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By Zhang Fengming | NEWSPAPER EDITION

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CHINA is encouraging domestic and overseas investors to take over its poor-performing rural credit cooperatives.

Domestic banks are allowed to buy out or hold 100 percent of such rural financing bodies while foreign or private investors can buy up to 20 percent of the rural cooperatives, according to new rules on the rural financial bodies published by the China Banking Regulatory Commission on its website.

The country's top banking regulator said it hoped investors could help realize the potential of China's rural financing bodies that serve the country's developing rural areas.

"The rural cooperatives will find it hard to make market-driven reform on their own in a near future," the regulator said. "We hope that rural cooperatives could offer better services and have stronger performance through mergers and acquisitions."

The rural cooperatives are relatively untapped by overseas investors, who have already entered China's rising banking industry by investing in the big-five state-owned lenders, joint-stock or city commercial banks.

Rural cooperatives are often overlooked by investors due to their relatively small scale, heavy rural involvement and poor performance.

Farmers have little collateral and are vulnerable to climate changes which could damage their crops and leave them little to pay back banks.

The rural cooperatives reported a combined bad loan ratio of 6.6 percent at the end of June, the highest of the industry. The average non-performing loan ratio of China's commercial banks dipped 0.28 percentage point to 1.3 percent at the end of June.

Overseas banks in China have the lowest bad loan ratio of 0.72 percent.

China had 2,023 rural cooperatives at the end of June, with total outstanding loans of 5.5 trillion yuan (US\$808 billion). The segment accounted for 12 percent of China's banking assets.

China is beefing up its rural economy by encouraging more financial support. Rural banks and small-sum lending companies are being set up.

The Agricultural Bank of China has the biggest network in China, half of which is in rural areas.

The lender touts it as its future growth engine while some analysts see it as a short-term burden.

