

## Study on the Development of Rural Finance in China

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**Abstract:** The serious shortage of financial provisions in China's rural areas has made it difficult to meet the financial needs of the "three rural" areas, especially those in rural areas, which has led to the widespread use of rural private loans. Studying rural cooperative financial development issues has an important role in addressing the financial needs of disadvantaged farmers and regulating the access of rural people to loans.

### 1. Introduction

At present, in our rural financial system, we include traditional commercial banks, agricultural policy banks, rural credit cooperatives, rural commercial banks and rural cooperative banks that have been restructured from rural credit cooperatives, village and town banks, and rural mutual aid cooperatives. Microfinance companies and informal financial institutions. Although all types of rural 'village financial institutions have been formed, the existing rural financial supply and demand are still not suited to meet the needs of the "three rural" areas. We should soberly realize that there are different levels of demand in the complex rural financial system. We should focus on the characteristics of rural households' financial needs, especially the characteristics of poor rural households, and establish financial organizations that meet their needs according to their financial needs. With the gradual improvement of the socialist market economic system and the continuous deepening of the rural economic system reform, especially in the new situation of building a new socialist countryside, rural finance has gradually become the core of rural modernization and sustainable development of the rural economy. However, the weak nature of agriculture, the lack of effective collateral for peasant households, the small scale of loan demand, and the decentralization of peasant households have caused commercial banks to provide financial services to rural areas, which is facing asymmetric information and high costs. Due to the market-oriented orientation of commercial financial institutions, following the principle of profit-maximizing management has led to the development of non-agricultural and urbanization. Some agricultural producers with financial needs are not able to obtain commercial financial services.

### 2. Analysis of Sustainable Development of Rural Financial Efficiency in China

As an important supporting force in the "three rural" areas, rural finance has achieved certain results in recent years with the rapid development of the rural economy and the gradual revitalization of the rural market. According to the data in the China Rural Financial Services Report 2012, the balance of the 17.6 trillion yuan in agricultural loans for full-caliber agriculture has increased by 20.7% year-on-year, accounting for 26.2% of the total loan balance, an increase of 188.2% compared to the end of 2007, and the average of five years. The growth rate is 24.3%. The number of outlets in rural financial institutions has reached 75,935. The continuous increase in rural financial resources has promoted the development of the rural financial system. However, it should be recognized that when the growth of the equivalent reaches a certain limit, it must rely on the improvement of the quality, that is, the efficiency of the allocation of financial resources. The growth and quality of financial resources are equally important factors for sustainable development. Therefore, this paper introduces the state space model and the Kalman filter solution to fully exploit the advantages of the variable parameter model to empirically study the rural financial efficiency and its constraints. Comprehensive analysis of the three overall indicators of rural finance shows

that although the level of development of China's rural finance has been continuously improving since the reform and opening up to the outside world, the efficiency of resource allocation has not been increased synchronously, either from a macro perspective or from a micro perspective. Considering that financial efficiency is in a downward avenue, the overall financial resources in rural areas are being continuously transferred out of rural areas. This article will use the empirical analysis method to carry out an in-depth analysis of the constraints of my rural financial efficiency, and thus put forward some specific targeted policy recommendations.

### **3. Institutional Bottlenecks in the Efficiency of Rural Financial Markets**

At present, the indicator for evaluating the efficiency of rural financial services mainly means that the allocation of rural financial resources has reached Pareto's optimal rural financial efficiency. In the form of property ownership, financial resources in rural areas are represented by cash and credit resources for control and use. In the form of financial assets, it is embodied in cash, deposits, securities and various negotiable instruments. According to the theory of economics, rural financial resources must satisfy the following conditions to achieve Pareto optimality. First, the supply and demand of financial resources in rural areas are in an equilibrium state; second, the supply of investment portfolios reaches an optimal state; and third, the demand reaches Optimal state. If we must achieve the above three conditions at the same time, we must implement diversified investment entities, multiple types of financing, free-flowing financial resources and capital, and flexible prices. Only under this series of preconditions, can investors choose to switch financing based on their own preferences and financing needs.

According to relevant statistics, it is difficult for China's rural financial market financial resources to reach a balance between supply and demand, and the total supply is less than the total demand. From the perspective of the supply of rural financial resources in China, deposits are the main product of rural investment. Due to the extreme lack of investment products, rural investors cannot choose investment products based on their investment risk preferences. Savings become a passive investment choice for rural investors. In the absence of investment portfolio, rural financial institutions under the guidance of separate operations are not difficult to understand when they transfer funds to cities. This makes them an effective income increase channel, but it makes rural areas The loss of gold financing is serious. From the perspective of the demand for rural finance, due to the existence of the rural financial supply gap and the lack of various financing product choices in the market, the financing portfolio cannot reach its optimal status. There is a huge gap between the supply and demand of rural financial resources, and therefore it cannot meet the financing needs of general financiers. Financing them to informal financing channels has become a common phenomenon.

### **4. Influence of the Sustainable Development of China's Rural Finance**

First, economic development with sound economic foundation can further improve the financial ecological environment. A good financial ecological environment will provide a good environment for economic development. Difficult economic development in rural areas will reduce the harmony of the rural financial environment. Therefore, for regions with poor economic foundation and slow development, the corresponding financial ecological situation is relatively poor. Second, the legal and institutional environment plays a decisive role in the construction of the rural financial and ecological environment. As the legal system determines the boundaries of the rights of various economic entities, adjust the expectations of various economic entities. The legal system is the core element of China's rural financial ecological environment construction. Third, the modern market economy credit system is based on the credit relationship between economic and social activities based on complex credit relationships. Only through the establishment of a credit system can we enhance the development of economic and financial entities and promote the sound and sustainable economic development. Only by establishing and improving the platform and working mechanism of the rural credit system can we promote the improvement and development of the credit economy

so as to promote the construction of rural financial ecological environment. Fourth, financial ecology and natural ecology also have the ability to self-regulate and adapt to external constraints. However, if the influence of external forces exceeds this self-regulating ability, the financial ecology will lose balance. The Chinese government's protection and intervention in the financial industry has greatly weakened the market competition mechanism and inhibited the innovative functions of financial institutions. The national guarantee credit mechanism with only the "birth certificate" and no "death certificate" has greatly undermined the rules of competition for survival. Financial institutions have always had problems with government bills, and the central bank's write-off of bad debts has stimulated financial institutions to take risks, resulting in the failure of rational and effective allocation of financial resources. Fifth, developing countries generally initiate financial reforms in the absence of financial systems and financial institutions. China and these countries have many similarities in the initial conditions for financial reforms. At the same time, China is still transitioning from a planned socialist economic system to a market economy. This determines that China's financial reform is a systematic major project involving economics, politics, and All aspects of society are very complicated. Sixth, intermediaries include accounting firms, law firms, evaluation agencies, rating agencies, etc. Their service business content, although not a functional category of financial institutions, is also responsible for the supervision of some economic entities. The bridge between the government and the economic agents. If the intermediary system is underdeveloped, there will be many loopholes in the financial operation, which will result in the inability of the construction of a social credit system, and the ecological environment of rural finance will not be able to reach equilibrium.

## **5. Policy Suggestions for Sustainable Development of Rural Finance**

The source of credit funds is narrow. The funds of the Agricultural Development Bank mainly come from the financial appropriation, and a small part from local fiscal deposits or temporary loans, which makes the Agricultural Development Bank relatively tight in the capital chain in the process of supporting the development of the rural areas, and it is difficult to maintain the same to the traditional commercial banks. Adequate capital. b) Agricultural Development Bank has relatively few service outlets. Most of the second-tier and third-tier cities in China have only agencies of the Agricultural Development Bank. There are few branches of the Agricultural Development Bank in rural villages. This makes the Agricultural Development Bank in rural areas. The degree of participation and influence in the financial market is accordingly limited. c) Although the Agricultural Development Bank adopts the basic principle of the country in favor of agriculture in terms of credit support orientation, it still has a certain allocation of resources as a whole. Only a small number of rural areas can truly enjoy such policy banks as Agricultural Development Bank. The resulting "grace" of finance has, to a certain extent, reduced the effectiveness of policy-based banks in supporting agriculture. d) The policy development background of the Agricultural Development Bank makes it lack the market concept in the operation process, it cannot take initiative to grasp the objective needs of the adjustment of the agricultural industry, it is difficult to cope with the continuous changes in the rural financial market, ignoring the market efficiency and market long-term gains, thus lagging behind In other agricultural-related financial institutions, this is mainly reflected in the areas of rural financial products and rural financial services. The cooperative financial system includes not only traditional rural credit cooperatives but also new types of rural mutual funds. At present, China's rural financial markets are mainly based on commercial banks and rural credit cooperatives. Therefore, the cooperative financial system plays an important role in achieving the sustainable development of China's rural finance. Given the unique financial form and organizational structure of cooperative finance, there are certain differences in the ways of improving and reforming with other types of financial institutions. The principles of voluntariness, mutual assistance, democratic management, and non-profit that are adhered to by cooperative finance have been constantly impacted in China's current rural financial markets. 63 This does not prove the existence of irrationality in cooperative finance, but only shows that cooperative finance is gradually losing its influence under the current background of China's

rural financial market reform. Traditional operating strategies and financial service systems are gradually being tested, if not to examine the development path of cooperative finance in a brand-new attitude, it will not be impossible for the future of cooperative finance to leave the stage of the rural financial market. Therefore, it is a general trend for cooperative finance to change its operational ideas, win survival, and develop opportunities.

## 6. Conclusion

The essence of the “duality” structure of China’s economic and social urban and rural areas is the difference in the two levels of productivity within the two economic regions. The development of rural economy is used as a national economic development strategy to carry out the construction of a new socialist countryside, and to promote agriculture and to bring cities to townships. The integrated urban-rural development model, as a basic means for migrating advanced productive forces to the rural areas, and achieving a balanced development of productivity levels in both urban and rural areas is an external driving force for the sustainable development of the rural economy. Relying on the national development strategy of "ecological civilization" and "informatization" construction, we will adjust agricultural production methods, innovate rural business models, establish the development of the agricultural industry as the mainstay, support the development of related industries, and build and open on the basis of rural production and demand. Rural markets with Chinese characteristics, the establishment and improvement of the rural market mechanism system, and the optimization of market resource allocation in rural areas are the internal driving forces for the sustainable development of the rural economy.

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