



PROBLEMS, CAUSES AND COUNTERMEASURES OF FINANCIAL SUPPORT FOR AGRICULTURE IN CHINA

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Abstract

To build a modern socialist country comprehensively, the most arduous task still lies in the rural area. Improving the operation mechanism of financial funds for agriculture is of great significance to solve the problems of agriculture, rural areas and farmers. This paper argues that there are four problems in financial funds for agriculture at present: slow growth, low management level, low efficiency of capital use and crowding out effect. By analyzing the causes behind the problems, this paper attempts to put forward the countermeasures to improve the operation mechanism of financial funds for agriculture.

Keywords

Problems of Agriculture, Rural Areas, And Farmers; Efficiency of Fiscal Support for Agriculture; Expenditure Scale

General Secretary Xi Jinping pointed out in the report of the 20th National Congress of the Communist Party of China: "To build a modern socialist country comprehensively, the most arduous task still lies in the rural area. We should give priority to agricultural and rural development, integrate urban and rural development, and smooth the flow of factors of production between urban and rural areas. It is necessary to speed up the building of a strong agricultural country and solidly promote the revitalization of rural industries, talents, culture, ecology and organizations." China has a large population, so it is a top priority to solve the problem of feeding all the people. Only by firmly holding China's rice bowl in our own hands, ensuring food security and enhancing agricultural disaster prevention and mitigation capabilities can people's needs for a better life be met. Under the circumstances of rising factor costs, limited resources and rapid development of science and technology, it is necessary to constantly improve the operation mechanism of financial funds for agriculture, so as to turn China into agricultural powerhouse. But at the present stage, there are four problems in financial funds for supporting agriculture: slow growth, low management level, low efficiency of capital use and crowding out effect. This paper analyzes the causes of the above four problems and puts forward corresponding solutions.

1 There Are Specific Problems in Financial Support for Agriculture

1.1 The growth rate of financial funds for agriculture has slowed down

For a long time, the inequality in rural-urban income in China has decreased, as shown in Table 1. According to the National Bureau of Statistics, the income ratio of urban and rural residents in China was 2.56: 1 in 1978 and reached its maximum value (3.14: 1) in 2007, and dropped to 2.45: 1 in 2022. Since 2007, one of the reasons for narrowing the gap between urban and rural areas in China is the rapid growth of financial funds for agriculture. From 2007 to 2022, China's fiscal expenditure on agriculture, forestry and water affairs increased from 34 billion yuan to 233 billion yuan. However, compared with the added value of the primary industry, China's fiscal expenditure on agriculture, forestry and water affairs has been weak since 2019. In 2007, China's fiscal expenditure on agriculture, forestry and water affairs accounted for 12.30% of the added value of the primary industry, then rose continuously, reaching the maximum value (32.57%) in 2018, and the proportion decreased from 32.44% to 25.46% since 2019-2022. Compared with 2022, the income ratio of urban and rural residents in China increased to

2.50: 1 in the first half of 2023.¹ In a word, to reduce the income ratio of urban and rural residents, it is imperative to increase financial funds for agriculture, such as expenditure on agriculture, forestry and water affairs. In 2022, the No.1 Document of the Central Committee requires that the investment of supporting funds in agriculture and rural areas should be increased to promote the all-round development of agriculture and rural areas.

Indicators	2007	2016	2017	2018	2019	2020	2021	2022	2023*
Expenditure on agriculture, forestry and water affairs (billion yuan)	34	186	191	211	229	239	220	225	233
Proportion of agricultural, forestry, and water affairs expenditure to GDP (%)	1.26	2.49	2.29	2.29	2.32	2.36	1.92	1.86	1.83
The proportion of agricultural, forestry, and water affairs expenditure in the added value of the primary industry (%)	12.30	30.91	30.74	32.57	32.44	30.69	26.48	25.46	25.28
The proportion of agricultural, forestry, and water affairs expenditure to fiscal expenditure (%)	6.84	9.90	9.40	9.55	9.57	9.75	8.97	8.63	8.61
Ratio of income of urban and rural residents (%) **	3.14	2.72	2.71	2.69	2.64	2.56	2.50	2.45	2.50

Table 1 Fiscal expenditure on agriculture, forestry and urban-rural income ratio

Note: * The value in 2023 is estimated, and the estimation method is 2023 national fiscal expenditure on agriculture, forestry and water affairs = 2023 first half national fiscal expenditure on agriculture, forestry and water affairs ÷ 2022 first half national fiscal expenditure on agriculture, forestry and water affairs × 2022 national fiscal expenditure on agriculture, forestry and water affairs. The estimation method of GDP, added value of primary industry and fiscal expenditure in 2023 is the same as that in 2022.

** Ratio of urban and rural residents' income = per capita disposable income of urban residents: per capita disposable income of rural residents.

Data source: In the first half of 2023 and 2022, the national fiscal expenditure, agriculture, forestry and water affairs expenditure came from official website of the Ministry of Finance, and other data came from official website of the National Statistics Office.

1.2 The management level of supporting agriculture funds is not high

The management level of funds for supporting agriculture is low, which is embodied in "five stresses and five contempts". First, civil servants attach importance to the allocation of financial funds to support agriculture, neglect the improvement of fund management level, and ignore the importance of performance appraisal, which indicates that civil servants have weak performance management awareness and fail to implement performance management in place. Second, "when the amount is more important than the amount", the fund distribution department attaches importance to determining the amount of financial funds for agriculture, but some departments fail to distribute the funds in full and in time. Third, "light weight", the design of performance appraisal index attaches importance to quantity and despises degree. For example, the sowing rate of improved varieties is the proportion of the sown acres of improved varieties to the total acres, but the degree of improved varieties to be selected is not clearly defined. Fourth, "re-examination and light use", some departments attach importance to the performance appraisal of financial support for agriculture projects, but fail to take the appraisal results as the basis for the allocation of support for agriculture funds. Fifthly, "re-checking and neglecting reform", some departments attach importance to investigating the satisfaction of beneficiaries of agriculture-supporting projects, but do not specify corresponding rectification plans.

1.3 The use efficiency of financial funds for supporting agriculture is low

The use efficiency of funds for supporting agriculture is not high, which is reflected in the following aspects. First, the preliminary demonstration was insufficient. In 2019, the "Audit Results of Rural Revitalization Policies and Funds" (referred to as the "Audit results") pointed out that insufficient preliminary demonstration led to a large number of projects that were not accepted and could not be put into use. Second, the funds were misappropriated, and some illegal personnel misappropriated the funds for supporting agriculture projects, resulting in some projects being "unfinished". According to the "Audit Results", 1.19 billion yuan of 359 agriculture-related projects were illegally used to make up for departmental expenditure. According to the "Audit Report of the State Council on the Implementation of the Central Budget and Other Financial Revenue and Expenditure in 2022" (referred to as the "Work Report"), 285 million yuan of funds for supporting agriculture were misappropriated for capital construction and debt repayment, and 45.2853 million yuan of funds for supporting agriculture were illegally occupied. Third, funds are not fully utilized. According to the Work Report, 348 projects for supporting agriculture have poor results after operation and are idle after completion, involving 2 billion yuan. Fourth, there is a "tragedy of the commons". Some public welfare facilities funded by financial support for agriculture are very popular, and excessive use by

¹ The data of "The income ratio of urban and rural residents in China" comes from the follow websit : <https://baijiahao.baidu.com/s?id=1771633965102054994&wfr=spider&for=pc> . the other data come from the website of National Bureau of Statistics in China.

users lead to excessive loss. Fifth, the satisfaction is low, and the financial funds for agriculture are mostly used in rural public goods with a wide range of benefits, and it is difficult to fully take into account the needs of a person, so the satisfaction of beneficiaries is generally lower than expected.²³⁴⁵

1.4 Financial funds for supporting agriculture have crowding-out effect

The crowding-out effect of financial funds for supporting agriculture are reflected in three levels. First, the higher-level financial support for agriculture has a crowding out effect on the financial expenditure of basic-level government. When allocating financial funds for supporting agriculture, the higher-level government often requires the grass-roots government to arrange supporting funds, which account for 20-50% of the financial funds for supporting agriculture. In some areas, the financial resources basic-level of government are scarce, and in order to raise supporting funds, some non-agricultural funds will need to be changed, resulting in "crowding out effect at the first level". Second, fiscal expenditure has a crowding out effect on enterprise investment. Part of the financial funds to support agriculture are allocated to agriculture-related enterprises in the form of agricultural development projects, and enterprises are required to supplement funds, which will have a certain crowding-out effect on the original planned investment of enterprises and produce a "second-level crowding-out effect". Third, fiscal expenditure has a crowding out effect on farmers' consumption and investment. After some financial funds for supporting agriculture are released to the countryside, farmers are required to give certain supplementary funds through self-raising, but farmers' limited funds will inevitably reduce consumption or investment expenditure, resulting in "crowding out effect at the third level". According to Yang (2018), infrastructure investment and farmers' consumption show a reverse relationship. ^[1] Ma et al. (2020). Found that the crowding-out effect of financial support for agriculture on rural consumption has the characteristics of urban differentiation, and the crowding-out effect is more obvious in Beijing, Tianjin, Shanghai and Zhejiang where modern agricultural infrastructure is relatively perfect. ^[2]

2 The Cause of the Problem

2.1 Reasons for insufficient financial funds for supporting agriculture

There are the following causes for the lack of financial funds for supporting agriculture. First, there are many villages and huge rural population in China. According to the Statistical Yearbook of Urban and Rural Construction in 2021, there are 2.363 million villages and 772 million village registered population in China; According to the Bureau of Statistics, China's fiscal expenditure on agriculture, forestry and water affairs in 2022 is 2,249 billion yuan. The average expenditure on agriculture, forestry and water affairs in villages and the average registered population in villages are only 953,000 yuan and 2,913 yuan respectively. Second, it is difficult to attract social capital into rural agriculture, which makes it difficult to supplement the financial funds for agriculture. Most of the projects invested by funds for supporting agriculture have the characteristics of non-profit, low return and high risk, and profit-seeking social capital is unwilling to enter the field of supporting agriculture, which urges all localities to pay more attention to the fight for financial funds for supporting agriculture. Third, the growth rate of China's fiscal revenue is slowing down, which makes it difficult to support the rapid growth of funds for supporting agriculture. There are at least two reasons for the slowdown in fiscal revenue growth: one is the tax and fee reduction measures that began in 2018, and the other is the downward economic pressure increased by the COVID-19 epidemic in 2020-2022.

2.2 An analysis of the reasons for the low management level of supporting agriculture funds

The reasons are as follows. First, the lack of local financial resources leads the local government to attach importance to the application of funds for supporting agriculture. Once the funds are available, the local government's attention will turn to the application of new funds. Therefore, the government does not pay attention to the details of the implementation of projects funded for agriculture, resulting in the problem of "emphasizing points but neglecting management". Second, budget performance management evaluates more departments that use funds and less departments that are in charge of issuing funds, which leads to the lack of timely fund distribution plans by departments in charge of funds and the inability to guarantee the timely distribution of funds for supporting agriculture, resulting in the problem of "valuing the amount over the time". Third, there are some defects in the budget performance appraisal system, which clearly stipulates the quantitative indicators, but lacks the assessment of quality indicators, which leads to the problem of "light weight" in some agricultural projects. Fourthly, budget performance management lacks the application mechanism of performance results. The ultimate goal of budget performance management is to "reward the best and punish the bad", that is, to add budget to the excellent projects and reduce the budget of the poor projects. However, the application mechanism of this result has

2<https://www.audit.gov.cn/n5/n25/c133005/part/70140.pdf>

3<https://www.audit.gov.cn/n5/n25/c133005/part/70140.pdf>

4https://business.sohu.com/a/694687702_121123903

5https://business.sohu.com/a/694687702_121123903

not yet been established, so the problem of "re-examination and neglect use" has arisen. Fifth, although the budget performance management set satisfaction index, it does not set the index of rectification of agricultural support projects based on satisfaction index, resulting in the problem of "re-checking but neglecting reform".

2.3 Causes of low efficiency in the use of financial funds for supporting agriculture

First, we don't pay enough attention to the previous argumentation. Every year, there are a large number of agricultural support projects, whose applicants want to maximize the overall funding of the project. It is uneconomical to invest a lot of resources in a single project, so there is a lack of attention to the early demonstration of a single agriculture-supporting project. Second, the inducement of misappropriating funds for supporting agriculture is the lack of local financial resources. Since the tax-sharing system in 1994, the financial resources of counties and townships have been generally tight, and the pneumonia in COVID-19 in 2020 has aggravated this tense situation. In order to alleviate the financial pressure, illegal misappropriation of funds for supporting agriculture has become the choice of some lawless persons. Thirdly, the reason why the project of supporting agriculture has not been fully utilized is that there are deviations in the survey of farmers' needs in the early stage, and some projects are not needed by farmers. Fourthly, the reason for the "tragedy of the commons" lies in the fact that there are few projects to support agriculture that are very popular among farmers, and once they appear, they attract much attention. Fifthly, there are two reasons for lower farmer satisfaction. Agricultural support projects are mostly public goods, which can hardly meet the overall needs of farmers, so individuals' evaluation of agricultural support projects is lower than that of private products. At the same time, the Internet era makes it easier for farmers to see urban infrastructure, which naturally reduces their satisfaction with agricultural support projects.

2.4 Causes of "crowding out" effect

The specific reasons are as follows. First, the crowding-out effect is mainly due to the large scale of supplementary funds needed for supporting agriculture, which brings certain economic pressure to grass-roots governments, enterprises and farmers. Second, the crowding-out effect of higher-level financial funds for supporting agriculture on grass-roots financial expenditure stems from the financial shortage of grass-roots government. The factors leading to financial shortage include the upward movement of local financial resources in the tax-sharing system in 1994, the downward pressure on the economy brought about by the pneumonia epidemic in COVID-19 from 2020 to 2022, and policy measures such as tax reduction and fee reduction since 2018. Third, the crowding-out effect of fiscal expenditure funds on enterprise investment stems from the financial shortage of enterprises, because the raw materials of agriculture-related enterprises are mostly agricultural products, and the prices of agricultural products often fluctuate greatly, which has an impact on the liquidity of agriculture-related enterprises. Fourthly, the crowding-out effect of fiscal expenditure funds on farmers' consumption and investment is due to the limited funds of farmers. Since the reform and opening up in 1978, farmers' income has increased rapidly in China, but compared with urban residents, farmers' income is still small, and matching funds needed to be paid by themselves bring great pressure to farmers. In order to alleviate the pressure, they can only compress their own consumption and investment.

3. Countermeasures and Suggestions

3.1 Enrich agricultural and rural funds through multiple channels

First, increase financial support for agriculture and optimize expenditure structure. China has won a great victory in poverty alleviation, basically solving the problems of farmers' survival and the lack of food for the Chinese people. However, China is still far from an agricultural power, and it still needs to increase support for agriculture and rural areas. In terms of capital structure for supporting agriculture, it is necessary to increase investment in infrastructure in agriculture and rural areas, improve the level of agricultural mechanization, and build a foundation for agricultural modernization. It is necessary to increase investment in medical care, education and ecology to enhance farmers' happiness. Vigorously develop science and technology to promote agriculture, improve agricultural productivity, increase production and income, maintain the price stability of agricultural products, change the current "blood transfusion" feedback mode, stimulate endogenous growth momentum, and promote the sustainable development of agriculture.

Second, improve the multi-channel fund raising mechanism. Perfecting the innovation system of "Inclusive Financing" is an important way to solve the financing problems in agriculture and rural areas. Due to the poor credit of farmers and the imperfect rural supporting service system, the development of rural finance in China is slow. To solve this problem, many efforts should be made: at the level of government guidance, the functions of agriculture-related financial institutions should be changed, the role of financial support should be played, a unified, open and competitive market should be formed, and the decisive role of the market in resource allocation should be played. Specifically, clarify the scope of policy business in Agricultural Development Bank and formulate regulatory standards and increase medium and long-term credit support for agriculture and rural areas. From the level of agriculture-related subjects, we should promote the full coverage of Inclusive Financing, optimize the network layout of financial institutions, focus on economically backward areas, and intensify financial poverty

alleviation. From the social level, encourage the "localized" small banks created by social capital, mobilize the enthusiasm of private capital investment, and standardize the corporate governance construction of small banks to prevent financial risks. Establish a credit rating system for farmers and improve the agricultural credit guarantee system, and issue loan quotas and deadlines according to credit conditions to solve the problem of farmers' financing difficulties.

Third, improve the legal system of agricultural and rural investment. At present, the capital investment in agriculture and rural areas mainly depends on the government through administrative means, which may lead to the offside of the government. We should perfect the legal system of agricultural and rural investment, bring administrative power into the track of legal system, and divide the boundary between government and market. We need to clarify the rights and obligations of governments at all levels in agricultural and rural development, appropriately increase local autonomy, and better match administrative power with financial power. The responsibilities of each department should be clearly defined to avoid overlapping and buck-passing. We can standardize the "PPP" model in agriculture and rural areas, which not only stimulates the enthusiasm of social capital to participate in agriculture and rural areas, but also reduces the pressure of government expenditure.

3.2 Strengthen the management of financial funds for supporting agriculture

First, co-ordinate financial funds for supporting agriculture. Clarify the powers and expenditure responsibilities of the central government, uniformly manage the funds of the central and local governments, various departments and private capital, clarify management responsibilities, and reduce management costs; Adjust the expenditure structure, reduce investment in profit-making fields, increase investment in people's livelihood such as medical care, old-age care and education, and increase funds for infrastructure and science and technology to help farmers, so as to achieve the goal of improving farmers' happiness and promoting sustainable development of agriculture and rural areas.

Second, strictly allocate financial funds according to budget arrangements. We should strictly control the approval process for projects and funds supported by the government for agriculture, optimize and supervise the process for allocating government funds, and strictly investigate the misappropriation and fraudulent appropriation of funds. To strengthen the online and offline information disclosure system, on the one hand, it is necessary to strengthen the publicity of measures benefiting farmers to benefit more farmers, and on the other hand, it is required to strengthen the publicity of policies benefiting the people, qualifications and conditions, implementation and update the latest progress in real time, so that the masses can jointly supervise. And we must deal with disciplinary violations in accordance with the law.

3.3 Improve the performance evaluation mechanism of financial funds for supporting agriculture

In index design, in addition to economic indicators such as input-output and capital use efficiency, indicators such as farmers' happiness, ecological environment, education popularization, infrastructure quantity and quality should be taken into account according to project types and local economic development, and more process indicators, medium and long-term development indicators and externality indicators of supporting agriculture projects should be added.

In performance evaluation, it is necessary to strengthen the budget performance management training of grass-roots supervisors of supporting agriculture projects to help them improve project performance indicators during project implementation. In order to improve the construction of performance evaluation expert database, we can include multi-level talents such as agricultural project managers, experts and scholars, and enterprise managers. When it is necessary to organize performance evaluation, temporary evaluation teams are formed to conduct field evaluation. It is of great significance to build a participatory performance evaluation mechanism, such as adopting voluntary registration, encouraging beneficiaries of agricultural support projects to participate in the evaluation of project performance, and organizing certain training before the performance evaluation to ensure the effectiveness of the evaluation

In the evaluation procedure, it is necessary to ensure the independence, impartiality, openness and scientificity of the performance evaluation process. In terms of results, we should establish and improve the reward and punishment system for responsible personnel. Severely punish those who illegally use or misappropriate funds, hold government personnel accountable for their dereliction of duty and inefficiency, and link promotion with project performance to stimulate officials' enthusiasm to promote the implementation of agricultural aid projects. In addition, we can establish and improve the policy feedback mechanism, and timely adjust the scale and structure of policies and budgets according to the implementation of projects.

3.4 Reduce allocation and increase income to overcome crowding out effect

Reducing allocation and increasing income refers to reducing the requirements of matching funds for supporting agriculture projects, increasing the fiscal revenue of counties and townships, and promoting the income increase of agriculture-related enterprises and farmers.

First, appropriately reduce the requirements of supporting funds. Supporting funds are helpful to promote the enthusiasm of applicants and grass-roots supervisors of supporting agriculture projects, but the excessive

requirements of Supporting funds bring heavy economic burden to applicants and grass-roots finance, so reducing the requirements of supporting funds can effectively reduce this burden.

Second, ease the financial pressure of counties and townships. The reform of tax reduction and fee reduction has greatly reduced the fiscal revenue of counties and townships, but the fiscal expenditure has shown a rigid growth trend, so the financial pressure of counties and townships has generally intensified. Thus, it is imperative to increase the equal transfer payment of county and township finance.

Third, promote agriculture-related enterprises and increase farmers' income. Guide and encourage agriculture-related enterprises to carry out technological innovation and enhance profitability. Make full use of the national grain reserve system to stabilize food prices, try to avoid large fluctuations, and help enterprises lock in costs. Encourage agriculture-related enterprises to hire local farmers, strengthen technical training for farmers, and encourage the development of leisure agriculture and rural tourism to increase farmers' income.

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