

# Problems and Countermeasures of Rural Finance in China under the Development of Inclusive Finance

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**Abstract:** At present, the income gap between urban and rural areas has become one of the livelihood issues that cannot be ignored. Increasing farmers' income and rationally adjusting the rural financial system are the fundamental ways to solve this problem. Inclusive finance is undoubtedly the best choice as a financial way that can effectively and comprehensively provide services for different classes and people in society. With the rapid growth of rural economy in China, the establishment of a scientific and effective financial system is the basis and premise to ensure and promote the further growth of rural economy, while inclusive financial system is the best financial way to promote the stable growth of rural economy and provide comprehensive services for different social classes and people. As a common concept in the current financial system, inclusive finance is closely related to each of us. Vigorously developing rural inclusive finance is a brand-new proposition put forward in the course of financial development in China, and it is also an important measure to conform to the pace of social reform. This paper analyzes and studies the problems faced by rural inclusive finance in China, puts forward some suggestions to promote the construction of rural inclusive finance system in China, and expounds the future development prospects of rural inclusive finance in order to accelerate the pace of rural economic development.

## 1. Introduction

In recent years, the pace of rural economic development in China has been accelerated, but the growth of financial industry is relatively slow, because most financial resources are concentrated in urban areas, and farmers' related financial services are not well developed, so that rural development lacks financial support [1]. "inclusive finance" refers to a financial system that can make members of society generally enjoy it and give corresponding preferential treatment to backward areas and vulnerable groups. It includes financial organization system, financial laws and regulations system, financial instrument system and financial service system, and credit support in financial services is the main content [2]. In recent years, high-level government attaches great importance to the financial development in rural areas, and has successively issued a series of preferential policies to further increase premium subsidies and do everything possible to support rural financial development. However, the current growth of rural finance in China is still not ideal. We should further understand its basic situation, smooth supply channels, promote the rational allocation of financial resources in the vast rural areas of China, further optimize the market structure, give full play to the role of finance, and vigorously promote the healthy growth of rural economy in China [3]. In recent years, China put forward the strategy of rural revitalization, and it is imperative to further optimize the financial supply in rural areas. Under this background, the growth of financial institutions in rural areas has ushered in a golden historical opportunity.

In the vast rural areas of China, economic development urgently needs financial support [4]. In recent years, China put forward the strategy of rural revitalization, and it is imperative to further optimize the financial supply in rural areas. Under this background, the growth of financial institutions in rural areas has ushered in a golden historical opportunity. At present, there are still many backward areas and vulnerable groups in China. Therefore, a good planning of the financial system will enable the whole society to make economic progress, and it is necessary to carry out inclusive finance [5]. However, while building inclusive finance, there are also shortcomings that need correct suggestions and methods to be rationalized. Since the reform and opening up, China

has made some adjustments to its economic structure with economic construction as the center and development as the theme. However, the growth of agriculture was neglected in this process, which led to the backwardness of rural development in China [6]. However, China is still a big agricultural country so far, and the peasant population accounts for a large proportion of the country's total population. The resulting gap between the rich and the poor is not conducive to social stability. In view of this, China proposed the policy of developing inclusive finance to improve rural economy and narrow the gap between urban and rural areas.

## **2. Problems of rural finance in China under the growth of inclusive finance**

### **2.1. Rural financial resources are limited**

In the vast rural areas of China, although all kinds of financial institutions have existed for many years, and have made certain development achievements, the financial environment in the vast rural areas is also complex and changeable, and the level of economic development in some rural areas has been further improved, which has diversified demand for the financial industry, and it is urgent to further enhance effective supply [7]. Generally speaking, financial institutions are more inclined to issue loans to subjects with good conditions, and the characteristics of agricultural industry have led to the widespread imbalance in the allocation of financial resources in rural areas, which has also spawned some market chaos. Due to the good local infrastructure and the relatively mature operation of local agricultural industry in economically developed areas, these areas have a great demand for funds, which can often attract a large number of financial resources and achieve a virtuous circle. In contrast, due to poor infrastructure and high degree of industrial dispersion, industries in underdeveloped areas need more financial support, but generally, financial resources in these areas are seriously insufficient, and even if funds are invested, it is easy to cause a vicious circle [8]. Most rural enterprises are township enterprises, which often face the problem of insufficient financial resources due to the limitation of their own capabilities. Commercial banks and other financial institutions need to focus on cost issues and risk management, and there are very few rural infrastructure facilities [9]. On the one hand, a large amount of cost funds are invested in material resources during the operation of rural inclusive finance service, but the popularization and publicity of relevant knowledge are not in place. On the other hand, the participation of rural residents is not high, and the trust is insufficient, which makes the network resource allocation, labor costs, daily operation and maintenance and other funds lose a lot, which makes it difficult for financial service networks to play their role and the overall losses are large, which cannot promote economic development. The rapid growth of Internet finance in China has not brought financial benefits to rural areas, and some basic equipment is still needed.

### **2.2. Rural financial products are single**

The biggest obstacle to the construction of rural inclusive financial system in China is the single type of financial products [10]. The main business of rural grassroots financial institutions is credit processing, followed by deposit business, and other businesses are very few, let alone innovative business. The rural financial market is relatively scattered, and agricultural financial institutions provide less rural financial products. Rural credit cooperatives, Agricultural Bank, Agricultural Development Bank, Postal Savings Bank, new rural financial institutions and private financial institutions do not have the autonomy to innovate credit products, and it is difficult to innovate rural financial products. Even if some credit products are innovative, it is difficult to widely promote innovative credit products and meet the needs of agricultural modernization. The asset share map of banking financial institutions in 2020 is shown in Figure 1.

At present, the rural inclusive financial system in China is mainly composed of some small and medium-sized banks and financial institutions such as commercial banks, policy banks and village banks. It has failed to form a mature competitive market, and at the same time it lacks excellent talents and management system, which leads to its low innovation ability and single products. In addition, these institutions mainly focus on large and medium-sized enterprises and large customers,

ignoring the growth of credit products to meet farmers' needs, which can not meet the current trend of diversified growth of agriculture.

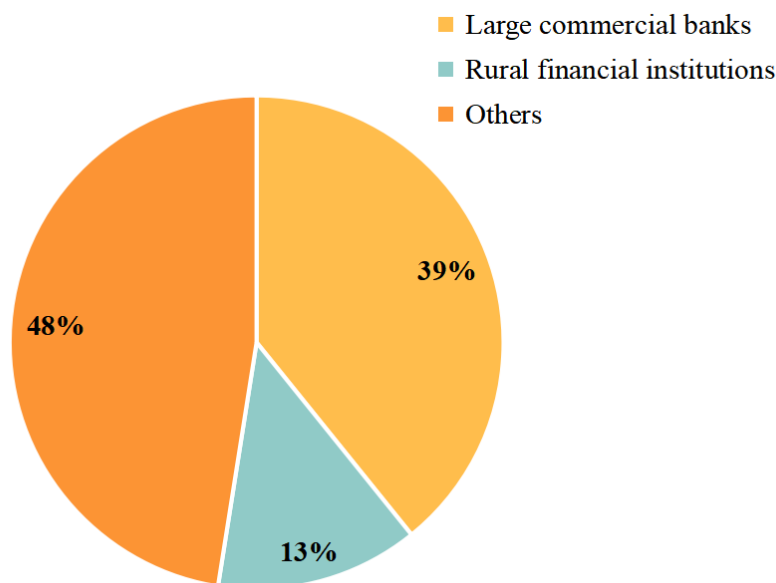


Figure 1 Asset Share Diagram of Banking Financial Institutions

### 2.3. Lack of corresponding policy support and perfect system

Although the current construction of rural inclusive finance system in China has achieved certain results, it has also been valued by some local governments, and most local governments have also formulated relevant policy support according to the actual development needs of the region. However, judging from the implementation effect, the government's policy support is obviously insufficient, which requires local governments to further introduce more effective inclusive financial policies and build rural inclusive finance system in combination with regional reality and development characteristics, so as to truly promote rural financial and economic development. The shortage of rural financial market in China is mainly caused by the imperfection of rural financial system in China. For example, the positioning of rural cooperative credit cooperatives is unclear, which requires them to serve the "agriculture, rural areas and farmers" and levy taxes according to commercial financial institutions, so that these rural financial institutions undertake national policy tasks, but they receive less policy support, which in turn leads to the outflow of rural funds. The state's policy support for rural financial institutions is not enough. The current policies are obviously temporary and limited in amount. These policies are only effective for small and medium-sized enterprises and agriculture-related loans pointed out by rural financial institutions, but have no advantages for other large financial institutions; At present, some policies are only in the pilot, and there are still limitations and incompleteness. For example, the incremental incentive policy for agricultural loans only accounts for a small number of farmers, which is obviously unfair treatment to different rural areas. Some policies are not standardized and refined. For example, some policies lack a scientific definition in understanding and explaining the connotation and extension of related concepts, and there is no standardized exposition of policies, which easily leads to confusion in implementation.

## 3. Countermeasures of rural financial development in China under the growth of inclusive finance

### 3.1. Enrich and innovate rural financial products and strengthen policy support

The richness and innovation of rural financial products cannot be separated from the support of professionals, so it is necessary to increase the introduction of professionals. After the investigation

and analysis of the rural market, we will launch a variety of financial products, refine the financial market, increase the growth of new products, and provide financial products with different patterns for different customers. Product forms should follow the continuous development and renewal of rural economy, and should not remain unchanged to adapt to the growth of rural economy. Personal and family financial management can be implemented, and bank payment can be provided for users who frequently make large amounts. The completion of these tasks is naturally inseparable from the guidance and planning of professional financial talents. Therefore, it is necessary to vigorously introduce professional talents to form a professional rural financial work team, actively provide innovative ideas for the good growth of rural economy, and use modern enterprise management mode to enable all staff to complete the corresponding work seriously and responsibly. The early growth of the industry needs corresponding policy support, such as "attracting investment" to attract investors. In addition, due to the special nature of inclusive finance, it is difficult to achieve the purpose of promoting the growth of the financial system only by relying on financial organizations. Compared with cities and towns, the income level of farmers is obviously different, but there are still few farmers who borrow mortgage property, and some people borrow mortgage property but often cannot provide effective guarantees. Based on this, financial organizations are reluctant to implement inclusive finance. In this regard, government departments should issue relevant support policies to solve the problems in the process of rural financial services and provide a strong guarantee for the construction of rural inclusive financial system in China.

### 3.2. Vigorously develop diversified financial institutions and constantly improve the rural financial service system

Due to the differences in subjects, China's demand shows the characteristics of more emphasis on diversity. We should combine the specific situation of rural economy and construct the corresponding supply mechanism from the actual characteristics. Generally speaking, rural economic demand can be divided into the following aspects: The demand for large-scale infrastructure construction such as water conservancy facilities construction and human settlement environment transformation; The development needs of leading enterprises and emerging industries; The development needs of characteristic industries and large-scale cooperatives; The development needs of ordinary families and individual operators. In order to carry out business better, specific institutions can proceed from the overall environment and fully combine their own characteristics, thus selecting matching objects, and finally bringing differentiated services to the whole rural area. It should be noted that in the process of carrying out this work, we must proceed from the specific situation of "agriculture, rural areas and farmers" and build financial institutions that meet regional characteristics with the strong support of policies.

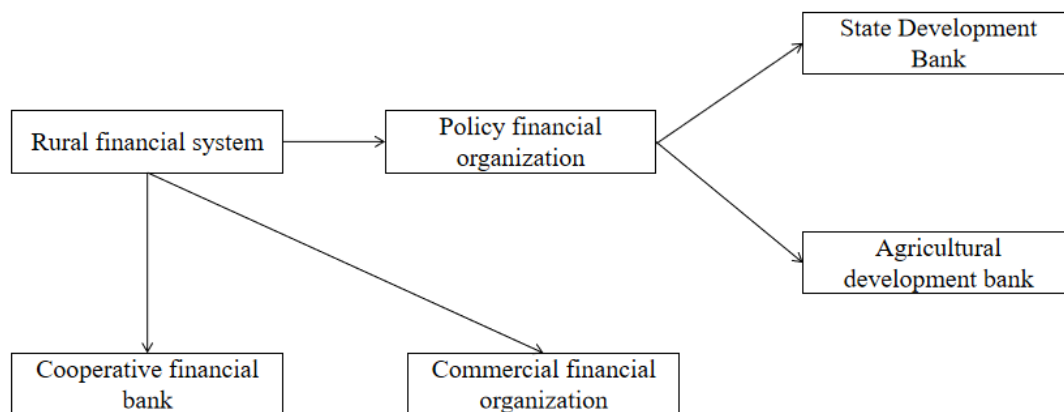


Figure 2 The current rural financial system in China

The rural financial system in China is a structural system with formal financial institutions as the main part and informal financial institutions as the auxiliary part. At present, China has formed a

rural financial system that includes policy, commercial and cooperative financial institutions, with state-owned commercial banks as the main body and rural credit cooperatives as the focus. China's current rural financial system is shown in Figure 2.

Encourage and improve the financial organization system. First of all, actively encourage and advocate many national financial institutions to set up branches. Secondly, strengthen the support for the further reform of rural commercial banks and postal savings banks, encourage and guide rural commercial banks to gradually improve their overall structure, so that they can develop perfectly, promote the further improvement of postal savings in township outlets, gradually change postal agency outlets into postal savings bank outlets, and do a good job in the further construction of payment service points for benefiting farmers, so as to achieve the popularization of financial institutions' outlets in general. Thirdly, set up targeted banking branches to effectively participate in the evaluation and reward mechanism related to credit poverty alleviation and other financial services. Thirdly, vigorously strengthen the growth of new financial organizations such as microfinance companies and mutual funds cooperatives, and strengthen supporting guarantees and evaluation companies. Finally, strengthen the further standardization of stocks, equity investment funds and other related aspects.

### **3.3. Increase the popularization of financial knowledge and improve the literacy of the beneficiaries**

Although the phenomenon of weak financial awareness and low financial literacy exists in rural areas, it is related to the dual structure of urban and rural areas, but the fundamental reason lies in farmers' lack of understanding of financial institutions, their lack of understanding of daily operations and business processes of financial institutions, and in general, their lack of basic financial knowledge. In order to improve this phenomenon, we need to build a publicity platform for financial knowledge, widely promote it by broadcasting stations in township governments, schools and other public places, broaden all available channels to publicize inclusive finance policies and the benefits that inclusive finance can bring, so that farmers can understand the significance of developing inclusive finance to them; We should build a long-term mechanism to publicize inclusive finance, urge all kinds of financial institutions to formulate financial knowledge publicity programs based on reality, and use similar marketing methods to send financial knowledge to every household, so as to fundamentally reverse farmers' understanding of finance and thus achieve the purpose of improving the financial ecological environment in mountainous areas. Financial institutions in rural areas need to go deep into the grassroots, carry out popularization and promotion of inclusive financial knowledge according to the cultural quality and ideological realm of rural residents, organize various publicity activities, such as training seminars, presentations, collective watching of relevant videos, and opening lectures to answer questions online. In addition, financial institutions can also guide rural residents to establish inclusive finance service contact cards, and provide relevant service consultation and service support to rural residents on a regular basis, so as to effectively improve rural residents' inclusive finance knowledge level and enthusiasm for participation, and make up for the shortcomings of insufficient rural financial popularization.

## **4. Conclusions**

Nowadays, the Internet has been widely popularized in China, which provides favorable conditions for the growth of some mobile payments, social networks and new Internet finance. The rural inclusive financial policy can use the Internet technology, taking crowdfunding as an example, and its application in rural inclusive finance can effectively solve the financing difficulties of agriculture, countryside and farmers. Promoting the construction and growth of inclusive financial system in rural economy with the help of the Internet has great advantages and considerable development prospects. In short, in order to promote the better and faster growth of rural areas, it is the most effective measure to construct and improve inclusive finance system. Because China is a big agricultural country, and the rural population accounts for the largest proportion of the population, the growth of financial organizations is of great significance to the rural economic

development. The establishment of inclusive financial system can effectively improve rural poverty, improve the quality of life of rural people and provide better living conditions for rural people. The government should strengthen policy support, solve and improve the problems and deficiencies in the current growth of rural inclusive finance in China through benign measures, ensure the all-round growth of rural inclusive financial system in China, lay a solid foundation for the scientific growth of rural finance, and then promote the sustainable growth of rural industry and economy in China.

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