

## Research on Innovative Development of Rural Finance under the Background of Inclusive Finance

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**Abstract:** Inclusive finance refers to the provision of effective and comprehensive financial services for all social strata and groups. Providing more financial products and services to all those who need them is intended to solve the problem of financial exclusion. Rural China is the key area of inclusive finance. The perfection of rural financial system and the development level of Inclusive Finance will play a decisive role in the development level of Inclusive Finance in the country or region. However, it is difficult for rural economic entities in China to obtain financing from the formal financial system under the influence of financial exclusion. The marketization and commercialization of China's banking industry have begun to spread to rural financial institutions. The shareholding system reform of rural credit cooperatives has further aggravated the financial exclusion of rural credit cooperatives in rural areas. At present, China's rural financial development has entered a new stage, and inclusive finance has also become a common financial service concept. It is of great practical significance to face up to the problems of rural financial development under the background of inclusive finance and to propose specific innovation strategies.

### 1. Problems in the Development of Rural Finance in China under the Background of Inclusive Finance

Specifically, there are still some problems in the development of rural finance in China as follows:

Firstly, the service mode is single, lacking the motive force and vitality of innovation. At present, China's rural financial service institutions include rural credit cooperatives, rural development banks, postal savings, microfinance companies and so on. However, such financial institutions are still dominated by traditional deposit and remittance services. Even if commercial banks set up outlets in rural areas, they only absorb deposits and do not issue loans. As a result, a large amount of rural capital outflow, but also to a certain extent, the source of funds of rural credit cooperatives and rural banks has been dispersed.

Secondly, the cost of credit investigation is high and the income is low. The biggest bottleneck in the development of Inclusive Finance in rural areas is that the rural credit information system needs to be improved. The problem of aging population structure in rural areas is aggravated by young and middle-aged migrant workers in rural areas. The poor ability of the elderly to accept new things and high-tech information, coupled with the imperfect rural credit system, makes it more difficult for the rural population to access inclusive financial services. Agriculture is characterized by weak quality, high dispersion and high risk. And rural residents live in scattered places, banks need to invest a lot of energy to analyze the credit situation of farmers. Banks are less willing to grant loans to rural residents because of their own risk control and control of loan credit reporting costs. In addition, the main demand for microfinance funds in rural areas are poor farmers and small and medium-sized enterprises. Banks are not willing to lend to such users because of their low profitability and weak risk resistance.

Finally, rural financial services coverage is low and hardware facilities need to be improved. The development of inclusive financial services must be supported by "multi-level, wide-coverage, and sustainable" hardware equipment, but the current situation is that financial institutions in rural areas have few outlets and are unevenly distributed. The construction of rural financial service hardware facilities needs to be improved, coupled with the low level of financial services, which ultimately

leads to the development of rural inclusive financial services.

## **2. Causes of Inclusive Financial Development in Rural Areas**

The reasons for the above problems in the development of inclusive rural finance mainly include the following aspects:

Firstly, the rural economic development lags behind, and the financial structure of urban and rural areas is seriously divided. There is a direct correlation between the slow development of financial services in rural areas and the lag of rural economic development. Rural finance is the main component of rural economy. Although China's rural economy has made rapid growth and breakthroughs since the reform and opening up, there is still a big gap compared with urban areas. The economical urban-rural dual structure has led to the increasingly serious division of urban and rural financial structure, which ultimately affects the development of rural inclusive financial services. Urban areas are centered on large commercial banks. In addition to traditional services, financial services include financing investment, securities trading, etc.; while the service content in rural areas is too singular. It is this lag in economic development and the severe differentiation of urban and rural financial structures that have led to a very slow development of inclusive finance in rural areas.

Second, the mechanism of rural financial institutions needs to be improved. The rural and rural credit cooperatives have long implemented a non-market-oriented operation mode. The new form of rural financial institutions has grown too short and has insufficient experience. There is a big gap between the rural financial organization operating system and the urban financial organization. The problems of unreasonable coordination and unclear division of labor among the functional departments of rural financial institutions are very prominent, directly affecting the operational efficiency of rural financial institutions. Each part lacks the overall awareness and overall concept, the detailed rules and regulations exist blind spots, and the macro-level risk management mechanism needs to be improved. As a result, rural financial institutions lag behind in risk prevention.

Finally, the implementation of the policy is poor. In order to develop inclusive financial services in rural areas, more flexible mechanisms and good environment are needed. However, in recent years, China's supervision system for the financial industry has become more and more stringent, which limits the development of financial institutions as a whole. The problem of administrative intervention is also more prominent. The government has issued more intervention policies for the development of Inclusive Finance in rural areas. Each rural financial organization can only change its development goals in accordance with the constraints of government policies. The government forced the promotion of rural financial system reform according to the principle of maximizing its utility. The government-led institutional reform not only made progress difficult, but also deviated from the actual needs of rural financial markets, resulting in the lack of operability of relevant policies.

## **3. Innovative Development Strategy of Rural Finance under the Background of Inclusive Finance**

In view of the above problems in the development of Inclusive Finance in rural areas, it is suggested that the following aspects should be reformed and innovated to promote the efficient development of Inclusive Finance in rural areas:

### **3.1 Strengthening the Construction of Financial Infrastructure in Rural Areas**

Firstly, we should implement the construction of rural financial credit information sharing system from hardware, standardize and upgrade the rural credit archives management system, and lay a solid foundation of credit information. All kinds of new agricultural operators will be included in the scope of credit evaluation, and a credit information system covering individuals and enterprises in rural areas of the country will be established. According to the information shared in

the credit information system, credit service reward and punishment mechanism is implemented to reduce the credit risk of financial institutions and increase the cost of default. Secondly, extensively promote the registration and certification of rural land rights, and establish a sound rural land transfer service platform and corresponding mortgage supporting facilities from the hardware. Therefore, it creates more favorable conditions for the loan collateral of rural financial demand subjects. Finally, strengthen the construction of public infrastructure, including roads, communications, schools, health stations, and so on. Only by improving the public infrastructure in rural areas can we promote the economic development of rural areas and promote the sustainable development of rural inclusive finance.

### **3.2 Strengthening the institutional guarantee for the development of rural inclusive financial services**

First, government departments must correctly handle the relationship between government intervention and market mechanisms. Despite the development and changes in the rural financial system, the government and the market have played a pivotal role. The government needs to make up for the shortcomings in the rural financial market, but this compensation cannot be equated with excessive intervention. The government must fully consider regional differences and then formulate targeted and differentiated rural financial support policies based on specific conditions to create a promising government and an effective market. Government departments should fully respect the market mechanism as the premise, create a good external environment for the development of inclusive rural finance, and balance the boundaries between government intervention and market mechanism. In view of backward, impoverished and minority areas, the government should increase intervention efforts appropriately, optimize policy-oriented financial supply, and take cooperative financial organizations as an important development direction.

Secondly, tax and fee concessions are implemented for inclusive financial services in rural areas. At present, the main funds in the rural financial market of our country are used to transfer agriculture to non-agriculture, because its profits are higher. Government departments can link the proportion of deposits and loans with tax revenue to guide the flow of funds to rural areas. In view of different financial markets, tax differential preferential policies should be implemented to mobilize the enthusiasm of financial institutions to grant loans to rural areas through tax regulation. In view of the weak profitability and low risk resistance ability of rural financial demand subjects, financial institutions can also help financial institutions to share some risks by adjusting tax policies. For example, financial institutions set a target profit of 4% for urban capital demand subjects. The government can reduce the target profit of financial institutions to the financial demand of rural areas by reducing the taxation of rural financial institutions. In addition, certain micro-credit institutions can also provide certain tax incentives for agricultural loans to increase their enthusiasm for credit development.

Finally, increase financial subsidies for inclusive financial services in rural areas. Government functional departments should give full play to their leading role in the development of inclusive finance in rural areas. Relevant departments such as the Ministry of Finance, the People's Bank of China, the China Banking Regulatory Commission, and the State Administration of Taxation should unite to promote the development of rural grassroots industries as soon as possible by introducing relevant subsidy policies for rural financial institutions. We will improve financial fund support methods, promote the construction of agricultural insurance systems, and provide certain subsidies for rural participation in agricultural insurance to share the credit risks of financial institutions and reduce the burden on farmers. In addition, government departments should invest as soon as possible to establish policy-oriented agricultural insurance companies that do not aim at making profits, and broaden the channels of risk sharing in rural areas. Attract commercial insurance companies to increase investment in agricultural insurance industry, and establish a diversified agricultural insurance model. As soon as possible, we should establish the corresponding compensation mechanism for farmers' credit risk, and clarify the financial service business of rural micro-credit which has both social and commercial benefits.

### 3.3 Deepening the Reform of Rural Financial Service Institutions

Rural credit cooperatives should emphasize their development goals of serving agriculture, countryside and farmers, and government departments should increase their support to underdeveloped areas. In view of the economically developed areas, the government can reform the rural commercial banks and rural cooperative banks. The introduction of responsible shareholders and high-quality shareholders will fully highlight the social responsibility of rural financial institutions. At the beginning of the year, rural financial institutions should formulate a year-round micro-credit plan, and ensure the implementation and implementation of the credit plan, so as to prevent them from being tired of agriculture and abandoning agriculture after transformation. In response to the Agricultural Development Bank, it is necessary to strengthen its policy financial positioning and support its establishment of the Poverty Alleviation and Finance Department to increase the proportion of medium and long-term credit. For China Postal Savings Bank, it is necessary to establish a three-agricultural business department to optimize the corporate governance structure. Clearly serve the service orientation of the three rural areas and steadily develop the small-scale agriculture-related loan business. The annual micro-credit plan for the whole year needs to be reported to the CBRC. In addition, non-bank financial institutions should be guided to implement inclusive financial functions, and financing guarantee companies, microfinance companies and online lending institutions should be encouraged to carry out inclusive financial services.

### 4. Conclusion

In a word, with the deepening of rural financial system reform, the important role of rural financial market is becoming more and more prominent. Under the good situation of vigorously advocating and developing Inclusive Finance in the country, we should open up our thinking and actively innovate. In a word, we need to speed up the pace of establishing an inclusive rural financial system with abundant capital, perfect system, comprehensive functions, good service and efficient operation. Increase policy support for the construction of rural financial systems, and guide more credit funds and social funds to rural areas and agriculture. In this way, it provides effective financial support for rural economic development and injects new vitality into rural economic development. Thereby promoting the sustainable development of China's "three rural" cause.

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