of Funds of Agricultural Policy Finance*. This chapter discusses the theoretical logic of financing of agricultural policy institutions. From the perspectives of both government intervention and marketization, this chapter analyzes different ways and models of financing, and summarizes characteristics and changes of different financing sources, and how they may constrain or support the financing capacity and business expansion of policy banks.

Chapter VII: *The Risk Management of Agricultural Policy Finance*. This chapter begins with discussion on the particularity of the risks faced by agricultural policy banks, then summarizes the causes of different risks, and introduces the concept of risk tolerance and risk management mechanism. Some practical topics are referred, such as organizational structure, risk preference and culture, the risk evaluation index and overall situation of agricultural policy finance, and etc.

Chapter VIII: *The Performance Evaluation of Agricultural Policy Finance*. Through data analysis and case studies, this chapter concludes the dimensions and common methods when evaluating the operating efficiency and agricultural support effect of an agricultural policy bank. The evaluating dimensions can be largely divided into two types. One type reflecting social benefits and practical effect of agricultural policy finance, includes services provided to the agricultural and rural development, support to the public welfare infrastructure, the role played in financial inclusion and counter-cyclic adjustment, etc. The other one reflects the situation of sustainable development of agricultural policy financial institutions. It also demonstrates the detailed performance evaluation system applied by several representative agricultural policy banks, and draws some comprehensive conclusions of the effects of different business models and structures in supporting agriculture.

Chapter IX: *The External Relationship of Agricultural Policy Financial Institutions*. This chapter discusses the relationship between agricultural policy financial institutions and various market participants, i.e. government, central bank, commercial finance and other policy finance. Then it introduces the characteristics of external supervision and its differences compared with commercial finance, as well as legal constraints and protection on agricultural policy financial institutions, etc.

Chapter X: *The International Reference of the Development of Agricultural Policy Finance*. Based on the discussions in the first nine chapters, this chapter summarizes the experiences from the reform and development process of agricultural policy finance, and moderately responds to the discussions on several major issues of agricultural policy finance. The final goal of these demonstration could be referred by the innovation and development of agricultural policy finance in China.

The second part of this book focuses on International Comparison. Mainly from the perspective of different countries, and based on the latest first-hand materials, this part systematically introduces and analyzes the agricultural policy financial institutions selected from 12 representative countries, including the United States, Germany, France, Canada, Japan, South Korea, Russia, South Africa, Brazil, Mexico, India and Thailand. This part systemically analyzes historical evolution, corporate governance, business scope, source of funds, risk management, external relations and so on, and attempts to portray a visually complete picture of agricultural policy finance, which enables readers to better grasp the theoretical background and practical basis when thinking on the existence and development of agricultural policy finance, and to better comprehend the internal logic and external conditions when discussing its performance and evolution.

Admittedly, this book could not cover every content worth studying in agricultural policy finance. However, it is honored to be one of the pioneers in this area, and are eagerly expecting more colleagues to share their views and wisdom, and work together to promote the construction of this new discipline. Hopefully, all these efforts

could eventually be the important milestone to the history of world finance. The research team truly believe that in the context of globalization, more attention should be paid to reform, innovation and development of agricultural policy banks, and jointly confront the historical issue of playing a better role of agricultural policy banks in the new era.

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