



**Republic of China**

**Country Paper For The International Workshop  
On “ Innovation Micro-Credit Delivery Systems  
For Rural Poverty Alleviation, Comilla,  
Bangladesh” 17-21 March 2008**

**Prepared by :**

**Shou-Ling Chen  
Bureau of Agriculture Finance,  
Council of Agriculture**

## INTRODUCTION

The territory under the Republic of China (R.O.C) government's effective control includes Taiwan, Penghu, Kinmen, and Matsu, with a total land area of 36,188 square kilometers. Taiwan is the major island folding and rising right out of the ocean, in terms of topography, hills and mountains cover the largest area of the island leaving only 8,295 square kilometers cultivated land area. At the initial stage of its economic development, the R.O.C focused on agriculture. During the past 20 or more years, its transformation step from agricultural-based to industrial-based economy. However, agriculture is the country's foundation for long-term development that has not only provided residents foods but has also resulted in environmental protection and ecological conservation. With limited natural resources, agricultural industry has created NT\$ 193 billion that accounted for 1.6 percent of gross domestic production in 2006.

The population of the R.O.C exceeded 22.8 million as of December 2006 includes 3.2 million person in farm families. The average disposable income per farm household is NT\$ 774 thousand as 83.7 percent of non-farm. In terms of urbanization degree, the average disposable income in city and town is 2.5 multiples of village. According to above data, the poverty gap is not so widely, but it still was an important aim of policy to upgrade farmers' life. Farm credit is one of such means to alleviate rural poverty. The government planned and promoted policy-oriented agricultural loans with assistant implements to give financial support for farmers. Its policy isn't identical to micro credit system, but it would conform to the essence of improving the rural bankable ability and promoting the village flourishes.

## INSTITUTION OF AGRICULTURAL CREDIT

The government established the specialized agricultural banks such as the Land Bank of Taiwan and the Cooperative Bank of Taiwan in 1946 and approved the reactivation of the Farms' Bank of China in 1967. These three agencies, together with the credit departments of farmers' and fishermen's associations and government agencies and enterprises constitute the agricultural credit system in the past decades until the Bureau of Agricultural Finance was established. An entirely new system of agricultural finance system was created.

In order to have a sound agricultural finance system, the government held a "National Conference of Agricultural Finance" in 2002. In this conference, a consensus was reached on five issues:

1. To adopt unified management for the Agricultural Credit Guarantee Fund and the credit departments of farmers' and fishermen's associations by the Council of Agriculture.
2. To establish the Agricultural Bank of Taiwan as the upper tier bank of the credit departments of farmers' and fishermen's associations.
3. To implement uniform supervision in agricultural finance.
4. To draw up the Agricultural Finance Act.
5. To increase the competitiveness of agricultural finance.

Fulfilling above issues, the Bureau of Agricultural Finance was established on January 30, 2004, in coordination with the implementation of the Agricultural Finance Act. This Bureau is responsible for supervising agricultural finance institutions and promoting policy-oriented agricultural loans to attain its aim for "proper agricultural developments supported by agricultural financial business and stable financial growth with supported by agricultural development". Subsequently the Agricultural Bank of Taiwan was officially opened on

May 26, 2005 and the Agricultural Credit Guarantee Fund was taken over the supervision by the Council of Agriculture on January 1, 2006. It means that a sound and dependable agricultural finance system was constructed. (Figure.1)

### **THE POLICY-ORIENTED AGRICULTURAL LOAN**

The Council of Agriculture, as a cabinet-level agricultural administrative agency, has been developing and implementing policy-oriented agricultural credit programs with lower interest rate. These programs had been merged into 12 policy-oriented agricultural loans which were instrumental to modernize farm machinery, better farming-production and management, higher living standard of farmers and even institutional improvement of agricultural organizations such as farmers' associations in 2006. In addition to merge items for increasing loan efficiency, it lowered interest rates, relaxed loan condition and larger the scale. Annual loan figures of policy- oriented agricultural loans increased greatly from NT\$ 16.6 billion in 2004 to NT\$ 41 billion in 2006.

In contrast with the loans extended by the above-mentioned agencies, the policy-oriented agricultural loans processing institution are the Agricultural Bank of Taiwan and the credit departments of farmers' and fishermen's associations in accordance with the Agricultural Finance Act define the boundary of agricultural finance institution. The credit departments of 253 farmers' and 25 fishermen's associations played the major role to get 95 percent of the policy-oriented agricultural loan outstanding as of December 2006. These processing institutions afforded capital and accepted subsidization form the central authorities so that farmers could get capital with low annual interest rate to alleviate farmers' interest burden and provide funds for agricultural business.

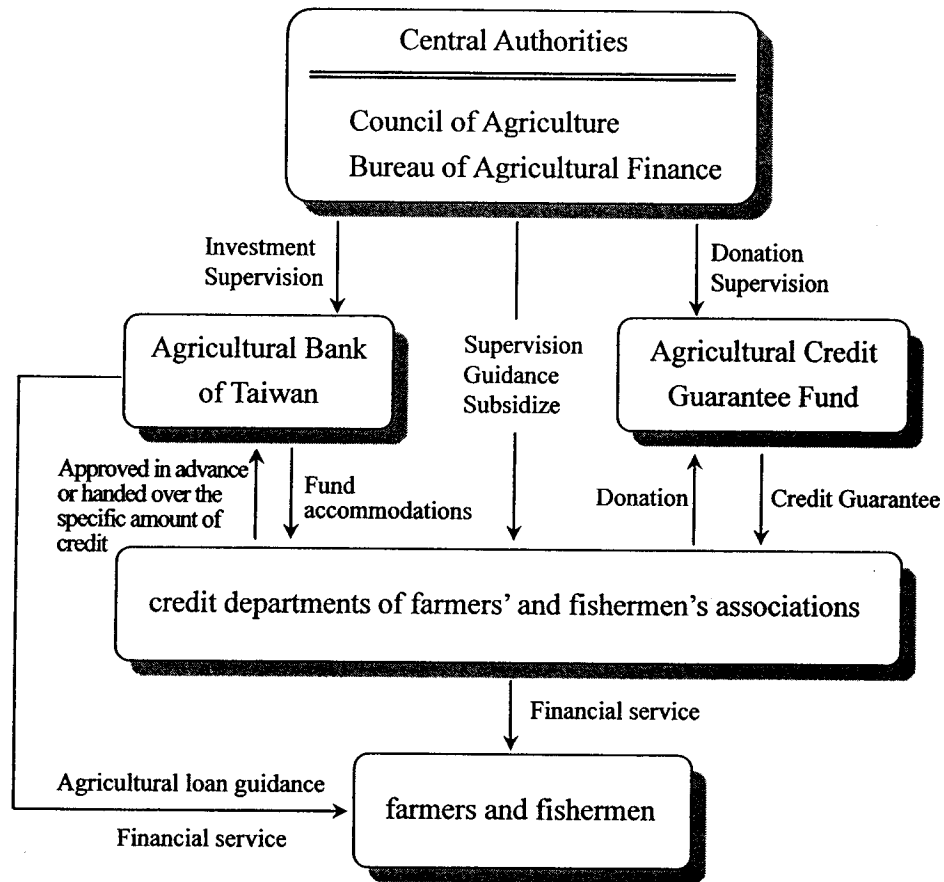


Figure.1 Agricultural Finance System Structure

### Farm credit surety

Traditionally, the lending institutions require full collateral for any loans extend, but unfortunately most of the people in the rural areas with inadequate assets were bypassed by the normal credit system. To enhance the bankable ability of the people in the rural areas, the Agricultural Credit Guarantee Fund was established in 1983, it had an initial capital of NT\$ 300 million, of which 60 percent was donated by the government; 30 percent by the agricultural banks; and 10 percent altogether by farmers' and fishermen's associations. Use the farm credit surety

provided by the fund instead of other forms of collateral, it lightens the burden of small farmers which are relatively difficult for seeking collateral. As above-mentioned policy to unify the management of agricultural finance, the Fund was taken over the supervision from Financial Supervisory Commission to the Council of Agriculture in 2006.

Prior to this shift, apart from appropriating budget funds to make up for the Fund's shortage and expanding its underwriting ability, the central authorities took measures to curb the Fund's operating and management expenses, push the Fund to implement organizational reengineering, and guide the development of agricultural credit guarantee services, so as to fulfill the Fund's mission of supporting agricultural development and assisting the small farmer who have insufficient collateral to get credit favorably. By the end of December 2006, the Fund capital was NT\$ 1,951 million. The increased net worth strengthen assistance to agricultural loan guarantee cases and guaranteed amount. (Table 1)

**Table.1 Statistics of Credit Guarantee Operation**

(amount unit : NT\$ million)

Year	Number of cases	Amount of loans	Guaranteed Amount
2002	4,553	8,279	6,524
2003	5,875	9,475	7,452
2004	10,912	10,855	8,685
2005	37,415	19,017	15,438
2006	44,375	23,389	18,278

The eligible clients of the Agricultural Credit Guarantee Fund include individuals, groups, partnerships, cooperative organizations, and corporations, which is engaged on farm, forestry, fishery and livestock production, processing, distribution, and warehousing, recreational farm businesses and other agricultural development businesses. Each applicant can be guaranteed up to NT\$ 5 million. For applications in larger amount, report to or approval by the joint meetings of the Fund's Directors and Supervisors is required. The policy-oriented agricultural loans could be guaranteed up to 90 percent of total, the general-purpose agricultural loans could be guaranteed up to 80 percent of total. The Fund is liable to repayment of the principal and interests of the loan, and legal expense. However, interest repaid by the Fund shall not exceed the overdue amount for 6 months and annual rate 5%. The guarantee fee is low rate, for cases provided individual with the policy-oriented agricultural loans, its preferential annual rate could be applied to 0.35% and even to 0.1% if the loans with collateral.

## CONCLUSION

Agricultural credit is one of the most important tools for agricultural development in the Republic of China. The policy-oriented agricultural loans were implemented through horizontal and vertical co-ordination of service delivery agencies to provide adequate and effective credit for small farms. The objectives of plan are to strengthen the agricultural finance system and improve its management performance. A sound agricultural finance system is the basic to enrich capacity of farm credit. The policy not only higher living standard of farmers but also promote the village flourishes and agricultural development.