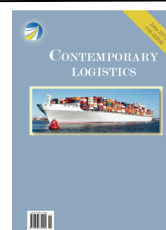




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# The Financing Mechanisms of Forestry Economic Cooperating Organization

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### KEYWORDS

Forestry Economic Cooperating Organization,  
Financing mechanisms,  
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### ABSTRACT

In this paper, I first talk about the reforming of collective forest rights, and bring out the financing mechanisms of Forestry Economic Cooperating Organization. In the following passage I will discuss the advantages of the organization. And finally it proposes the normal operation of the policies that needs to be supported.

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## 1 Introduction

With the reform of forest property rights system, there has been a big contradiction between farmers and the scale forest fragmentation, and another contradiction between the scattered woodland and the organized operating. In order to solve these contradictions, we have to get all the dispersed farmers together as one group. On the basis of the clearing separated right of the woodland, considering the management and social capital and linking with the family, friendship, funds and technology, we set up a family tree farm, stock farm, and other new cooperative economic organizations to overcome the decentralization of forest management rights at home after tending to achieve large-scale and intensive forestry production, and encourage these cooperative economic organizations and take the process of Forestry Joint Economic Cooperation Organization. The implementation of targeted training is to promote forest and paper, forestry board, forestry integrated operation. Forestry cooperative economic organizations and associations increase the degree of organization of forestry production and play an important role in the process of financial innovation in the forestry. To develop farmer cooperatives in the reform of collective forest right system, deep the reforms, enliven the rural forestry economy and protect farmers' rights are important by increasing peasant income. Currently, foresters and forest species of small enterprises are facing a severe credit problem that it is difficult to obtain loans from formal financial institutions. In fact, the direct cause of the credit constraint of farmers is the inadequate supply of credit from commercial banks, rural credit cooperatives and other financial institutions. In this case, the Forestry Economic Cooperation Organization will be the link between financial institutions and farmers bond.

Financial institutions thought that farmers' loan is a small scale and most of the loan is related to normal life which cannot bring large economies benefits. And because the forest management cycle is long, slow effect and other various elements of uncertainty will inevitably bring more risks and uncertainties, and it may be easy for the happening of the asymmetric information adverse selection. Moreover, since the market of the standing timber stumpage has not really been formed, with the problem of the asset valuation issues and natural disasters and other uncertain factors, it is difficult to use it as collateral. And the insurance company is not willing to accept insurance business in the forest, which appears as a result of moral hazard with hidden action. Therefore, for farmers and

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business credit in certain circumstances, no matter how high interest rates farmers are willing to pay the financial institutions do not want more loans and that leads to foresters and forestry companies facing credit constraints difficulties. Based on the above analysis, between financial institutions and individual farmers there is serious "information asymmetry" problem.

## **2 The Financing Mechanisms of the Forestry Economic Cooperating Organization**

First, farmers who need financial help have to apply to the Economic Cooperation Organization of Forestry, and then the forestry-related functional departments of the Economic Cooperation Organization review the situation of the farmers on the financial and credit applications, and then the Forestry Economic Cooperating Organization borrows loans for the qualified farmers from local cooperative banks (Mainly refers to local small and medium financial institutions). In this way, with the organization's help, the farmers' status of negotiating with the banks is enhanced and it is easy to get money they need. Even if farmers cannot repay loans; the banks don't have to worry because the Forestry Economic Cooperation will undertake corresponding responsibilities and risks. It will be punished if the farmers cannot repay on time and this is aimed at encouraging members to maintain the reputation of the cluster.

## **3 The Advantages of the Forestry Economic Cooperating Organization**

Banks are reluctant to provide services for farmers, mainly because they fear that there will be credit risk lending money to the farmers and loans cannot be recovered. Credit risk may arise from the occurrence of several reasons such as: borrowers break a contract actively. The borrower earned money borrowed but do not repay the loan, and the proceeds should be used to repay the principal and interest to the banks for part of the appropriation; borrowers break a contract inactively. The borrowers do not get enough income to repay the loan because the investment fails. Investment failure occurs, borrowers passively default, and there are a number of specific cases, such as the borrowers apply for loans for investment projects would have a greater risk. Another situation is that borrowers obtain loans for capital investment, they don't work harder and lead to the investment failure. Also, borrowers change the use of the funds and devote it to riskier projects which lead to investment failure. The root cause of these cases is information asymmetry which gives rise to adverse selection and moral hazard problems. The so-called adverse selection is that banks cannot distinguish the exact risk profile of borrowers, when the interest rate is high; the number of relatively safe borrowers will quit the ranks of loan applicants, and finally lead to the people who are with the higher risk and the borrower items with greater risk. As a result, the possibility of repayment reduces and also reduces the lender's expected return. Moral hazard is due to banks who cannot effectively monitor the borrower's actions, when interest rate is high, the borrower may change the use of borrowing money to invest in higher yielding but riskier projects in order to obtain a higher return on investment which lead to the borrower increases the likelihood of failure, and thus reduces the possibility of repayment of loans; or the borrower not work hard in investment due to subjective failure.

Forestry Economic Cooperation Organization can overcome the problems of financing difficulties alone and the low rate of the success. Forestry Financing Economic Cooperation Organization breaks the tradition that farmers deal solely with financial institutions and finance their own credit on the line so that farmers have advantage in access to financial and competitive advantages:

### **3.1 Solving the information asymmetry**

Farmers cannot provide the necessary financial and credit collateral because their financial strength is weak. Credit agencies often require farmers to provide more information and wait longer even if sometimes they provide some collateral. In addition, due to asymmetric information, low levels of income of the farmers and large uncertainties, the modern commercial banks are unlikely to treat farmer the same as the urban high-income farmers. Forestry Economic Cooperation Organization set its own credit for the protection so that financial institutions only need to assess the credibility of the organization rather than the circumstances of each farmer. Thus, the Economic Cooperation Organization get loan from financial institutions and then loans it to farmers. It can reduce the risk of asymmetric information to the minimum through this process.

### **3.2 Reducing transaction costs**

Most of the contracts are different, and during the loan period the bank need to make investigation of farmers and monitor them, so the external costs of farmers is clearly higher than the costs between the Economic Cooperation Organization and forestry transaction. Obviously, due to high transaction costs of financial institutions, financial companies will be reluctant to lend to farmers. However, the special relationship between farmers and forestry Economic Cooperation Organization will give the organization a better understanding of financial institutions. Therefore, the Economic Cooperation Organization through forestry financing to financial institutions can increase the size of the financing farmers.

### 3.3 Using collateral strategy

The main reason for farmers to obtain loans difficultly is lack of collateral. Collateral set is relevant to the way to access information. Collateral information is an alternative. If it takes a long time to understand the situation of farmers, the cost is high although the risk may be small after getting a clear idea of the situation. If not waste this cost, you can set the collateral. But farmer is precisely missing the collateral; in fact, there are some assets that farmers own including social capital, social networks, and social relations. All can replace the role of social collateral which will affect social activities and production activities. The use of social resources is based on the role of social capital which can play the role of collateral. Markets in the financial sector have basically completed the reform of the system of conditions. Only the innovative alternative mechanism for collateral in rural areas can solve the problem of lacking the collateral with the formal financial sector and high transaction costs and information asymmetry issues. With the development of Economic Cooperation Organization, it provides the conditions for the expansion of the chain of extension and substitution of collateral-based innovative financing mechanisms.

## 4 Forestry Innovation of Forestry Economic Cooperating Organization

### 4.1 Alternative mechanism for collateral

Alternative mechanisms of collateral are seeking the resources between farmers and forestry Economic Cooperation Organization. These resources do not have the collateral characteristics of their own, but they can play the role of collateral which uses the organization's credit resources instead of physical collateral in which it transfers market and support the establishment of design into usable to mortgaged (pledged) items. It itself is a financial innovation. Forestry Economic Cooperation Organization as an organization it applies for loans, which can make the financial institutions reduce the transaction costs (as compared with the individual farmers). At the same time, members of the cooperatives are screened for its composition which reduces the problem of adverse selecting for the financial institutions. Furthermore, if the credit cooperatives as a whole unit or members of the credit are on the line of the level of the cooperatives, the cooperative members can monitor each other to reduce the moral hazard when facing to financial institutions. This alternative form of security of Forestry Economic Cooperation Organization uses the advantage which members are familiar with each other to overcome the difficulty of catching general information for security agencies. Due to the alternative forms of collateral, it can solve the problem of farmers of lacking collateral, high transaction costs and solving the problem of asymmetric information. Thus, it alleviates the problem of farmers in getting loans. In fact, the credit system (such as the construction of credit files) can overcome the lack of credit to farmers because the so-called information asymmetry occurs, and the credit guarantee system (especially the nature of the security system of association) can solve the problem of farmers of lacking collateral. Therefore, in the social credit system, the association property of the construction of a security system is a form of substitute collateral.

### 4.2 Collateral extension mechanism

Collateral strategy is another financial service to help the farmers to extend loans. Encourage farmers to use the rights of forest and waters of tidal flats as collateral for loans, etc. That is a strategy to expand the supply of rural credit. However, there are two restrictions from economic institution and farmers in order to attempt to land contract rights as collateral supply of rural credit. Therefore, on the basis that financial policy-oriented adding the experimental conditions which allow farmers cooperative land shares involved to extend credit to local farmers by the enterprise of its share capital as collateral to financial institutions.

First, it is another way to carry out mortgage loan by extending the collateral. After following the forest reform, the mortgage is not only a breakthrough in the history of forestry development, but also a breakthrough in the history of rural credit. For a long time, forest managers have a lot of forest resources on one hand, but the long cycle of these resources is difficult to realize which cannot open the "green bank "door, and on the other hand, they have been greatly restricted because of the lack of production capital and production and management. The mortgage service innovation solves the two problems effectively.

Second, it can use warehouse receipt financing. Warehouse receipt financing is considered to be international finance, especially in the developing countries. Warehouse receipt financing is actually not innovation, but the expansion of warehouse receipts can be used as a catalyst for the coverage of financial. What basic logic behind the commodity trading security is the change of lenders' risk structure. At this time, financial institutions don't put the loan on big companies which can judge its financial position by the company's balance sheet. It minimizes the performance risk through warehouse receipts when the events of default and the lenders have the right to sell the current assets.

## 5 Conclusions and Policy Recommendations

National policy financial institutions and commercial financial institutions should take more forms to provide financial support and financial services. On one hand, the Agricultural Development Bank should be inclined to credit to increase the amount of credit funds for farmers and develop production and provide funds that needed to support and reduce unnecessary links. It may give

low-interest loans to the organization with standard operation and good reputation. Another key business is to take the Government's approach to forestry support of subsidized loans. On the other hand, the commercial banks should be encouraged to offer concessions when Forestry Economic Cooperation Organization loans, such as providing forestry production and management with required loans for forestry Economic Cooperation and expanding business scale and increasing infrastructure investment. In addition, it is encouraged to set a good pilot working capital loan credit guarantee system for the organization with a sound system of rural credit cooperatives and good performance to expand credit to the customer's faith and credit of the scope and line of credit.

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