

# *Research on the mechanism and realization path of digital inclusive finance for rural common prosperity*

**Xiaoya Su**

*School of Foreign Studies, Central University of Finance and Economics, Beijing, China*

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**Abstract:** Digital inclusive finance has an important role to play in promoting common prosperity in the countryside. Firstly, by supporting farmers' innovation and entrepreneurship, it can increase the business income of farmers; secondly, by supporting the revitalisation of rural industries and increasing employment opportunities, it can increase the wage income of farmers; furthermore, by enhancing the marketability of rural areas, it can increase the property income of farmers. The current development of digital inclusive finance in China mainly has shortcomings in terms of lower penetration, narrower application areas, smaller credit scale and more blind spots in supervision. The main paths to enhance the development of digital inclusive finance in China's rural areas are: firstly, to popularise basic financial knowledge so as to enhance the financial literacy of farmers and new agricultural operators; secondly, to strengthen the construction of rural communication infrastructure to improve the network facilities for the development of digital inclusive finance; thirdly, to optimise the digital inclusive finance policy system and strengthen the supervision of rural digital finance.

## **1. Introduction**

Inclusive finance was first introduced in 2005 at the United Nations International Microfinance Annual Conference and has since been applied in many developing countries. Its main objective is to address the problem of low-income groups' difficulties in accessing formal financial services. In recent years, with the popularity of the Internet, digital technology has merged with inclusive finance to produce the digital inclusive finance business model. Digital inclusive finance overcomes the limitations of traditional financial service models that rely on the expansion of physical branches to expand the population served and improves the accessibility of financial services for low-income groups (Jiang Shiyin and Cao Jiabao, 2022). Since 2021, with the No. 1 Document of the Central Committee of the Communist Organization of China (CPC) proposing to vigorously develop digital inclusive finance in rural areas, many scholars have explored the role of digital inclusive finance in promoting rural revitalisation in China from different perspectives (Wang Jiao, 2022; Zhou Yueshu et al.) However, few scholars have focused on the impact of digital inclusive finance on rural common prosperity. This paper intends to explore the mechanisms and realization paths of digital inclusive finance for rural common prosperity[1].

## **2. Mechanisms for Digital Inclusive Finance for Rural Common Prosperity**

The inevitable path to achieving common prosperity in the countryside is to promote the revitalisation of rural industries. The essence is to continuously raise the income of farm households, especially the income of low-income groups.

Compared with traditional inclusive finance, digital inclusive finance can use digital technology to break through time and space restrictions, and has the advantages of sharing, convenience, low cost and low threshold. Digital inclusive finance can better serve rural enterprises and low-income groups. In particular, it can increase farmers' income in a number of ways: firstly, it can enhance the financial accessibility of rural residents and support farmers' entrepreneurship in order to increase their business income; secondly, it can facilitate rural business entities to receive financial support to achieve technological transformation and industrial upgrading, thereby driving the revitalisation of rural industries and increasing employment, and enhancing farmers' wage income; thirdly, it can enhance the marketability of rural areas by booming the rural economy, so that Thirdly, it will enhance the marketability of rural areas through the prosperity of the rural economy, so that the resources owned by farmers can be better utilised and property income can be increased.

### **2.1. Support innovation and entrepreneurship of farmers and increase the business income of farmers**

For a long time, it has been difficult for traditional finance to provide effective financial support for entrepreneurial activities in rural areas. On the one hand, the credit needs of rural residents in production activities are characterized by small amounts and dispersion, leading to high business costs for traditional financial service models in providing credit services to farmers, thus reducing the motivation of financial institutions to provide credit services to farmers. On the other hand, ordinary farmers often cannot provide sufficient collateral when borrowing large amounts, and financial institutions lack sufficient understanding of farmers' creditworthiness and are hesitant to lend in order to avoid lending risks. These factors make it difficult for farmers to obtain formal financial support when starting a business, which in turn limits their ability to broaden their income sources. Digital inclusive finance uses big data technology to collect borrowers' financial transaction data over the years and accurately analyse borrowers' solvency, effectively solving the problem of information asymmetry. Digital inclusive finance does not require borrowers to provide full-value collateral, which breaks through the market coverage of traditional financial institutions and extends services to low-income groups, improving the financial supply to low-income groups and enabling ordinary farmers to obtain financial support to successfully realize their businesses. In addition, the digital platform built by the digital inclusive finance business can bring a large number of transaction objects into the transaction system, thus providing information support for entrepreneurs, providing more transaction opportunities for entrepreneurs and guaranteeing the success rate of entrepreneurship.

### **2.2. Support the revitalization of rural industries and increase employment opportunities to increase the wage income of farm households**

Rural industries are characterized by low fixed assets, low profitability and backward management, thus making it difficult to obtain traditional financial support. Many rural enterprises have long been in the plight of lack of capital, difficulties in transformation and upgrading, and difficulty in expanding their scale, which have limited effects on expanding employment and raising farmers' income. The promotion of digital inclusive finance in rural areas can provide diversified financial services for rural industries, support technology research and development, equipment

upgrading and market development, and promote the upgrading of rural industries and improve their profitability. At the same time, digital inclusive finance also brings the development of online payment, online settlement and online sales, etc. It not only promotes the wide application of digital technology in the development of rural industries, but also enables changes in the sales method of agricultural products, expands the scope of sales and production scale, thus realizing the integrated development of rural primary, secondary and tertiary industries and forming a complete industrial chain. In addition, the profitability of financial institutions will also guide the investment of funds to industries with more development prospects, direct resources to industries with comparative advantages, improve the competitiveness of rural industries, promote the revitalization of rural industries, continue to expand the scale of industries and provide more jobs. Most of the rural low-income groups have low education level and it is difficult to find suitable jobs in big cities, while many production links in rural industries at the low end of the industrial chain do not require high labour quality and can absorb a large number of unskilled laborers for employment. Therefore, rural industrial revitalization provides employment opportunities for rural laborers who lack professional skills and increases the wage income of low-income groups[2-3].

### **2.3. Improve rural marketability and increase property income of farmers**

On the one hand, the financial support of digital inclusive finance for rural enterprises and farmers has prospered the rural economy, enhanced the marketability of the countryside, and enabled the property owned by farmers to gain access to market transactions. On the other hand, the widespread development of digital inclusive finance has continuously exposed farmers to the concepts of investment, financial management and risk, which has enhanced their awareness of market economy and enabled ordinary farmers to gradually possess the awareness of investment and financial management and begin to use the assets they own reasonably to increase their income. In some places, farmers have increased their income by renting out their houses, residential bases, contracted land management rights, etc. These incomes are substantial for some low-income groups in rural areas. In addition, the development of digital inclusive finance has enriched the investment mode of farmers, and many financial products have been derived from financial technology innovation. Some of these investment and financial products are favoured by farmers because they are more in line with their endowment characteristics and preferences, and have become the primary choice for farmers' investment and financial management. The expansion of investment channels and financial management space has effectively improved farmers' investment income, optimized their income structure and increased their property income.

## **3. Shortcomings of Digital Inclusive Finance for Rural Common Prosperity**

Although digital inclusive finance has unique advantages in promoting the improvement of farmers' income, the promotion and popularization of digital inclusive finance in rural areas is not extensive enough due to the lack of complete network infrastructure in rural areas, the lack of financial knowledge of farmers, and the lack of perfect systems of financial institutions and financial regulators, etc. The number of farmers enjoying digital inclusive financial services is still relatively small, which restricts the role of digital inclusive finance in promoting common prosperity in rural areas, of which the shortcomings are mainly in three aspects[4-5].

### **3.1. Low penetration of digital inclusive finance**

At present, the popularity of digital inclusive finance in rural areas is still relatively low, and a large number of farmers still turn to the traditional mode of mutual assistance among friends and

relatives when they have insufficient funds for production and living, and the scale effect of digital inclusive finance has not been effectively brought into play. From the perspective of hardware conditions, the late start of rural network infrastructure construction and the lack of complete facilities have limited the application of digital technology and the promotion of digital inclusive finance. China's 4G network facilities in rural areas only started to be built on a large scale after 2015, and so far full coverage of 4G and fiber optics in rural areas has not been achieved, and 5G network facilities are still under construction. In addition, the quality of network signals in some rural areas is also poor due to the scattered residence of rural residents and the constraints of the terrain and landscape. The poor network infrastructure hinders the promotion of digital inclusive finance in rural areas, and also makes the inclusive financial services enjoyed by farmers less effective. In terms of soft conditions, farmers' financial literacy is generally not high, and many farmers lack financial knowledge, have little awareness of risk and responsibility, and have limited understanding and acceptance of digital inclusive finance, which also hinders the popularization of digital inclusive finance business in rural areas.

### **3.2. The application area of digital inclusive finance is narrower and the scale of credit is smaller**

At present, several models of rural digital finance have been formed in practice, such as digital payment, digital farm loan, digital farm insurance, digital wealth management, and digital integrated service platform (Wang, S. Y. and Huang, M., 2021). However, the main applications of digital inclusive finance are in the payment and credit fields, and the applications in other fields are very inadequate.

First, there are not enough digital financial products available for farmers. In recent years, with the increase of farmers' income and the change of consumption pattern, farmers' awareness of investment and financial management has increased, and they hope to obtain certain income through investment and financial products, however, digital inclusive finance lacks attention to farmers' investment needs, and there are relatively few financial management digital financial products designed for farmers' characteristics, so the role of digital inclusive finance in increasing farmers' property income is not significant. Second, digital inclusive finance has a limited supply of funds for rural enterprises and farmers. For the sake of sound operation, digital credit platforms will make more strict restrictions on credit scale and duration when providing credit support to rural enterprises, which makes it difficult to meet the demands of farmers and rural enterprises in terms of capital volume and usage cycle. In addition, with the continuous improvement of China's agricultural modernization level, a large number of new agricultural business entities have emerged in rural areas, which have a large scale of operation and have financing needs in farmland capital construction, equipment purchases and machinery leasing, etc. Moreover, the large scale of borrowing and long repayment terms, and the long cycle and low profitability of agricultural business itself lead to their demand for credit funds being significantly different from those of urban industrial and commercial enterprises. As a result, the rural financial system mainly based on bank credit cannot meet the needs of new rural business entities for funds[6].

### **3.3. Many Blind Spots Still Exist in the Regulation of Digital Inclusive Finance**

At present, the progress of China's financial regulators in terms of regulatory system, regulatory means and relevant laws cannot keep up with the rapid development of digital finance, which makes the field of rural digital inclusive finance have greater potential risks. On the one hand, in addition to traditional default risks, digital inclusive finance also has certain network security risks, and it is difficult for the traditional financial regulatory system to effectively deal with various risks brought

by the network; on the other hand, digital inclusive finance has become more complex due to the use of digital technology, which increases the difficulty of supervision. The above reasons have led to some blind spots in the regulation of digital inclusive finance, which has brought property losses to some financial institutions and residents, and financial regulation faces more serious challenges in the countryside where the financial regulation system is more vulnerable. The main problem at present is that there are more cases of Internet financial platform fraud and leakage of users' personal privacy, and the relevant laws are not sound enough, which makes it difficult to defend the rights of customers after their rights are damaged. In some rural areas, some Internet financial institutions have committed fund-raising fraud in the name of digital inclusive finance, causing many grassroots people to suffer huge financial losses. The application of digital technology has made the fraudulent behaviour more specialized and industrialized, more deceptive and hidden, less detectable by the victims, and more difficult to supervise. Financial institutions need to store a large amount of user information centrally in the big data platform when establishing digital credit systems, which is also more prone to customer information leakage accidents, damaging customer interests and affecting the image of digital inclusive finance business model in farmers' minds. For farmers who lack digital literacy, legal knowledge and financial knowledge, they also lack the ability to defend their rights when their personal rights are violated.

#### **4. The path to realize digital inclusive finance for rural common prosperity**

##### **4.1. Popularize basic financial knowledge and enhance the financial literacy of farmers and new agricultural business entities**

Financial regulators, agricultural departments and financial institutions should strengthen cooperation to promote and popularize basic financial knowledge through various channels to enhance farmers' financial literacy and risk awareness. Farmers and managers of new agricultural business entities such as farmers' professional cooperatives, family farms and agricultural enterprises should be trained in market economy theory and financial knowledge to enhance their awareness of digital finance. Agricultural-related financial institutions should increase the publicity of digital financial services, sink financial knowledge publicity and financial services to villages, introduce the process of online loan application and loan return to farmers, make farmers realize the efficiency, convenience and accessibility of digital finance and be willing to participate in digital financial business, cultivate villagers' financial literacy through on-site explanations, and tap the services of farmers and new agricultural business entities for digital finance Demand for digital finance. Agricultural-related financial institutions can also dovetail with rural organization and government systems to hold regular training courses on digital financial inclusion with the assistance of grassroots governments. Government departments and financial institutions can also jointly build a digital inclusive financial knowledge platform for rural areas, so that farmers can learn digital financial knowledge through the Internet anytime and anywhere. Financial institutions can also conduct special inclusive financial knowledge training for special groups such as returning migrant workers, and provide targeted financial knowledge promotion and financial services.

##### **4.2. Strengthen rural communication infrastructure and improve network facilities for digital financial inclusion**

In the context of integrated urban-rural development, local governments should accelerate the pace of digital infrastructure construction in rural areas. It should strengthen fiber optic construction and network coverage in rural areas, especially in remote areas, ensure that all villages can be connected to the Internet with high signal quality, enhance the accessibility of mobile

communication and Internet for rural residents, allow all rural households to enjoy low-cost, high-quality digital information services, and improve the efficiency of the utilization of rural households' terminal devices. Increase the operational investment and service supply of mobile communication providers to rural areas and continuously reduce the usage fees to increase the penetration rate of rural residents using mobile Internet. Financial institutions involved in agriculture should set up digital financial service outlets in rural areas to handle digital credit applications and repayments on behalf of farmers and various new agricultural business entities on site, demonstrating the intrinsic value of rural digital finance in serving agriculture, rural areas and farmers. In addition, the construction of rural credit systems should be further strengthened, a rural credit industry association should be established, and the role of rural credit systems in digital inclusive finance business should be brought into play. Financial institutions should jointly build a credit information sharing platform to realize information sharing between financial institutions and third-organization Internet enterprises, improve the service efficiency of digital inclusive finance, and reduce credit risks caused by information asymmetry.

### **4.3. Optimize the policy system of digital inclusive finance and strengthen the supervision of rural digital finance**

Optimize policy measures for the development of digital inclusive finance in rural areas, use financial taxation and other means to support agriculture-related financial institutions to strengthen the application of digital financial technology, enrich rural digital inclusive financial products and services, and strengthen institutional safeguards to promote effective digital inclusive financial policies. Government departments should cooperate with financial institutions to help farmers accumulate digital endowments, build credit information platforms such as farmers' personal tax data and credit data, regulate the use of credit data under the premise of protecting personal privacy, and alleviate the information asymmetry problem existing between farmers and financial institutions. In addition, a multi-level regulatory system should be established to address the business characteristics of rural digital inclusive finance, formulate targeted regulatory strategies according to the sources of risk, and strengthen the early warning monitoring of the risks of rural digital inclusive finance. Financial regulators can also jointly promote collaborative supervision with government departments in charge of agricultural and rural work, and realize cooperation between regulators and agriculture-related financial institutions as well as third-organization platforms by combining the characteristics of rural farmers to enhance digital supervision capabilities.

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