

Research on Innovative Development of Rural Area Microfinance under the Background of Inclusive Finance

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Abstract

Microfinance has brought many financial services to rural areas and poor residents with equal opportunities and affordable costs. It has become an effective way and the key to implement inclusive finance, as well as solving the contradiction between supply and demand in rural finance. However, microfinance still faces many difficulties. Therefore, based on the background of inclusive finance and the current situation of rural microfinance in China, this article reviews the development dilemma faced by rural microcredit, and discusses countermeasures and suggestions for innovative development of rural microfinance from the perspective of inclusive finance, with the aim to improving the financial system in rural areas, and to promoting the development of fairness and harmonious of the society.

Keywords

Inclusive finance, Microfinance, Rural area, Innovation and development.

1. INTRODUCTION

Since the reform and opening up, the economy in rural area of China has undergone tremendous changes. With the support of national financial targeted measures in poverty alleviation, many poor rural areas have also begun to enjoy the support of the inclusive financial system. However, as a comprehensive way to provide effective financial services to all classes of the society, the inclusive financial system has not achieved effective services for residents from all rural areas. There are still some deep-rooted contradictions and problems in the rural financial system. For example, the acute contradiction between supply and demand and insufficient competition in the financial market, have limited the ability of the rural residents to obtain effective financial lending services. Based on the background of inclusive finance and the current situation of microfinance in rural areas of China, this article reviews the development dilemma faced by rural area microcredit, and discusses countermeasures and suggestions for innovative development of rural area microfinance from the perspective of inclusive finance, with the aim to improve the financial system in rural areas, and to promote fair and harmonious development of society.

2. DEVELOPMENT STATUS OF RURAL AREA MICROFINANCE UNDER THE BACKGROUND OF INCLUSIVE FINANCE

In 1993, Rural Development Institute Chinese Academy of Social Sciences tested rural bank microfinance models in Hebei and Henan provinces, and realized the poverty alleviation of credit poverty alleviation funds. Since then, microfinance has been widely used in poverty alleviation actions and has become an important policy tool for the institutionalization, systematization, and standardization of poverty reduction in China. Later, in the 21st century, some domestic city commercial banks have begun to launch microfinance business to provide support for laid-off unemployed people, individual industrial and commercial households, and

small and medium-sized enterprises in urban and rural areas, thereby gradually becoming the main force of inclusive finance. According to the latest data released by the central bank, till the end of March 2019, China has had a total of 7,967 small loan companies with loan balance of 927.2 billion RMB. Microfinance has developed from a tool for rural poverty alleviation to an important means to support urban and rural mass entrepreneurship and innovation. Rural low-income groups and poor farmers have also been included in the scope of rural microfinance[1]. Therefore, rural microloans are loan policies for low-income people in rural areas or individual industrial and commercial households. Generally, the amount is relatively small, and it is usually guaranteed by villagers' joint guarantee and natural person guarantee[2].

Financial poverty alleviation has always been the focus of attention of the country. Since 2014, the country has issued a number of documents, such as Several Opinions on the Development of Financial Services, Agriculture, Rural Areas, and Farmers, Plans to Promote the Development of Inclusive Finance (2016-2020) and so on. Since 2018, the central bank has issued four targeted reductions and two general reductions to release 8 billion low-cost working capital to rural commercial banks and village and town banks, and has implemented re-loan funds and rediscounts to guide financial institutions to support agriculture. With the joint efforts of multiple departments and financial institutions, rural microfinance has steadily increased. According to the central bank's data, till the end of 2019, the balance of domestic and foreign currency agricultural loans was 35.19 trillion RMB, an increase of 7.7% year-on-year, and this figure was only 61,000 RMB at the end of 2007. The agricultural credit was 2.68 trillion RMB, an increase of 451.5 billion RMB. It can be seen that with the support of the national inclusive financial policy, rural microfinance has developed rapidly. At the same time, product innovation and service consciousness of rural financial institutions have been continuously enhanced, and the last mile financial service business has been actively explored. The supporting inclusive financial infrastructure and services in rural areas have been continuously improved, such as the further promotion of electronic payment, which greatly facilitates farmers to enjoy financial services. According to China Inclusive Financial Development Report of 2019, in the first half of 2019, online banking payment service in rural areas in China has reached 74.27 trillion RMB, approximately 6.354 billion transactions. The amount of mobile payments has also reached 31.17 trillion RMB, approximately 4.735 billion transactions.

It is not doubt that microfinance has brought many financial services to rural areas and poor residents with equal opportunities and affordable costs, and it has become an effective way and key to implement inclusive finance and solve the contradiction between supply and demand in rural finance. However, since the day our country has implemented microcredit in rural areas, it encounters a lot of dilemma, which are high credit thresholds for farmers, few types of credit products, small credit lines for farmers, and low balance for per capita credit, which need to be further explored in the future development.

3. DEVELOPMENT DIFFICULTIES ENCOUNTERED BY RURAL MICROFINANCE UNDER THE BACKGROUND OF INCLUSIVE FINANCE

Because rural microfinance starts late in China, and agricultural production has inherited limitations, rural microfinance in China is still in the primary stage of development. It encounters many difficulties in the actual operation and further development. The main manifestations are the special needs of microfinance, the single source of funds and so forth. If those difficulties are not solved, they will impede the improvement of China's inclusive financial system and will not be conducive to the innovative development of rural microfinance models.

3.1. Special Subject of Credit Demand

From the perspective of characteristics of rural credit demand, the main demand subject of farmers are divided into poor farmers, subsistence farmers, and marketing farmers. It can be seen from Table 1 that the main farmers in rural microfinance demand are poor farmers and subsistence farmers. It can be learned that although there is a general need for credit in rural China, the credit desire of low-income farmers is more obvious. The credit needs of low-income farmers for medical expenditures, children's education, etc. are more obvious, but their own funds are limited, so their tolerance of risk is relatively low, and their credit demand is small and the due time is long. In addition, low-income farmers have limited collateral and a single form of credit collateral. Therefore, most farmers apply for microcredit to meet their borrowing needs by relying on guarantees between neighbors or mortgages on production materials such as houses. This has caused hidden dangers for rural microfinance.

Table 1. Subjects, contents and ways of satisfying rural credit demand

Demand subject	Characteristics	Demand content	Satisfying way
Poor farmers	Annual net family income < 5000RMB, low-income	Living expenses, small-scale cultivation and production	Rural microfinance, government poverty alleviation funds, fiscal funds, policy finance, private loans
Subsistence farmer	5000RMB ≤ Annual net family income ≤ 20000RMB, medium income	Living expenses, small-scale cultivation and production	Rural microfinance, farmers' own funds, private loans, small commercial loans, cooperative financial institutions
Marketing farmers	Annual net family income > 20000RMB, High income	Specialized, large-scale central and production	Farmers' own funds and commercial loans

3.2. Single Source of Funds

Rural microfinance institutions have a single source of funds and lack of development momentum, which is the biggest dilemma currently. In the past, there were three main forces in the rural market, including Agricultural Development Bank, Agricultural Bank and Rural Credit Cooperatives. However, due to some reasons of the rural areas and these banks themselves, their attention to rural microfinance has gradually decreased. The Agricultural Development Bank of China is the only agricultural policy bank in China. It does not aim at profit. Instead, it mainly raises funds on the basis of national credit to support agricultural policy financial business. Therefore, it rarely supports agriculture through microcredit. In 2009, state-owned commercial banks started a reform of joint-stock. After the reform, the agricultural bank's policy functions were greatly weakened, it gradually withdrew from the countryside, and it focused more on commercial credit. After the reform, the rural credit cooperatives has become a rural commercial bank, and its standardized operation has been greatly improved. Although our country's policy on supporting rural commercial banks' agriculture service is relatively obvious, the lack of blood-making capabilities in rural areas is not conducive to revitalizing funds, which has led to a decline in enthusiasm for developing microfinance business. In addition to the three main forces mentioned above, there are some microfinance

companies in rural financial services market. However, due to institutional reasons, these companies cannot absorb deposits. There are also some rural financial institutions that can absorb deposits, but farmers' savings funds are limited. It is impossible to absorb a large amount of deposits, and it also has to bear high operating costs, leading to the difficult in carrying out large-scale microfinance business in the short term. In recent years, government departments have paid attention to the development of small loans in rural areas and issued credits through the Poverty Alleviation Office and the Federation of Trade Unions. The sources of funds are unstable, the amount of funds is insufficient, and the capacity of long-term sustainable development is weak. Moreover, such funds are often targeted at specific groups of people, which has narrow coverage.

In addition, the investment concepts and consumption concepts of farmers are relatively narrow. The funds in their hands tend to flow to cities, resulting in the shortage of rural funds and a reduction in the volume of the funds. Therefore, rural microfinance institutions have unstable sources of funding and narrow channels. Moreover, the single loan amount of the farmers is small, the cycle is short, the dispersion is strong, the farmers are weak, and it is difficult to fix high prices for financial products and services, which has reduced the vitality of credit institutions.

3.3. Weak Capabilities of Risk Control

The target of rural microfinance is mainly low-income farmers, but the characteristics of agricultural production determine the high risk of microfinance capital recovery. On one hand, agricultural production has seasonal characteristics, which determines that farmers' capital needs change with the changes of season. Before the crops were harvested, most of the farmers' funds were invested in agricultural production and could not be recovered, which caused a relatively tight funding chain. On the other hand, agricultural production depends on the weather to a large extent, which is greatly affected by natural disasters and has strong vulnerability. Although human beings have been able to take some measures to deal with natural disasters, there are still many natural disasters that cannot be controlled. Therefore, under the influence of force majeure factors, the stability of agricultural fund accumulation is poor, so that the return of microfinance funds has a greater risk. In the third aspect, agricultural products are subject to price fluctuations and have strong market risks. In addition, restricted by their limited thinking and vision, farmers have weak market analysis capabilities, which has hampered the ability to realize agricultural products and reduced the amount of microfinance funds recovered.

There is a serious problem of information asymmetry between rural households and microfinance financial institutions, and China has not yet established a comprehensive social credit reporting system. Microfinance institutions cannot fully assess the households' ability to repay and identify the credit situation of rural households. In addition, the deep-rooted social relationship system in rural areas is not conducive to the promotion of microfinance in rural areas[3]. Mr. Fei Xiaotong once called rural China "the society of acquaintance" [4]. Rural farmers have lived together for generations, thus forming acquaintance relationships passed down from their ancestors. In this kind of game rules that rely on emotional connections, farmers are more inclined to borrow from "acquaintances", hindering the promotion of small farmers' credit in rural areas.

3.4. Insufficient Innovation of Product and Service

As the main supplier of rural microfinance, the range of products and services provided by rural financial institutions is subject to the influence and constraints of the function scope of supporting agriculture. Therefore, it is more limited to providing credit services for the circulation of state-owned grain, cotton, and oil, and it is lack of adequate support of agricultural

industrialization reform, agricultural industrial restructuring, and increased income of microfinance farmers.

The inclusive financial system aims to provide comprehensive and effective financial services to all classes of society. In recent years, rural capital demand groups have also appeared development characteristics of diversity and hierarchy. They have transformed from previous capital borrowing to diversified business requirements such as credit and insurance. However, the capacity of microfinance institutions is limited and it is difficult to provide diversified financial services to farmers. There is a sharp contradiction between supply and demand.

4. SUGGESTIONS ON INNOVATIVE DEVELOPMENT OF RURAL MICROFINANCE UNDER THE BACKGROUND OF INCLUSIVE FINANCE

At present, rural microfinance is confronted with many difficulties. In the context of China's increasingly inclusive financial system and the increasingly fair environment of the financial market, microfinance should take advantage of its familiarity with rural financial business. Besides, as the saying goes, "it is easy for a small boat to shift direction", therefore, under the guidance of the inclusive financial system, microfinance shall actively build a rural microfinance model from the perspective of inclusive finance, in order to better meet farmers' demand for financial services.

4.1. Broadening Funding Sources

The rural microfinance market has lost its vitality for development due to policy constraints. Microfinance's support for agriculture is not only to provide financial "blood transfusion" to rural areas, but also to stimulate the "blood-making" ability of rural finance. To this end, it is necessary to create an open and fair microfinance market environment, allow each subject to give play to their advantages, and broaden the source of funds. To be specific, the local government needs to attract more private capital into the microfinance market, allow more qualified credit organizations to participate in the microfinance market competition, and achieve survival of the fittest in the competition. Only in this way can excellent microfinance institutions become bigger and stronger.

It is also necessary to give an equal legal status to different types of microfinance organizations, promote a fairer microfinance market, reduce the policy's transitional intervention in the market, and achieve the survival of the fittest in fair competition and revitalize the vast rural financial market. In addition, microfinance organizations that participate in poverty alleviation projects or those are mainly based on poverty alleviation projects can enjoy appropriate policy preferences.

Moreover, it is also needed to promote the cooperation between microfinance institutions and large commercial banks, in order to combine the advantages of both to jointly serve the development of the rural microfinance market. Rural small sized modern institutions have the advantages of strong flexibility, high grasp of the rural credit market, and the natural advantages of adapting to the rural financial market. Large commercial banks have strong capital strength and are responsible for poverty reduction. Therefore, the cooperation between both of them can not only effectively ensure the funding source of rural microfinance organizations, but also achieve the task of poverty alleviation of commercial bank policies.

4.2. Improving Credit Guarantee System

First of all, the state and local government departments can adopt policies to support and accelerate the development of rural guarantee institutions and optimize the construction of rural microfinance guarantee organizations, such as fiscal subsidies and tax reductions. Then, they can explore rural microcredit guarantee forms, such as taking land contracting rights,

agricultural machinery and tools and homestead utilization rights, collective forest rights, etc. as collateral. Thus can innovate different forms of security collateral. Last but not least, to innovate and establish regional re-guarantee institutions to share the credit risk of rural microfinance guarantee institutions, explore cooperation between microfinance organizations, insurance companies, guarantee institutions, and cooperative banks, and establish a community of interests to defend against force majeure risks.

4.3. Diversifying and Differentiating Innovation

Although microfinance seems to be a lending product literally, in fact, microfinance is not just a single lending product, it is also a service and model that conveys the concept of inclusive finance. The goal of inclusive financial system is to make financial services accessible to all groups, especially low-income groups. Therefore, China's rural microfinance should work towards this goal, encourage different types of microfinance organizations to explore different development paths actively, and explore diversified and differentiated innovations in products and services.

First of all, rural microfinance should be allowed to carry out differentiated operations based on the characteristics of the organization and pursue their own operational goals[5]. For example, Indonesia's BRI model is a success of the commercialization of a handful of microfinance organizations in the world. Another example is the NABARD model in India, which achieves the unification of poverty alleviation and commercial sustainability during the development process. The form of "financial institution plus farmer mutual assistance group" has become a typical success case in the field of microfinance[6]. Second, rural microfinance organizations to innovate credit service models shall be encouraged, and characteristic development shall be carried out. For example, the installment repayment and continuous lending implemented by GB model originated from Bangladesh, and the layered supervision and full decentralization adopted by the Indonesian BRI model[7]. It is worth noting that no matter what kind of differentiated and distinctive development path is adopted, it must be based on the investigation and research of the local rural financial service market, the cultivation and production cycle of local agricultural products. On the basis of understanding the credit needs of farmers, breakthroughs and innovations in existing credit business will be made.

4.4. Optimizing Credit Supervision System

First and foremost, the credit information files of farmers should be improved. With the increasing importance of the credit system in various fields, the establishment and improvement of rural household credit files can be explored. Relevant departments can collect farmers' information to improve the filling of farmers' credit record. Then, it is necessary to explore the establishment of a system of rewards and punishments for keeping and breaking the users' promises. Farmers in the vast rural areas have the psychology of luckiness, and their willingness to repay loans is poor. Therefore, it is necessary to explore the establishment of relevant reward and punishment mechanisms. On one hand, those who break their promises shall be notified, and even certain punishment measures. On the other hand, those who keep their promises with good credit record should be provided by credit preferential services. Last but not least is to improve the rural mortgage registration system. Problems such as irregular mortgage registration information, difficulty in exercising mortgage rights, and small select ability of mortgages are common in rural areas. To this end, local organizations can explore the establishment of a sound rural mortgage registration system. For example, policies and regulations can broaden the scope of the object of mortgage rights, and explore to simplify the procedures for exercising mortgage rights.

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