Empowering Rural Revitalization through Fintech Development

Visa

Executive Summary
The implementation of rural revitalization is a major strategic deployment made by the Chinese government. Finance is an important force to support rural revitalization. Compared with poverty alleviation, promoting rural revitalization pays more attention to development. The demand for financial resources is larger, and the focus of financial support to rural areas has also changed. In September 2020, Visa and the Development Research Center (DRC) of the State Council launched a two-year joint research on “Empowering rural revitalization in China through fintech development”. The purpose of this paper is to explain key research findings and provide policy recommendations by DRC, with case studies from Visa as supplemental materials.

Key Words: Fintech, rural revitalization, small and micro businesses, financial education
Finance is an important support for rural revitalization. Compared with poverty alleviation, promoting rural revitalization pays more attention to economic and social developments. The demand for financial resources is larger and involves more aspects. Although the total supply of rural finance has continued to grow in recent years, it is still far from the goal of rural revitalization. Moving forward, fintech will serve as an important means. It is necessary to actively break down the constraints that restrict the application of fintech in rural areas, while enhancing the ability of financial services to revitalize rural areas.

1. The main barriers to the adoption of fintech in rural areas

At present, the development of fintech in rural areas still faces many difficulties and constraints. Compared with urbanization and manufacturing, financial support needed for the “Three Rural Issues” in China (or San Nong) is significantly different, thus the obstacles faced also vary.

The digital divide restricts the application of financial technology in rural areas. Rural residents and rural employees are not very familiar with fintech tools. There are four main reasons for that: First, rural areas are still weak in financial infrastructure. The Internet coverage rate is lower than that in cities, and the foundational facilities that support new financial tools such as mobile payment are insufficient. Second, the lack of proper collection and utilization of rural residents’ data makes it difficult for the advantages of big data to play a role in rural areas. Most of the rural residents have not been registered into the national credit information system. Third, there are still great difficulties in the opening and sharing of government public data related to rural residents. Fourth, compared with traditional financial institutions such as banks, the brand awareness and trust toward fintech companies and other new financial entities are relatively low. Rural residents still need a long time to recognize the benefits of fintech tools.

Rural infrastructure does not provide sufficient support for fintech applications. In recent years, China's rural infrastructure construction has made great progress, but it is still lacking compared with cities. Most of the financial institutions in rural areas have relatively simple service operations with limited financial offerings and coverage. Some rural banks have limited application of fintech tools such as the Internet, lack of cooperation with third-party platforms in e-commerce, payment and settlement, and the degree of information possession and data sharing is far from perfect. Incomplete infrastructure restricts the application of fintech in rural areas. At present, the logistics system in most rural areas still lags behind, and the logistics infrastructure is far from enough to support supply chain management. The role of logistics in promoting the circulation of rural commodities is still not up to expectations, which is a key weakness in the process of agricultural
modernization.

**The strategic and investment focus of fintech companies is mainly in cities.** Fintech giants generally deploy infrastructure and key investment in large cities and central areas, and pay relatively little attention to rural areas. Traditional financial institutions are major users of fintech. However, in recent years, some financial institutions have shown a trend of shrinking local operations and concentrating in cities and developed areas. Except for some large state-owned commercial banks, policy banks, and rural financial institutions, the business focus of other financial institutions is generally in urban areas. An important reason why financial institutions and fintech companies are not motivated to support rural areas is due to the low degree of rural agglomeration, insufficient asset rights, and large regional development gaps.

**The regulatory support needs to be strengthened.** The mismatch between risk and return is an important factor restricting financial support for rural revitalization. To support rural revitalization, financial institutions need to pay higher operating costs and bear the risk of asset quality decline and bad debts increase. Most financial technologies are developed for cities in early stages of their research and development, and will later be gradually deployed to rural areas after becoming more mature. However, the adaptability to rural areas is sometimes insufficient.

### 2. Policy Recommendations

The main goal of the application of fintech in rural areas is to promote the development of rural industries, focusing on improving the operational efficiency of agriculture as well as secondary and tertiary industries. At present, the application of fintech in rural areas is mainly restricted by insufficient infrastructure. It is necessary to advance the construction of rural digital infrastructure. Also, related development should be based on commercial sustainability, which would attract financial institutions and technology companies to invest in rural areas in a longer term.

**First, focus on supporting market entities that can improve agricultural production efficiency,** mainly including large-scale business entities such as cooperatives and family farms, rural production and processing enterprises, and rural service enterprises. Through supporting these market entities, the government can further promote the development of rural industries, increase farmers' income, and enhance the endogenous power of rural revitalization. The government should also encourage local financial institutions to explore effective ways to apply fintech locally, use local information resources to better analyze and tap the potential needs of rural customers, innovate financial products, and meet the growing financial needs in rural areas.
Second, improve the technical and business environment that supports the development of supply chain finance. Deepen the informatization of industrial chains, strengthen data sharing with financial institutions, and encourage banks to issue credit funds for agricultural business entities based on the data. Advance the coordination of the industrial chain and improve the industrial ecological system. Leverage the coordinating power of cooperative economic organizations among upstream and downstream stakeholders, and develop supporting data management systems. Strengthen the role of local governments, integrate agricultural transaction information on local public service platforms, encourage banks and other professional service institutions to participate in sharing relevant information.

Third, innovate fintech products that meet the needs of rural e-commerce development. Innovate products, such as e-commerce micro-loans, joint guarantee loans for farmers, and inventory-backed loans, to advance the rural e-commerce industry. Attract social capital, raise special funds, promote investment in rural e-commerce projects. Promote the establishment of a mature rural e-commerce guarantee system, support state-backed institutions to increase the credit of rural e-commerce operators and provide financial subsidies. According to the needs of digital financial development, timely improve laws and regulations and carry out financial education activities.

Fourth, accelerate the upgrading of rural digital infrastructure. Focus on information infrastructure such as the mobile Internet and the Internet of Things, strengthen the coverage of communication base stations in rural areas, expand network bandwidth, and provide basic support for the application of 5G, big data, and artificial intelligence in rural areas. Actively improve the penetration of mobile payment, establish an efficient rural payment services system, and improve the efficiency of rural payment. Support financial institutions and financial technology companies to sink down to the countryside, build unmanned banks, smart counters, etc., and encourage small and medium-sized financial institutions to accelerate digital transformation. Strengthen financial education in rural areas, enhance farmers' and rural enterprises' understanding of fintech, and increase their enthusiasm for applying fintech technologies.

Fifth, actively improve the fintech standard system. Formulate universal standards for agricultural data transmission protocols, data storage, and integrated applications, improve data interoperability and sharing, and promote the industrialization of technology applications. Promote the integration of agriculture-related data, establish a data sharing mechanism between core enterprises and government departments, enhance the openness and sharing of data for rural production and management entities, and provide credit support for agricultural and rural management entities in financing. Encourage financial institutions to carry out
Sixth, use financial technology to improve the level of rural financial risk control. Actively use financial technology to improve the ability to discover, monitor, warn and deal with risks in rural credit funds. Using biometrics, Internet of Things, sensors and other tools to explore live mortgage loans, to achieve precise financial support for large farmers. Financial institutions should leverage their advantages in data management, use information for decision-making, and better balance risk control and business operations.


In China, the Beijing 2022 Winter Olympic Games are contributing to the expansion of tourism, culture, and winter sports sectors within China, especially in host cities and provinces. The Games bring more revenue and growth opportunities to local urban and rural businesses in the host provinces. Many micro and small businesses, however, do not have the capabilities or resources to take advantage of these opportunities. In order to address these gaps, Visa launched the “Beijing 2022 and Women Program” in December 2019 in partnership with the China Women’s Development Foundation and Beijing Sport University. The program targets to enable women-led micro and small businesses in the Beijing-Tianjin-Hebei regions (also known as Jing-Jin-Ji), through a diverse mechanism to build financial, digital, and business management skills and capabilities. The program also provides access to external resources and builds a local community of women small business owners for ongoing exchange, knowledge sharing and support.

In early 2020, the program team conducted a baseline survey among nearly 500 women who were small business owners in the sectors of tourism and culture in Yanqing and Zhangjiakou districts. Most small businesses in the tourism and culture sectors in these districts provide rural hospitality. About 70% of respondents were optimistic about opportunities Beijing 2022 present and looked forward to more business opportunities but were not certain how best to prepare. The three most common challenges they cited were: lack of digital capability, limited access to finance and credit, and finally, a lack of information and access to knowledge resources.

Based on the baseline findings, the program developed an enablement mechanism with training courses, development grants, and networking platform for women small business owners. From July 2020 to January 2021, the program delivered two rounds of pilot courses to 1,250 women in Yanqing and Zhangjiakou. As of 2022, the program benefited a total of 6,254 women small business owners in the Jing-Jin-Jin area, covering over 40 specified sectors.
To evaluate the final program results, the program team collected 1,024 valid questionnaires, and examined participant data, course performance and feedback on specific course modules. The survey results show that the overall satisfaction rate is 87.3%, and nearly 70% of the participants reported that the program had helped strengthen their understanding of related policies, markets and industries.

The survey results found that small and micro business owners generally lack basic knowledge and skills related to finance. This is partly because finance is more specialized, while the education level of female small and micro business owners is generally low, and it is difficult for them to learn through ordinary channels. Based on the survey feedback, courses such as precision marketing, financial management, communication and negotiation skills are generally considered to be the most beneficial modules. In addition, the program also helped establish a community of female small and micro entrepreneurs, bringing group support and development opportunities. More than one-third of the respondents said that the program had helped them broaden their cooperation opportunities with other female entrepreneurs. A full program evaluation report will be published shortly.

Enabling women-owned small businesses is a durable legacy of knowledge and peer networks to help local communities grow and thrive. Supporting the development of local small businesses and their greater participation in hosting of the Games contributes to the Olympic legacy of Beijing 2022 and the sustained, inclusive socio-economic development of the Jing-Jin-Ji region. With measurable outcomes and human level stories, this program also provides a demonstration approach to cities hosting major sporting and other events around the world. In order to continue Visa’s support for female small and micro enterprises, Visa collaborated with the China Foundation for Development and Financial Education (CFDFE) in 2022 and jointly launched a three-year project, focusing on new female farmers in rural areas. The project targets to provide skills training support to women entrepreneurs in rural areas to enhance their management capabilities and improve their ability to participate in rural governance and innovation and, adding endogenous impetus to regional developments. The project has completed four rounds of training courses in 2022 for more than 150 participants from more than 10 provinces and cities.

The Guangdong Province has attracted a large number of small and micro enterprises. In order to help small and micro enterprises to flourish, in 2022, under the guidance and support of the People’s Bank of China Guangzhou Branch, Visa and CFDFE jointly launched a project to enhance the financial capabilities of small, medium and micro enterprises in Guangdong Province. The 3-year project aims to provide comprehensive financial empowerment training and benefit 10,000 small and micro enterprises in 21 cities in Guangdong Province, especially in the Greater
Bay Area, to help small and micro enterprises in their digital transformation, enhance their financial capabilities, and support high-quality development of the Greater Bay Area. In 2022, we hosted multiple financial policy briefings and matchmaking meetings between financial institutions and small and micro enterprises in Dongguan, Huizhou, Foshan, etc., including six online live broadcast events. The project has reached nearly 9,000 small and micro businesses and 310,000 individuals.

Visa is also actively exploring effective ways to advance financial education in communities, aiming to better empower small and micro enterprises, train financial social workers, advocate financial health, and strengthen financial resilience. Through a four-party model of "government, enterprise, school and community", Visa joined hands with CFDFE and launched a community-level financial education base in 2022. The project has been supported by the Central University of Finance and Economics, Tiyuguan Street, Dongcheng District, DBTiantan WE Park, and more than 10 financial institutions. The base includes a financial education service station, which improves the financial capabilities of small and micro business owners in the community through various online and offline activities, and enhances their ability to prevent risks and anti-fraud. In 2022, the base carried out 25 financial education events, benefiting 58,000 community residents. In September 2022, the project was awarded as the "Beijing Financial Education Demonstration Base" by the People's Bank of China.