

Operational Model, Challenges and Transformation Path of Rural Loan Companies under the Background of Rural Revitalization—A Case Study of Chengdu Dayi Fuping Microfinance Company

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Abstract. Rural microcredit plays a vital role in rural development, making tremendous contributions to increasing farmers' income, improving the rural living environment, responding to emergencies, and promoting the agricultural industry. This paper conducts an overall analysis of the current status, characteristics and main problems of rural microcredit, and puts forward corresponding suggestions. The study finds that although rural microcredit has provided great help to rural economic development, the risk management system still has defects and loopholes. To better meet its needs and play its role, measures such as improving and strengthening the risk management system and innovating or expanding its industry fields should be taken to better serve and gain the trust of farmers.

Keywords: Rural Revitalization, Rural Finance, Agricultural Loans, Risk Control, Financial Innovation

1. Introduction

With the development of society, the rural economy has become a key focus of China. As an important foundation of China's national economy and the core of rural revitalization, the development of the rural economy directly affects social stability, sustainable economic development and national food security. However, in the development of the rural economy, the capital problem has become one of the key factors.

Agricultural operations are facing the problem of difficulty in financing. However, traditional financial services cannot intervene in the short term to meet the farmers' funding needs in a timely manner. At the same time, farmers' operations have uniqueness, such as insufficient financial services, long production cycles, and the impact of weather factors on product development. These problems restrict the development of the agricultural economy. Rural enterprises, family farms, rural construction and other daily production activities cannot obtain a large amount of capital to upgrade

production equipment, reduce time costs and improve production technology. To solve the problem of difficult agricultural financing, rural loan companies have emerged as the times require.

Rural loan companies, with agricultural business individuals as the main body, provide microcredit services for rural residents. They are characterized by simple procedures, small loan amounts and no need for collateral, which can meet the small-sum capital needs of rural residents for production and operation, daily consumption and emergencies, and help promote the agricultural economy.

Rural microfinance companies have become a branch connecting formal finance with farmers and micro-small subjects. On the one hand, they directly channel "capital flow" to the fields, solving the "short-term, small-sum, frequent and urgent" financing pain points of large-scale farmers, family farms, cooperatives and returning villagers who start businesses. On the other hand, the sinking of credit funds has reversely stimulated the scale expansion and technological upgrading of local characteristic breeding, primary agricultural product processing, rural cultural tourism and other industries, realizing a positive feedback cycle among "villagers - rural microfinance companies - local economic industries", thus truly giving play to the lever role of finance in rural revitalization.

As a major agricultural province, Sichuan has a large agricultural economic scale. It can be seen from the growth of the total output value of Sichuan's primary industry from 331.7 billion yuan in 2007 to 969.818 billion yuan in 2023 that the economic growth is on an upward trend. In recent years, Sichuan has been promoting rural development and construction, and the rural economic industry has been continuously expanding. The difficulty in financing for farmers has become a major problem. This paper takes Fuping Microfinance Company in Dayi County, Chengdu as a research case to summarize experience, identify problems and discuss the institutional operation model, which plays an important role and practical value in improving the business model of rural microfinance companies and promoting agricultural and rural development.

2. Overview of the development and classification of rural microfinance companies at home and abroad

2.1. International experience

Internationally, microfinance originated from the Grameen Bank experiment conducted by Professor Yunus in Bangladesh in the 1970s, with the core of small-sum, short-term, uncollateralized, lump-sum loan with installment repayment and group joint guarantee. Subsequently, this model was replicated in many countries in Latin America, Africa and Southeast Asia, and derived variants such as "Village Banking" and "Community Credit". The international experience can be summarized as a three-stage evolution of "NGO-led, bank-oriented transformation and digital upgrading", which provides a prototype reference for the subsequent institutional design of rural microfinance companies in China.

2.2. Domestic practice

The development of rural microfinance companies in China can be divided into four stages:

Exploratory Period (1993-2005). Marked by the establishment of the Poverty Alleviation Economic Cooperative in Yixian County, Hebei Province by the Chinese Academy of Social Sciences, the NGO-led group joint guarantee model was first implemented in rural areas. However, due to the vague legal status, single source of funds, the coverage was limited [1].

Policy Breakthrough Period (2006-2009). The No. 1 Central Document in 2006 first proposed "allowing private capital and foreign capital to participate in the shares of rural community financial institutions". The China Banking Regulatory Commission then launched a pilot project of three types of new rural financial institutions, namely village banks, loan companies and fund mutual assistance societies, in 6 provinces and autonomous regions. In 2007, Sichuan Yilong Huimin Village Bank and Jilin Lishu Baixin Fund Mutual Assistance Society were successively established, marking the official entry of industrial capital and private capital into the rural financial market.

Rapid Expansion Period (2010-2016). Local governments approved a large number of microfinance companies at or below the county level, the registered capital threshold was reduced to 5 million yuan, and the shareholder structure presented a diversified pattern of "private capital + village collective + local state-owned enterprises".

Transformation and Standardization Period (2017-present). With the downward macro economy, risk exposure and the impact of digital finance, rural microfinance companies generally face the dilemma of "high cost, high non-performing loans and high leverage", entering a new stage of reducing quantity and improving quality, digital transformation and license upgrading (restructuring into village banks, community banks or financial companies).

According to the capital source and governance structure, it can be divided into three types:

Firstly, private capital-led type: established by local leading enterprises, individual industrial and commercial households or local sages with concentrated equity and short decision-making chains, and loans tend to be upstream and downstream of the industrial chain.

Secondly, village collective equity participation and holding type: village collectives invest in shares with land, assets or cash, and microfinance companies distribute profits according to the share ratio, taking into account profitability and public welfare.

Finally, mixed-ownership type: local finance (or state-owned enterprises), private capital and village collectives jointly invest, and introduce external banks or guarantee companies as strategic shareholders to form a "finance + market + collective" risk-sharing mechanism.

3. Research on Chengdu Dayi Fuping Rural Microfinance Company

3.1. Brief introduction of Fuping Microfinance Company

Chengdu Dayi Fuping Microfinance Co., Ltd. was established on April 28, 2012. It is a limited liability company approved by the Dayi County Administration for Market Regulation and Quality Supervision, with the main business of providing loans and related consulting services. The largest shareholder is Beijing Fuping Venture Capital Co., Ltd. In operation, it innovatively promotes the "finance going to the countryside" model and builds the "Yiyou Shanshui" rural cultural tourism platform to support rural tourism projects.

The financial business model adopts the offline "geographical + interpersonal" model: credit officers are stationed in villages and households, and carry out "five-household joint guarantee" and "acquaintance endorsement" relying on village committees, local sages and group leaders. The advantages are symmetric information and strong soft constraints, while the disadvantage is that the risk management needs to be improved.

The products are mainly production loans, providing 30,000-100,000 yuan for large-scale farmers, family farms, self-produced and self-sold customers, etc. At the same time, it provides consumption and education loans: for family units and other customers, with an amount of 30,000-100,000 yuan. Risk control is carried out through three methods: "order + guarantee + offline public background check" for loan approval.

3.2. Research on the shortcomings of Fuping Microfinance Company

Insufficient overall quality of personnel. The front-line staff of Fuping Microfinance's rural loan business, such as credit officers and customer managers, generally have the problems of low educational background and weak professional financial knowledge. Most of the practitioners are local villagers with advanced ages, lacking systematic financial training, and have an inadequate understanding of loan approval processes, risk assessment models, policies and regulations, which may lead to irregular business operations. For example, they over-rely on acquaintance relationships when reviewing customer qualifications, ignoring the objective assessment of repayment capacity; they fail to clearly explain key information such as interest rate calculation and default clauses in loan contracts, leading to subsequent disputes. At the same time, some practitioners have insufficient financial literacy, making it difficult to adapt to the needs of digital transformation. With the application of technologies such as online loans and intelligent risk control in the field of rural finance, the grass-roots personnel of Fuping may be unable to effectively use online digital processing procedures due to the lack of mastery of computer operation technology, resulting in lower business efficiency than other financial institutions. All business processing of Fuping Company is offline, and customers need to go to the company to sign contracts. In addition, the management team of the rural loan company also has professional capacity shortcomings. Most of them lack the operation experience of modern financial institutions, and make conservative decisions in capital allocation, product design, risk control and other aspects, making it difficult to meet the complex needs of the rural financial market.

Lack of fresh blood in the team. The personnel within the company are overly rigid, with very few external fresh blood entering. This situation has led to no business innovation in the company. The low proportion of young people in the company has led to two problems: first, the thinking mode tends to be rigid, accustomed to traditional business processes and using experience judgment, and indifferent to digital trends, such as digital tools, the needs of young people, and cross-border cooperation models; second, the grass-roots organizational innovation capacity is weak, lacking the vitality, creativity and learning enthusiasm brought by young groups, and the team as a whole has a low acceptance of new things and willingness to try and error, making it difficult to adapt to the rapidly changing market environment. In modern times, young people are the leaders of new consumption and the initiators of new technology applications. Their perspectives and needs can provide direct motivation for business innovation. Due to the lack of young forces in the company's team, the business can only stay in the level of "maintaining existing customers and repeating traditional services" for a long time, making it difficult to take the initiative to tap new customers, such as the demand of young customers for personalized, convenient and scenario-based services, explore new business lines such as online service extension and cross-border value-added services, and introduce new tools such as intelligent management systems and data-driven operation methods. This may lead to the gradual loss of differentiated advantages in market competition. This kind of business oriented to rural farmers has long relied on the traditional elderly customer group, but lacks product and service innovation for young customer groups, which will lead to the gradual aging of the customer structure and the business can only stabilize in the stock market. As the main force of future consumption, young groups have significantly different consumption habits and decision-making from traditional customer groups, such as paying more attention to experience, social attributes and brand values. If the service system cannot be optimized through the addition of fresh blood, it may face the risk of growth gap of "no new customers to replace after the loss of old customers".

Insufficient external publicity. The core is reflected in the single publicity channel and limited reach. For example, most customers of Dayi Microfinance Company come from the offline visits and publicity of credit officers, and the online publicity section is temporarily vacant. At present, customers mainly obtain information through offline scenarios such as leaflet publicity and acquaintance introduction, indicating that publicity resources are excessively concentrated in the traditional offline model. In the digital age, the insufficient layout of online channels such as social media, short video platforms, industry vertical websites and search engine marketing can neither reach a wider range of potential customers, especially young groups and cross-regional customers, nor establish in-depth trust through online content such as brand stories, service cases and user reviews.

3.3. Transformation and innovation practices of Fuping Microfinance

With the sinking of Internet lending platforms into the rural market and the advancement of inclusive finance policies by state-owned banks (for example, the balance of agricultural bank loans at the county level exceeded 7 trillion yuan in 2023), traditional rural microfinance companies are facing double pressure. Data from Fuping Microfinance in the first quarter of 2023 showed that the market share dropped by 28% year-on-year, and the non-performing loan ratio rose to 5.7%. Based on this, the company launched a strategic transformation of "finance + cultural tourism" and incubated its core project "Yiyou Shanshui". This transformation can be introduced in three stages.

Stage 1: In the early stage of transformation, due to the lack of cooperation with commercial travel agencies, only 1 local travel agency was willing to try with a 30% profit sharing ratio. Then, 2 retired village party secretaries were signed as "rural itinerary planners". Their advantages lie in an average of 22 years of residency, being familiar with the terrain, human history and being able to develop safe hiking routes. They can coordinate the participation of villagers, such as mobilizing 7 poor households to provide farming experience. At the same time, the development cost is 60% lower than that of professional tour guides.

The products mainly include 10-person small-team hiking activities and intangible cultural heritage experience, with an all-inclusive price of 60 yuan per person, including tour guide, insurance and lunch. Gather in the morning to start the hiking trip. After lunch, experience soybean milk making in the afternoon and play in the stream to catch crabs. The whole day's content is very rich.

Stage 2: With the opening of cultural tourism routes, we began to deepen operations with the help of the Internet and attract more tourists by publishing content on self-media platforms. For example, the Douyin account "Yiyou Shanshui" released 555 short videos, gaining 110,000 likes and 15,000 followers. The WeChat Video Account "Yiyou Shanshui" released 351 original contents, with 13,000 followers. The Xiaohongshu account "Yiyou Shanshui" released 336 notes, with 1,012 followers and 10,000 likes. The official WeChat account has more than 100 original articles, with an average reading volume of 1,500 and 4,200 followers. The total number of registrations on the mini-program is 10,745 person-times, with 24,200 cumulative users. Private domain operation and maintenance include 14 WeChat groups, 4 Douyin groups and 1 Xiaohongshu group, totaling 8,000 consumer communities. Such a rich digital platform operation has brought a steady stream of tourists to the cultural tourism routes and increased the economic development and income generation of the countryside.

Stage 3: Emergence of financial needs. The project receives nearly 10,000 tourists a year. The gradually mature cultural tourism industry can also attract potential customers. In 2024, 23 new loan applications related to cultural tourism were added, with a single amount concentrated at 30,000-

100,000 yuan, mainly used for kitchen renovation, homestay bedding upgrading, etc. For example, the monthly revenue of farm stay users increased from 4,200 yuan to 11,000 yuan after loan renovation. At the same time, it was found that the default rate of loan customers participating in the cultural tourism project dropped to 1.2%, which was significantly lower than 4.3% of non-participating customers.

In summary, to achieve sustainable development in the new environment of agricultural development, rural microfinance companies must transform their business models from small-scale single lending to "industrial ecosystem organizers", that is, reduce risk management through digital risk control, increase industry to enhance customer stickiness, share risks and benefits through diversified equity structures, and ultimately form a closed loop of "capital - industry - data - credit", growing together with villagers and local economic industries.

4. Future outlook and suggestions for rural finance

For such a special region as the countryside, the development of its financial services should be promoted through the construction and improvement of four aspects.

4.1. Improve the rural financial system

Previously, the local rural financial system was too simple and single, mainly focusing on credit loans and guaranteed loans, making it difficult to fully meet the diverse financial needs of villagers. At the same time, this method is too traditional, lacking various functions such as online and intelligent methods, and the business capacity needs to be improved [2].

4.2. Strengthen the construction of credit system

It is difficult to control the credibility in rural areas. Farmers generally have low education level and weak awareness of credit concepts. A few borrowers have the situation of maliciously evading and defaulting on debts. Credit officers need to strengthen the understanding of farmers' basic information and background data [3].

4.3. Strengthen the risk prevention and control mechanism

Study and establish an early warning system for risks, and use big data, artificial intelligence and other technologies to improve the ability of risk identification and early warning. Explore and improve the risk diversification mechanism, such as developing agricultural insurance and establishing guarantee funds, to reduce the loan risks of financial institutions. Strengthen financial supervision, standardize the order of the rural loan financial market, and prevent systemic risks [4].

4.4. Increase policy support

Propose to further increase financial support for rural loan finance, such as increasing interest subsidy funds and expanding the industry scope. Improve the monetary policy support system, such as using differentiated deposit reserve ratios, re-loans and other tools to guide financial institutions to increase rural loan issuance [5].

5. Conclusion

As an important bridge connecting finance and farmers, rural loan companies have played an irreplaceable role in promoting rural economic development and alleviating the financing problem. Through the case analysis of Fuping Microfinance Company in Dayi County, Chengdu, this paper reveals the challenges and opportunities faced by current rural loan companies in operation models, risk management, digital transformation and other aspects. In the future, rural loan companies need to further strengthen the risk prevention and control mechanism, improve the credit system, and actively embrace digital technologies to promote business innovation and service upgrading. At the same time, the government, financial institutions and rural communities should strengthen cooperation to build a diversified support system and inject new impetus into the sustainable development of rural finance. With the joint efforts of all parties, rural loan companies are expected to play a more critical role in the rural revitalization strategy and help the rural economy achieve high-quality development.

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