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Practical Strategies for Sustainable Development of Inclusive Finance in the New Era

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Abstract: *In the context of the new era, China has made remarkable progress in the institutional construction, product innovation, and risk prevention and control of inclusive finance. However, challenges still remain, such as the insufficient integration between digital economic development and inclusive finance, limited coverage of basic financial services, weak development of small and micro-enterprises and agriculture, and the lack of development of rural inclusive finance. This article summarizes the current development status of inclusive finance, identifies the challenges faced in its development, and proposes practical strategies for its sustainable growth in the new era, drawing from domestic and international experience in inclusive finance.*

Keywords: *inclusive finance; digital economy; sustainable development; practical strategies*

1. Introduction

In recent years, with the strong support of the government, China's inclusive finance has made initial achievements. However, due to the late start, poor foundation, and imperfect financial system of inclusive finance in China, the inclusive finance system still faces many challenges. To solve these problems, it is necessary to further strengthen the top-level design of inclusive finance development, build an inclusive finance system that meets the needs of the new era, and improve supporting policies. Based on this, this paper mainly analyzes and explores the challenges and practical strategies for the sustainable development of inclusive finance in the new era.

2. A Brief Overview of Inclusive Finance and Sustainable Development

The concepts of inclusive finance and sustainable development are closely intertwined and require a macroscopic perspective for proper understanding. Inclusive finance aims to provide appropriate and effective financial services to various sectors and groups in need of such services, at reasonable prices. Sustainable development, on the other hand, is a comprehensive, coordinated and sustainable development approach that not only focuses on meeting the needs of the present generation, but also considers the impact on the needs of future generations.[1] In simple terms, "inclusive finance" in the context of sustainable development refers to the accessibility, availability and satisfaction of financial services based on fair principles and sustainable business practices. To achieve sustainable development, social justice and economic development must be balanced. While inclusive finance is based on traditional finance and emphasizes financial services for all, sustainable development is based on economic development and emphasizes the balance among economic, social and environmental factors. Both concepts are guided by macroeconomic policies and require policy guidance as their fundamental basis. They are interconnected yet distinct.

3. Challenges Faced in the Development of Inclusive Finance in the New Era

To sum up, inclusive finance under the background of the new era generally faces major challenges in the development process, such as imperfect financial market sustainability, unsatisfactory incentive effect of policy subsidies and incomplete credit constraint mechanism.

3.1. Insufficient Sustainability of Financial Markets

The sustainability of financial markets refers to the ability of financial institutions to sustainably provide services to clients within their business scope, meet their needs, and ensure long-term stable development.[2] From international experience, the inclusive finance market mainly refers to institutions such as microfinance, rural finance, and community banks. However, the inclusive finance market in China is still in its early stages, and overall, sustainability has not been achieved. On the one hand, due to the late start and poor foundation of inclusive finance development in China, there is a lack of supporting policies and institutional systems for the development of inclusive finance. On the other hand, we also see that the profitability pressure on China's banking industry remains high, and there is a situation of "reluctance to lend" to small and micro-enterprises,, as shown in Table 1. The reasons for this situation mainly include two aspects: first, the profitability pressure of banks makes it difficult for them to identify and control the risks of small and micro-enterprises; second, small and micro-enterprises do not have natural credit advantages and collateral advantages compared to large enterprises.

Table 1: Bad debt rate of China's Msmes from 2010 to 2017

The year	2010	2011	2012	2013	2014	2015	2016	2017
Bad debt ratio	3.62%	3.54%	3.09%	2.81%	2.39%	2.39%	2.40%	2.74%

3.2. Ineffective Policy Subsidies and Incentives

Although the Chinese government has introduced a series of measures to support inclusive finance in recent years, the effect has been minimal. The direct reason for this is that inclusive finance business is long-term, risky, and inclusive. Under the current regulatory system, many inclusive finance businesses still cannot meet regulatory requirements.[3] Currently, China's inclusive finance policy subsidies mainly focus on small loans and loans to small and micro-enterprises, with little support for farmers and low-income groups. Currently, there are more policy subsidies for small and micro-enterprises and agriculture, but very little for rural areas. The rural financial market is not mature enough, and farmers lack understanding of financial knowledge, which leads to a certain degree of rejection of formal financial institutions. In addition, due to the lack of a sound loan guarantee market in rural areas, banks have high loan costs and risks, and formal financial institutions often invest loans in urban areas. China's preferential policies for small and micro-enterprises and agriculture mainly focus on credit guarantees, financial subsidies, and tax incentives, while there is a lack of inclusive finance policy subsidies and incentives for farmers and low-income groups in rural areas.

3.3. Incomplete Credit Constraint Mechanism

As most of the inclusive finance service targets are from the bottom of society, the problem of information asymmetry is prominent, and the combination of financing needs and traditional financial services makes inclusive finance service institutions have a low risk tolerance, leading to weak credit awareness among some small and micro-enterprises and farmers.[4] At the same time, due to the non-standard financial management of small and micro-enterprises, it is difficult to provide sufficient and effective mortgage guarantees, resulting in high credit risks. In addition, the targets of inclusive finance services are mostly vulnerable groups, who have weak credit awareness and find it difficult to effectively identify the products of financial institutions. In this case, inclusive finance service institutions often adopt the credit granting method of "payment before delivery" in order to obtain loans. Some small and micro-enterprises have serious default or misappropriation problems after obtaining bank credit. Therefore, it is necessary to strengthen the supervision of inclusive credit, strengthen the supervision of the credit market, and promote the healthy development of the credit market.

4. The Practice Strategies for Sustainable Development of Inclusive Finance in the New Era

Based on the new era background, the practical strategies for sustainable development of inclusive finance can be explored from the aspects of strengthening policy guidance and support, attaching importance to the innovation of financial technology, developing diversified products and services and establishing a risk supervision system.

4.1. Strengthen Policy Guidance and Support

China should strengthen its support for inclusive finance and improve relevant policies to create

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favorable conditions for its development. Firstly, an incentive mechanism for inclusive finance services should be established to provide targeted support for key areas such as small and micro-enterprises and agricultural enterprises (Table 2: Statistics on loans to small and micro-enterprises by the five major banks from 2019 to 2021). Secondly, the legislative process for inclusive finance should be accelerated, and relevant systems and regulations should be improved to provide legal guarantees for promoting its development. Thirdly, policy support should be increased, innovative support methods should be continuously developed, and differentiated preferential policies should be formulated based on the different characteristics of inclusive finance subjects. Fourthly, the basic construction of inclusive finance should be strengthened, the payment environment should be improved, and the construction of a national credit information system should be enhanced. Fifthly, policy guidance and support for small and micro-enterprises and agricultural services should be strengthened, and the incentive mechanism for finance and taxation should be improved. Reasonable financing guarantee fees, interest rate subsidies, and other cost compensation policies should be determined, and banking institutions should be encouraged to increase their credit lending efforts.

Table 2: Statistics on loans to small and micro-enterprises by the five major banks from 2019 to 2021

	loan amount in 2021	year-on-year growth rate	loan amount in 2021	year-on-year growth rate	loan amount in 2021	year-on-year growth rate
ICBC	10118.95Billion	40.4%	7452.27Billion	58.0%	4715.21Billion	52.0%
CCB	17100.1Billion	20.29%	14500.6Billion	50.92%	9631.55Billion	57.88%
ABC	12423.99Billion	30.4%	9615.20Billion	62.3%	5923Billion	58.2%
BOC	7816Billion	35.8%	6117Billion	48%	4129Billion	38%
BCM	3383.27Billion	29.3%	8012.47Billion	22.67%	6513.85Billion	--

4.2. Emphasizing Innovation in Financial Technology

The development of financial technology has brought new impetus to inclusive finance. In the digital economy era, data has become an important factor of production, and technologies such as big data and artificial intelligence will become important infrastructure for inclusive finance, driving innovative development in financial services.[5] China has gained some successful experiences in applying financial technology to inclusive finance, but there are also some problems, such as insufficient innovation in inclusive finance products and services, imperfect risk prevention and control mechanisms, and relatively backward infrastructure construction. To promote high-quality development of inclusive finance, it is necessary to strengthen research and application of financial technology. Firstly, continuous integration of technology and inclusive finance business should be promoted, such as using big data for risk control in online transactions. Secondly, the advantages of digital economy should be fully utilized to combine products such as online payment and online banking with inclusive finance business. Fourthly, infrastructure construction should be strengthened. The construction of China's credit and credit reporting systems should be accelerated, and the advantages of credit organizations should be fully utilized to build a credit system covering the entire society. In addition, innovative products and service models for inclusive finance are needed. Leveraging technologies such as cloud computing, big data, and artificial intelligence, traditional banking financial services can be improved to establish a new pattern of "digital inclusion". For example, offering products and service models such as mobile payment, big data credit reporting, supply chain finance, and digital risk control to meet the credit needs of small, medium, and micro enterprises, and farmers.

4.3. Developing Diverse Product and Service Offerings

Currently, commercial banks in China mainly offer inclusive finance services through methods such as mortgage guarantees, credit loans, and credit guarantee insurance. In terms of product functionality, domestic commercial banks still rely mainly on deposit and loan services, with relatively few service types offered. In the increasingly competitive market, Chinese commercial banks must gradually diversify and introduce new products and services. For example, Postal Savings Bank of China has utilized online service platforms such as "Youle.net" and "Youlegou" to establish close partnerships with major e-commerce enterprises, and has developed online financial services such as "Weijiedai" and "Yibaodai". At the same time, Postal Savings Bank of China has also utilized technologies such as big data and cloud computing to launch online supply chain finance products such as "Xiaowei Yidai" and "Online Supply Chain Finance". In addition, Postal Savings Bank of China has also launched credit products such as "Huinong E-dai" for rural customers. In terms of service models, commercial banks should continuously enrich the functions and types of online financial service platforms and expand their service channels. Meanwhile, they should explore various online financial service models such as intelligent ATMs, mobile banking, and online banking.[6]

4.4. Establishing a Risk Supervision System

Firstly, a coordination mechanism for inclusive finance supervision should be established, led by the People's Bank of China, to strengthen the management of inclusive finance business and ensure its sustainable development. Secondly, a sound regulatory framework for inclusive finance should be established and relevant policies and regulations should be formulated to clarify the responsibilities of regulatory authorities and banking institutions in inclusive finance work. Thirdly, an evaluation system for inclusive finance supervision should be established, and regular special inspections should be conducted to ensure the effective implementation of regulatory policies, regulations, and measures. Fourthly, the data statistics system should be improved. Based on this, a big data platform should be constructed to improve the statistical system and enhance the authenticity, integrity, and timeliness of data. Fifthly, the construction of the social credit system should be strengthened. Measures such as accelerating the construction of personal credit information basic databases, expanding the coverage of credit reporting agencies, and strengthening the sharing of credit reporting systems should be taken to gradually form a market constraint mechanism with credit as its core.[7]

5. Conclusion

In conclusion, inclusive finance is crucial for the development of China's financial industry, and commercial banks must continuously improve the relevant institutional framework, adopt digital technologies and big data, and strengthen risk management to promote the digital transformation and upgrading of enterprises. The government's guiding role and fiscal and taxation policies should also be utilized to support inclusive finance. In the "14th Five-Year Plan" period, commercial banks should enhance their sense of social responsibility, innovate financial services, and elevate the development of inclusive finance to a new level.

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