

# Research on the Path of Innovation of the Financial System from the Perspective of Rural Revitalisation

Shihao Li

School of Finance, Anhui University of Finance and Economics, Bengbu, China

Email: ShihaoLi@163.com

**How to cite this paper:** Li, S. H. (2021). Research on the Path of Innovation of the Financial System from the Perspective of Rural Revitalisation. *Open Journal of Social Sciences*, 9, 241-249.

<https://doi.org/10.4236/jss.2021.94018>

**Received:** March 4, 2021

**Accepted:** April 22, 2021

**Published:** April 25, 2021

Copyright © 2021 by author(s) and Scientific Research Publishing Inc.

This work is licensed under the Creative Commons Attribution International License (CC BY 4.0).

<http://creativecommons.org/licenses/by/4.0/>



Open Access

## Abstract

The feasibility of additional funding for rural development is dictated by the sustainability of the local monetary sector. There are currently some concerns in outer regional capacity, such as financial institutions' reluctance to lend due to urban asset restrictions, capital outflow due to inadequate collective economy size, and issues such as restricted economic development. To complete the construction of an innovative rural financial system, this paper begins by improving the regulatory precedent of the financial system, raising the input of financial goods, enhancing the rural financial credit climate, and defining the rural financial system's orientation, with the goal of providing feasible suggestions for rural financial system innovation.

## Keywords

Rural Revitalization, System Innovation, Rural Finance

## 1. The Origin of Rural Financial System Innovation

In view of the current "three rural problems," the rural revitalisation strategy is an important exploration for its state to plan possible capacity building planning. The dramatic increase in the total yield and production in recent years has created not only a change of mindset for tackling the "three rural issues," but also the potential to further enhance rural wealth creation and close the digital divide prosperity thru the design of a rural rezoning strategy. As shown in **Table 1**.

Rural shakeup is evaluated the prevalence of rural credit, which is inextricably linked to the aid of the exurban financial system and mechanisms. China is nearing the pletion of its shift via a typical natural economy to an advanced agriculture industry. The rapid growth of the new local economy collective

**Table 1.** 2016-2019 China economic net total agricultural output data.

Year	Total agricultural output value (RMB billion)	yearly growth
2016	55,659.89	2.68%
2017	58,059.76	4.31%
2018	61,452.60	5.84%
2019	66,066.45	7.51%

would coincide with the brief development of traditional arable users in the agriculture. The growth of the rural financial system should focus not only on meeting the financial needs of conventional farmers, but also on promoting the development of new rural economic actors. And the intensive farming economy, as well as intensive farming consumers, is faced with a lack of secured assets and credit. The key to rural financial system reform is finding out how to meet the borrowing needs of the two main agricultural operators through system innovation, as well as how to ensure the sound growth of agricultural financial institutions while also achieving the target of funding the revival of country places.

## 2. Financial Development Theory and Current Research Achievements

### 2.1. Relevant Theories of Rural Financial Development

Financial repression has existed to some degree in most developing countries since the 1970s: a strict threshold for microfinance, and also the control of interest rates and the credit score list, are all part of the financial coercion system (Zhang Zhenjia, 2019). As a result of this phenomenon, the deposit interest rate is exceptionally low, which has a specific impact on net inflation, due to reduction in bank funds availability. To resolve this problem, some developing countries have begun to introduce financial liberalisation policies, reducing government regulation over the financial sector to a large extent in order to achieve a high level of financial sector liberalisation. In view of the rural area, the government adopts a strategy of rising the wad of cash retained in rural areas at a particular price, steadily implementing the rural asset prices theory, and mobilising the rural livelihoods circulating fund to be advantageous to the development of the financial institution (Yang Wanning, 2019). The poor existence of agriculture triggers an outflow of rural floating capital in the rural financial market, so active floating capital does not give real impetus to rural economic growth, and the issue of rural economic development remains unresolved. It is not tricky to acquire that, in the context of the credit rationing situation, the market can not face the moral choice and the adverse risk to guide the capital flow to the economic industry which is in urgent need of development. As a result, in the field of rural financial markets, market theory (Yang Yishan & Wang Weiping, 2020) has been suggested, stressing that, amidst state involvement in currency institu-

tions, the giddiness of some investment banks would be mitigated. It will also play a supplementary role that can not be ignored; we should combine government involvement with market expansion and structures to facilitate the growth of a diversified rural financial system.

## 2.2. The Current Achievements of Rural Financial Creation

Ones survey is based on the shoulders of a number of academics in the field of village financial innovation that promotes rural reinvigoration. There was some doubt in 2011 about the relationship between rural finance and rural economic development. Yu Yuejun and Wang Qinghua (2011) used the Var model to establish the link in both rural finance and rural economic development and found that rural finance can help the economy develop. Zhao & Zhu (2015) examines the beneficial impact of China's rural finance and policies on the economy in a number of market-oriented processes. It has been discovered that, as the rural revitalization strategy continues to be established, rural finance and China's fiscal policy can support farmers in the rural economy's growing position.

The creativity of the financial system is at the heart of the promotion of rural finance promotion. Rural finance, according to the perspectives of the above mentioned scholars, plays an undeniable part in the success of its economy. The trick to urbanised value is how to do well in the top design of financial creation, slow down government restraint on the financial system, adapt the supply of credit derivatives and the system of property mortgages and complete the innovation of the monetary sector. While numerous scholars have confirmed the link between rural finance and rural economic development, they have suggested some ideas for financial system innovation. Even so, in order to facilitate the adoption of the rural revitalization plan, we must continue to examine the weaknesses of the rural financial system is designed supply fuel for innovation.

## 3. The Deficiency of Rural Financial System

The promotion of rural finance promoting rural revitalization strategy not only does it rely on the country's successful financial policy, but it also has a rural financial system and financial climate to match. The results are undeniable, but there are still some flaws in the status quo reform of China's rural financial system. To preserve the status quo of the rural revitalization policy, a multi-analysis of rural finance was conducted. There are still the following deficiencies:

### 3.1. Rural Assets Are Limited

The majority of rural areas in China currently operate in a decentralised manner, with the family as the primary unit, resulting in small and dispersed rural properties. The property of farmers is mainly composed of housing, land contract management right and deposit, etc. Since property rights are not complete in these properties due to the ownership of housing on collective land, the commercialization of rural housing is poor. Because the land contract management

right can not be used as mortgage, only the deposit in the farmer's property has the legal backing of mortgage loan. Although the legal status of the main body of the new agricultural economy is unique, it lacks both the circulating fund and the corresponding credit guarantee because of its small scale. In the absence of complete collateral guarantee mechanism, no matter how innovative the financial system is, the rural financial institutions will be reluctant to lend to some extent for fear of the risk of the return of borrowed funds.

### **3.2. The Collective Economy Is Undersized and Capital Is Flowing Out**

Since the end of the planned economy, the main body of agricultural management has accordingly changed to take the family as the basic unit. Farmers independently engaged in planting, breeding activities at the same time should also bear the risk from the natural climate instability, market volatility caused by uncertainty. Due to the limited loanable assets of farmers, it is difficult for them to have credit guarantee in rural financial institutions. Rural financial institutions can strictly monitor the verification of the knowledge of farmers' loans in order to avoid the possibility of capital withdrawal. In our region, rural financial institutions in the form of commercial banks are becoming more prevalent. The funds deposited must pay not only the interest of the depositor, but also the expenses of bank operation. The operation of commercial banks has the natural attribute of making profits. In the context of the low level of development of rural commercialization and the rapid development of the urban investment industry, rural financial institutions will use part of farmers' funds in urban investment to obtain investment benefits. The root cause of this phenomenon lies in the insufficient scale of the rural collective economy, the lack of investment projects that can be borrowed on a large scale, and the fact that rural financial institutions have not specified the investment targets for the operation of bank funds, as a result, idle funds of farmers are used in the city construction of the capital outflow phenomenon.

### **3.3. The Positioning of Rural Financial System Is Absent**

At present, policy-oriented development banks and commercial banks make up China's agricultural financial institutions. Due to the former's fast start-up time and limited capital size, it has a competitive advantage. They are only used to grant policy-oriented subsidies to key agricultural projects. In contrast, rural commercial banks have become one of the most important financial institutions supporting the growth of the rural economy. The influx of industry funds should help to encourage rural revitalization, but Rural Commercial Bank funds are more likely to invest in high-income, low-risk urban real estate and science and technology industries. Profit-seeking capital is a market option for Commercial Bank operations, but is incompatible with the objective of developing agricultural gold institutions. The establishment of agricultural gold institutions in China

is intended to finish the work of rural revitalization and encourage the growth of various rural industries. Due to the lack of a consistent legal status for agricultural gold institutions' service items, as a result, agricultural commercial banks, based on the principle of self-efficiency, tend to think more about the problems of flow, safety and utility in the orientation of the development of the financial system, While it is not radically different from other commercial banks, it departs from the purpose of developing a rural financial system to facilitate regional economic coordination.

#### **4. The Path of Rural Financial System Innovation**

Currently, the issue of farmers' financial problems is unaddressed, and the financial system in rural areas has flaws as well. To improve the function of the local financial sector, the state, local hedge funds, and farmers should establish a functional systems for rural economic literacy.

##### **4.1. Actively Improve the Legal Provisions of Rural Financial Institutions**

The leadership of applicable laws cannot be isolated from the enhancement of existing financial service efficiency. The establishment of rural commercial banks in China should benefit from the experience of some Western developed countries, such as the development of rural banking cooperative rules. In view of its fund source, the specific stipulation is rendered by the organisational structure, the service form, and the service item. In areas where financial services are relatively small, it is possible to gradually develop into autonomous rural banks in the form of rural cooperatives, Farmers finance their members' agricultural needs through closed funds and democratic management that is responsive to market changes. The fundamental reason for the limited total assets in rural areas lies in the fact that the housing and land contractual management rights of farmers can not be used for bank mortgage business. As a result, on the basis of land contract registration in rural areas, the state should amend the related contents of the rural property guarantee law, endow farmers with complete property rights of housing and land contract management rights, and enable new rural economic institutions to handle loan business independently. We should amend sorts of laws at the tier of the local control system and construct a villages economic development agency. In this regard, we can learn from Xinzhuang village in Henan Province, which developed business enterprises based on the benefits of rural industrial development and formed farmers' equity participation in the form of land contracts and deposits. Village leaders also serve as business leaders, agricultural large-scale operation in accordance with market mechanism. Through the improvement of the law, to create a simple mortgage guarantee mechanism to reduce the risk of funds being returned after borrowing, thus reducing the phenomenon of rural financial institutions being unwilling to lend to some degree.

## 4.2. Ensuring the Supply of Rural Financial Products

At present, rural financial services rely more on the agricultural support of policy banks. The development of agriculture should not only use government's guarantee and subsidy, but also to create a financially diverse system. In view of the lack of size of the rural collective economy and the lack of large-scale lending undertakings, rural financial institutions should establish a favourable climate of growth for the rural financial market, which has resulted in the transfer of cash between agricultural and commercial banks to cities. Insurance, funds, securities and other financial products can be implemented to help direct funds back to rural areas. Rural financial firms could set up rural investors in responding to the demands of town agriculture sector, design and develop agricultural products, set up regular insurance business on the preservation of agricultural products and mitigation of disasters, and provide hedging services for agricultural products. For the development of a rural economy on a large scale, we should actively look for the Investment Development Fund of Agricultural Industry to participate in the development of local superior industries, through giving appropriate tax relief, preferential policy subsidies and providing policies for the introduction of talents, make it the key source of rural investment and propel the growth of a large-scale rural economy. Rural banks can also innovate financial products according to local conditions, such as rural revitalization credit cards, rural residents' old-age care, tourism and finance products, and the development of rural PPP projects are all on the tab. According to the needs of rural revitalisation development in various regions, strengthening agricultural loan guarantees, ensuring the quality of life of farmers and directing commercial bank investment funds back to villages. The efficiency allocation of the rural financial system is optimised by combining strategy finance, diversified finance and investment financial products, ensuring the security of rural financial services and the characteristics of service to agriculture. By the the supply of rural financial goods, the government and social capital will stimulate new investment in rural revival.

## 4.3. Improving Rural Credit Environment

China's credit information industry has been a great space for growth, thanks to the continuous improvement of Internet technology. In the actual case, China should regulate the rural credit environment from the credit industry and share the information of tax and market supervision departments through the Internet. The expansion of the credit system is related to the growth of lenders. As a result, in order to improve the rural economy, multiple organisations must work to create a lending system that is available to the public and enables rural financial institutions to accept loan application inquiries. In order to create a rural credit system, we must first develop a qualified assets appraisal institution that will take on the appraisal obligation in compliance with the law. Rural financial institutions use their tests to decide whether or not to lend to applicants. More-

over, because the economic benefits of modern agriculture are not only is the current epidemic environment severe, but also the current epidemic environment is still severe, and the price level of planting industry and animal husbandry is unstable, this not only brings the uncertain factor to the farmer's benefit but also brings the certain risk to the financial institution loan. Therefore, China should set up the rural industry guarantee company led by the government in the rural areas to guarantee the production needs of farmers. This form can not only alleviate the impact of market instability on farmers' production, but also solve the problem of farmers' difficulty in borrowing due to lack of complete property rights by means of state guarantee for rural financial institutions. Finally, no matter what form of guarantee is adopted, the risk of capital withdrawal always exists objectively. China should establish asset disposal companies in rural areas to deal with the bad debts on hand and promote the spread of mortgage credit. To eradicate bad debts and recoup losses incurred by rural financial institutions, we should consider the operation of the borrower's assets and take the form of timely extension or priority disposition of the right to obtain collateral repayment.

#### **4.4. Accurately and Objectively Orientate the Rural Financial System**

Agriculture has long been a laggard in the growth of modern industry in our region, the capital investment always tends to higher possible assets income, which causes the domestic capital from agriculture to the newly developed urban industry. The alignment of its legislative arrangement and the creation of its service object have a direct effect on the growth of the farming sector as a direct economic support unit for Nature Conservation. When it comes to the Agricultural Development Bank, it should always implement the relevant policies of the state aimed at the agricultural industry and animal husbandry, and constantly improve its guarantee and futures options service scheme, Using targeted state funds to bridge the monetary disparities areas. The funding networks of smes funds should be aggressively extended to include monetary effect on low agriculture due to the characteristics of dispersed funds and restricted quantities of funds. In difficult times, the Huimin County government can implement interest-free and interest-bearing loans to rural areas in order to sustain and stabilise the country's demand for rural revitalization and agricultural growth. Rural commercial banks, on the other hand, are still fundamentally agricultural banks, and loans should be given collectively to agricultural enterprises and farmers in need, despite the fact that they are commercial banks and follow the guidance of commercial operations to extend their output. For the banking system, the government should gradually deviate from the promotional behaviour of rural lenders and improve the capacity of policy banks. In view of the phenomenon, the rural funds are introduced into the urban construction caused by the unknown clients. The rural financial firms' independent development mode can be identified, and the regional investment banks' clients can be clearly defined as

the scope of rural enterprises. There is a restriction on the object of service in time to attain that rural commercial banks serve agriculture and support the rural revitalisation plan. It has some negative effects on the growth of rural commercial banks. Under the Arrow, the state will collect data on rural commercial banks involved in the “rural revitalization” plan, and grant policy rebate subsidies for agricultural industries based on the amount of loans and repayment time limits. To compensate for the losses caused by rural commercial banks’ limited service items, and to achieve the aim of developing a rural financial system to facilitate organised economic growth.

#### **4.5. Strengthening Farmers’ Financial Knowledge**

The primary challenge of rural financial system growth, as the most important aspect of their construction, is to improve the quality of their personal data and risk awareness. In this regard, villages and towns will interact with the regional financial institutions departments, promote the improvement of the financial knowledge of farmers’ groups through evening classes and knowledge lectures, also with boost the popularisation and reduction of agribusiness in rural places, reducing crop yields losses due to a variety of factors. Rural areas should also continue to improve their talent strategy, which seeks to recruit new scientific and technical talent to help drive the growth of rural industries and provide theoretical guidance. Science, technology, and financial knowledge have all helped to make this possible.

### **5. Conclusion**

The provision of micro financing is inextricably related to the growth of rural regeneration. To integrate the current fruits of the urban reorganisation strategy and stimulate its development, we could continue to strengthen the legal construction of rural financial institutions, ensure a stable legal guarantee for the credit relationship between agricultural financial firms and farmers, and decrease the risk of funding. At the national level, we should also introduce an interest compensation scheme for rural commercial banks as part of the rural revitalization plan to reduce the risk and expense of their agricultural loans. Agricultural financial institutions should also make the basic characteristics of their agricultural services transparent, develop financial products in a targeted manner, and bring in more abundant funds for micro financing, raising their risk-taking potential. Following that, farmers will adjust to the times, constantly improving their financial information quality and risk perception, and eventually achieve the modernization of rural industries, by constructing a safe and structured rural climate, along with continuously development and prosperity of rural dwellers.

#### **Conflicts of Interest**

The author declares no conflicts of interest regarding the publication of this paper.



---

## References

- Yang, W. N. (2019). The Improvement of the Legislation about Rural Finance under the Rural Vitalization strategy. *Journal of Beijing Institute of Technology (Social Sciences Edition)*, 21, 155-161.
- Yang, Y. S., & Wang, W. P. (2020). Research on Financial System Innovation to Realize of Rural Revitalization. *On Economic Problems*, No. 4, 86-94.
- Yu, Y. J., & Wang, Q. H. (2011). A Study on the Correlation between Rural Financial Development and Rural Economic Growth in China Based on VAR Model. *On Economic Problems*, No. 12, 106-110.
- Zhang, Z. J. (2019). A Literature Review of Study on the Interaction between Financial Development and Economic Growth. *Journal of Shenyang University (Social Science)*, 21, 138-142
- Zhao, H. D., & Zhu X. P. (2015). Rural Finance, Fiscal Support for Agriculture and Rural Economic Development. *Modern Economic Science*, 37, 96-108.