

# The Underlying Logic, Practical Challenges and Optimal Pathways for Urban Commercial Banks to Expand into and Empower the New Rural Collective Economy

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## Abstract

Can urban commercial banks effectively empower the development of the new rural collective economy by expanding into rural markets? This paper constructs a three-dimensional theoretical analytical framework of “cost–risk–efficiency”. Drawing on the typical case of Guilin Bank’s four-tier service network (city–county–township–village), and employing literature review and case study methods, it systematically analyses the micro-level mechanisms and practical challenges involved in urban commercial banks’ efforts to empower the rural collective economy. The research finds that, through mechanism innovations such as a four-tier service network, governance by rural elites, and industrial chain finance, Guilin Bank has demonstrated the theoretical feasibility of such empowerment; however, in practice, constraints such as the insufficient capacity of village collectives, high banking service costs, and an imperfect external institutional environment have hindered the full realisation of the empowerment effects. The marginal contribution of this paper lies in: adopting a problem-oriented perspective to reveal the practical dilemma that urban commercial banks face in empowering the rural collective economy—namely, that while theoretically feasible, implementation is hindered—and in providing targeted policy recommendations to promote the optimised development of this model.

## Keywords

urban commercial banks, new rural collective economy, four-tier service network, cost–risk–efficiency, practical challenges

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## 1. Introduction

The new rural collective economy serves as a vital vehicle for comprehensively advancing rural revitalisation and achieving common prosperity for farmers and rural communities. By the end of 2025, China’s rural population is projected to reach approximately 451 million [1], and rural areas possess a wealth of diverse resources, including land, ecological assets, cultural and tourism resources, and labour. Developing and strengthening the village-level collective economy plays an irreplaceable role in revitalising collective assets, boosting farmers’ incomes, and enhancing the effectiveness of rural governance [2]. In his report to the 20th National Congress of the Communist Party of China, General Secretary Xi Jinping emphasised: “We must consolidate and improve the basic rural operating system, develop the new rural collective economy, foster new

types of agricultural operating entities and socialised services, and promote moderate-scale agricultural operations” [3]. The 2025 Central Document No. 1 explicitly states that in developing a new type of rural collective economy, it is necessary to “innovate investment and financing mechanisms for rural revitalisation” and guide financial institutions to increase financial support for the rural collective economy [4].

However, a large number of villages in China currently face the dilemma of a weak collective economy and unstable operating income, and a shortage of funds remains one of the primary issues constraining the development of the value of village collective resources and the realisation of endogenous development. Although a series of inclusive finance and rural revitalisation support policies have been introduced at the national level, financial assistance to agriculture faces multiple challenges: rural collective economic organisations lack collateral, information asymmetry is pronounced, and there is a mismatch between the supply of financial products and actual demand, leading to financial institutions being “reluctant to lend, unwilling to lend, and unable to lend” [5]. How to overcome these challenges and ensure that finance truly benefits the rural collective economy is a key issue of common concern in the current context of rural revitalisation.

Finance is the core of the modern economy, playing a vital role in facilitating capital allocation and driving economic growth. The Notice on Effectively Carrying Out Financial Work for Agriculture, Rural Areas and Farmers in 2025, issued by the National Financial Supervisory Administration, explicitly states the need to “establish a rural financial service institution system characterised by clear tiers, complementary strengths and orderly competition” [6]. Against this backdrop, various financial institutions are accelerating their expansion into rural markets. Li Dan [7] points out that large banks, leveraging their scale of funds and network advantages, exert a “leading-goose effect” at the county level by increasing volume and reducing costs, whilst small and medium-sized rural financial institutions rely on their geographical advantages to cultivate the local market. However, existing research pays little attention to the expansion practices of city commercial banks as a specific category of institutions.

As local joint-stock commercial banks established through the restructuring of urban credit cooperatives and formed through equity participation by local governments and enterprises, urban commercial banks possess unique advantages such as proximity to the local community, short decision-making chains, timely access to information, and flexible service responses. In recent years, some urban commercial banks have begun to explore viable pathways for penetrating the rural market, with the “city–county–township–village” four-tier service network model established by Guilin Bank attracting particular attention. So, can the expansion of urban commercial banks into rural markets effectively empower the rural collective economy? What are the underlying mechanisms? What practical challenges do they face? And how might these be optimised?

It is worth reflecting on the fact that feasibility in theory does not necessarily equate to feasibility in practice. The validity of theoretical logic relies on a series of preconditions, whereas the practical level often faces multiple obstacles. Consequently, this study not only examines the micro-level mechanisms through which city commercial banks empower the rural collective economy, but also focuses on analysing the practical challenges encountered in the transition from theory to practice, with particular emphasis on dissecting the complex duality of “mechanism feasibility” coexisting with “practical difficulties”.

Compared with existing research, the marginal contributions of this paper are as follows: firstly, it focuses on city commercial banks as a specific entity, avoiding conflation with large commercial banks and rural commercial banks, thereby clarifying the scope of the study; secondly, adopting a problem-oriented perspective to reveal the dual nature of urban commercial banks’ empowerment of the rural collective economy—namely, that it is “theoretically feasible but hindered in practice”—rather than merely providing a simple feasibility argument; and thirdly, drawing on practical case studies from Guilin Bank to conduct an in-depth analysis of the empowerment mechanisms and practical challenges, and to propose targeted policy recommendations.

## **2. Literature Review and Analytical Framework**

### **2.1 Literature Review**

#### **2.1.1 Research Progress on the Empowerment of Rural Collective Economies by Financial Institutions**

Academic research on the role of financial institutions in empowering the rural collective economy has accumulated a substantial body of work. Overall, whilst the extension of financial services to rural areas has achieved notable results, it continues to face challenges on multiple fronts. In response, scholars have analysed the situation from various perspectives. Firstly, on the demand side, rural collective economic organisations face the pressing issues of “difficult, expensive and slow access to finance”. Gao [8] points out that there is controversy regarding the legal interpretation of the guarantee capacity of rural collective economic organisations as special legal entities, making it difficult for financial institutions to regard them as eligible borrowers; furthermore, He [9] emphasise in their research that the problem of information asymmetry is pronounced, and the fragmentation of credit information regarding business entities exacerbates the lending concerns of financial institutions. Secondly, on the supply side, there is a structural mismatch between the supply of financial services and the demand of the rural collective economy. Traditional financial institutions still primarily offer small-scale unsecured loans, making it difficult to meet the scaled and long-term funding needs of new types of agricultural business entities. Wang et al. [10] therefore point out that the homogenisation of credit products is a significant issue; Furthermore, Liu et al. [11] suggest that financial institutions tend to overestimate rural financial risks—such as low project profitability and high risk—leading to a lack of initiative in serving the rural collective economy and strict controls on credit volumes.

Regarding the causes of the aforementioned challenges, scholars have conducted multifaceted analyses. Among them, Xiao et al. [12] emphasise that the lag in rural collective property rights reform, coupled with unclear ownership definitions and an underdeveloped transfer market, makes it difficult to convert assets into effective collateral; Guo et al. [13], in their empirical research, pointed out that in the practice of financial institutions extending their reach into rural areas, there is a structural contradiction between commercial operations and the outcomes of agricultural support, making it difficult to balance social and economic benefits; thirdly, Kang et al. [14] argued that the lack of sound risk-sharing and compensation mechanisms, coupled with the lagging development of rural credit reporting systems, results in high credit acquisition costs and difficulties in risk assessment for financial institutions; Fourthly, multi-stakeholder collaboration mechanisms are underdeveloped; communication channels between government, banking and business entities involved in financial outreach have not yet become institutionalised, resulting in a lack of synergy during the empowerment process [15].

Gao et al. [18] emphasise the need to strengthen financial safeguards for the rural collective economy and improve the system for financing through the mortgaging of collective assets; Zhu and Sun [19], drawing on practical case studies from multiple regions, propose innovative models for financial support of the new rural collective economy, including loans secured by equity pledges of collective assets, industrial chain finance, collective development and joint credit facilities; furthermore, Peng et al. [20], from the perspective of policy optimisation, propose that a mechanism for fiscal and financial coordination should be established to leverage financial capital towards the rural collective economy sector through fiscal interest subsidies and risk compensation.

### **2.1.2 Research Progress on the Expansion of Urban Commercial Banks into Rural Areas**

In recent years, some scholars have begun to focus on the practices of urban commercial banks in expanding into rural markets. He and Wang [19] utilised county-level clustering data on Guilin Bank’s rural inclusive finance service points to examine whether urban commercial banks’ expansion into rural areas can balance agricultural support performance with operational performance. The study indicates that Guilin Bank’s four-tier service network mechanism in rural areas can simultaneously enhance both agricultural support performance and operational performance, whilst the participation of rural elites can significantly strengthen the mechanism’s impact on agricultural support; mechanism analysis reveals that alleviating information asymmetry, effectively controlling agricultural support costs, and establishing sound risk-sharing mechanisms are key pathways to improving both types of performance.

Yin [20] analysed the situation from the perspective of the expansion of inclusive finance into rural areas, pointing out that the expansion of city commercial banks into rural areas is a strategic choice made against the backdrop of saturated competition in urban markets, with their core advantages lying in technological investment, product innovation and risk control capabilities; at the same time, they face fierce competition

from the Postal Savings Bank of China, the Agricultural Bank of China and local rural commercial banks, necessitating the adoption of a service strategy based on specialisation and differentiation.

Existing research provides valuable insights for understanding financial empowerment of the rural collective economy; however, much of this research tends to lump large banks, rural commercial banks and city commercial banks together under the umbrella term “financial institutions” for analysis, failing to give sufficient attention to the distinctive strengths and specific challenges faced by city commercial banks in serving the rural collective economy. Mechanism analysis and challenge analysis are treated as separate entities. Existing research either focuses on demonstrating the feasibility of financial empowerment or remains confined to a macro-level description of challenges, lacking a research perspective that organically integrates mechanism analysis with an analysis of challenges. There is a lack of in-depth micro-level examination based on typical case studies. Macro-level policy recommendations struggle to guide specific practical operations; it is necessary to conduct an in-depth analysis of the operational logic and practical obstacles of empowerment mechanisms through typical case studies.

This paper aims to address the aforementioned research shortcomings by adopting a problem-oriented approach. Using Guilin Bank’s outreach mechanism as a case study, it systematically analyses the intrinsic mechanisms and practical challenges faced by city commercial banks in extending services to the rural collective economy, and proposes corresponding recommendations for optimisation.

## **2.2 Theoretical Framework**

This paper will utilise a three-dimensional analytical framework centred on “cost–risk–efficiency”, incorporating key concepts from the theories of information asymmetry, transaction costs and financial symbiosis, to explore the underlying logic and practical pathways for city commercial banks to extend their reach and empower the rural collective economy. By addressing the gap between theoretical feasibility and practical implementation, the paper aims to establish a comprehensive theoretical analytical framework that both underpins the validity of the framework and clarifies the core analytical perspective of this study.

### **2.2.1 The “Cost–Risk–Efficiency” Three-Dimensional Analysis Framework**

Within the analytical framework, costs encompass operational costs, customer acquisition costs, data collection costs and management costs. To expand their reach into rural areas, city commercial banks must reduce these costs through innovative business models, such as adopting a light-asset service point model, relying on rural elites to reduce data collection costs, and utilising digital technology to lower the cost of processing individual transactions. Risks include credit risk, market risk and operational risk. The rural collective economy faces issues such as an underdeveloped credit system, weak operational stability and a lack of collateral, necessitating the establishment of a multi-tiered risk mitigation mechanism. Efficiency encompasses service delivery efficiency, loan approval efficiency and capital allocation efficiency. It is necessary to improve the alignment between financial services and the needs of the rural collective economy by shortening service distances, optimising approval processes and precisely matching demand.

### **2.2.2 Theoretical Foundation**

The theory of information asymmetry suggests that the imbalance of information between lenders and borrowers in credit markets is prone to trigger adverse selection and moral hazard, leading financial institutions to implement credit rationing [21]. Furthermore, issues such as financial irregularities and a lack of creditworthiness within rural collective economic organisations create significant information barriers with financial institutions, thereby exacerbating this predicament. Transaction cost theory, meanwhile, demonstrates that transaction costs throughout the entire process—including information search, negotiation and contract formation—determine the feasibility and commercial sustainability of market transactions [22]. The characteristics of rural collective economy credit—namely small individual loan sizes, decentralised services and long cycles—keep transaction costs under standardised credit models persistently high, constituting the core reason for financial institutions’ low willingness to supply such credit. The theory of financial symbiosis proposes that financial institutions and entities in the real economy can form interdependent, mutually beneficial relationships characterised by synergy, comprising three key elements: symbiotic units, models and environments. This provides a theoretical framework for understanding the relationship between city commercial banks and rural collective economies [23]. Whilst the two are

potentially compatible symbiotic units, the establishment of their symbiotic relationship requires the support of a sound external institutional environment. Financial empowerment is not a one-way process of supply and demand, but rather requires both parties to form a symbiotic structure of collaborative development.

The expansion of city commercial banks' services into the rural collective economy essentially involves the dynamic balancing and optimisation of the relationship between cost, risk and efficiency. These three factors are intertwined and determine the feasibility and sustainability of such service expansion. The inherent characteristics of credit for the rural collective economy drive up the end-to-end transaction costs for city commercial banks, whilst information asymmetry further exacerbates credit risk. The combination of high costs and high risks can trap city commercial banks in a dilemma of inefficiency, thereby dampening their enthusiasm for expanding into rural areas.

Conversely, if city commercial banks can reduce various costs through business model optimisation, improved risk control and the application of financial technology, whilst overcoming information barriers and credit allocation challenges, they can achieve cost reductions whilst maintaining controllable risks. This, in turn, enhances the efficiency of both service delivery and capital utilisation, creating a virtuous cycle of low costs, low risks and high efficiency. This not only assists the rural collective economy in securing credit support but also enables the city commercial banks to achieve their own differentiated development. This also validates the explanatory power of the three major theories regarding the practical constraints on urban commercial banks' expansion into rural areas.

The logical chain through which city commercial banks empower rural collective economies is: geographical advantage→ institutional innovation→ triple performance→ sustainable development. The smooth operation of this chain, however, requires numerous preconditions. This paper takes the outreach mechanism of Guilin Bank as its analytical case study, exploring both the successful experiences of its institutional innovation and the practical challenges encountered in implementation. It aims to provide a reference that combines theoretical depth with practical value, thereby enabling city commercial banks to better empower rural collective economies.

### **3. A Logical Analysis of How Urban Commercial Banks Expand into Rural Areas to Empower the Rural Collective Economy**

#### **3.1 Guilin Bank's Four-Tier Service Network: Organisational**

The four-tier service network established by Guilin Bank—spanning city, county, township and village levels—serves as the core vehicle for its expansion into rural areas. This service network demonstrates significant institutional innovation in terms of cost control.

Firstly, a light-asset approach reduces the costs of branch construction and operation. Guilin Bank has broken away from the traditional heavy-asset branch model of conventional banks. Village-level inclusive finance service points are prioritised for establishment in the homes of villagers with good reputations within the village, utilising their own premises to provide services. This eliminates the need for additional leasing or construction of business premises, thereby substantially reducing the costs of market development and fixed operational costs in rural areas. These service points are equipped to assist farmers, enabling the centralised handling of basic transactions such as small-value deposits and withdrawals, social security payments and account enquiries. This effectively diverts basic business from branch outlets to village-level service points, significantly reducing the transaction costs per transaction.

Secondly, a tiered coordination system reduces management and coordination costs. Guilin Bank has established a clear mechanism for the division of responsibilities within the four-tier network: the municipal branch is responsible for product development, policy formulation and the coordination of risk control; county-level branches are responsible for project coordination, credit approval and local management; township micro-branches are responsible for identifying village collective needs, pre-loan due diligence and post-loan management; and village-level service points are responsible for information collection, reporting needs and providing basic services. This has formed a closed-loop collaborative system characterised by “city-level coordination, county-level implementation, township-level outreach and village-level frontline presence”.

Thirdly, optimising localised funding has reduced funding costs. Relying on its four-tier service network, Guilin Bank has extensively attracted low-cost deposits from county and rural areas. According to Guilin Bank's 2025 interim report, as of the end of June 2025, the Bank's deposit balance stood at 374.95 billion yuan; During the reporting period, the Bank continued to deepen the penetration of its county-level lending operations, with the outstanding balance of county-level loans reaching 118.342 billion yuan and the outstanding balance of agriculture-related loans standing at 59.914 billion yuan, representing year-on-year increases of 7.78% and 10.27% respectively. By extending its four-tier service network into rural areas, the Bank has effectively optimised its liability structure, creating scope for it to provide low-interest credit products to rural collective economies [24].

By establishing a four-tier service network spanning “city–county–township–village”, Guilin Bank has extended financial services to the village level. The adoption of a light-asset deployment model has significantly reduced the operational costs of financial services, enabling the bank to provide credit support to rural collectives at lower interest rates; simultaneously, a localised liability strategy has further optimised the structure of funding sources, continuously injecting stable financial resources into rural economic development. This organisational innovation has not only effectively improved the accessibility of financial services in rural areas but has also reshaped the rural financial ecosystem, laying a solid foundation for the modernisation of the rural collective economy.

### **3.2 Governance by rural elites: Mitigating Information Asymmetry**

The active involvement of village elites is a distinctive feature of the Guilin Bank model. By carefully selecting respected and well-informed local figures to serve as service point managers, the bank has established a risk identification and prevention mechanism that integrates “soft” and “hard” information, thereby effectively alleviating information asymmetry between the village collective and individual farmers. In theory, this mechanism offers an innovative approach to overcoming information barriers in rural finance.

Firstly, the selection of station managers and the incentive and accountability mechanisms ensure the authenticity of information. Guilin Bank prioritises selecting village “Two Committees” officials, local entrepreneurs, and veteran Party members as station managers for its village-level service points. These individuals are familiar with the actual circumstances of every household and every village collective project, enabling them to accurately grasp the village collective's operational status, project prospects, creditworthiness and other “soft information” that is difficult to quantify. At the same time, Guilin Bank has established an incentive mechanism for station managers, directly linking their earnings to service quality and credit risk. This not only motivates station managers to proactively gather information and match needs, but also effectively prevents issues such as information falsification and moral hazard. By the end of June 2025, Guilin Bank had established nearly 6,000 rural inclusive finance service points across Guangxi, with station managers carefully selected from respected and influential figures within the villages, thereby forming an information-gathering network covering the entire rural area of Guangxi.

Secondly, the integration of soft and hard data enables end-to-end risk control. During the pre-loan phase, station managers can conduct preliminary due diligence on village collective projects through their personal networks, combining soft data—such as the collective's reputation, governance standards and project feasibility—with hard data held by the bank, such as credit records and collective asset data, to form a comprehensive credit profile. During the loan approval phase, station managers can participate throughout the evaluation of village collective projects, providing localised insights to support the bank's decision-making; during the post-loan phase, station managers can monitor operational changes and fund utilisation in village collective projects in real time, identifying potential risks immediately and reporting them to the bank.

Thirdly, the social trust network lowers the barrier to financial services for village collectives. Rural elites act as a bond of trust between the bank and village collectives, breaking down the trust barrier between rural residents and financial institutions, and effectively resolving the issues of village collectives “daring not to borrow” and “not knowing how to borrow”. Station managers can also use their daily services to educate village collective leaders on financial knowledge and explain credit products, assisting the village collectives in completing loan applications and preparing documentation.

By selecting rural elites familiar with local conditions and public sentiment to serve as service point managers, Guilin Bank has effectively alleviated the information asymmetry between the bank and rural

collectives. Leveraging their geographical advantages and the trust of the local community, these managers can accurately assess the operational status and creditworthiness of village collectives, thereby reducing the bank's credit risk and transaction costs. Building on this foundation, the bank utilises a mechanism integrating soft and hard data to gain a more comprehensive and accurate understanding of the actual situation of rural collective economic organisations, thereby providing more targeted and precise financial support. The establishment of a network of trust based on personal connections has further enhanced financial accessibility for village collectives, effectively stimulating the endogenous development momentum of the rural collective economy and promoting the deep integration of rural governance with modern finance.

### 3.3 Supply Chain Finance: Improving Efficiency and Sharing Risk

Guilin Bank has moved beyond the traditional, single-dimensional model of credit-based empowerment by deeply embedding financial services within distinctive rural industrial chains. It has established a service system comprising “credit support + production and marketing empowerment + risk-sharing”, which not only ensures a precise match between financial services and the needs of village collective industries but also achieves risk diversification through the coordination of multiple stakeholders across the industrial chain. Whilst this mechanism demonstrates the theoretical potential for comprehensive empowerment, it faces significant barriers to replication in practice.

Firstly, bespoke industrial chain products enable the precise allocation of funds. Guilin Bank has focused on distinctive agricultural industrial chains such as the Baise mango, Guilin mandarin orange and Liuzhou snail noodle ingredient sectors in Guangxi. By conducting in-depth research into the operational characteristics and funding requirements of each link in the chain, the bank has tailored exclusive credit products for local industrial chain projects. Taking the Baise mango industry chain as an example, Guilin Bank has launched the “Funan Loan – Mango Loan” product, covering the entire chain from mango cultivation to storage, preservation, processing and sales. This breaks away from the traditional reliance on collateral, instead granting credit facilities based on the industry chain operational data and order contracts held by village collectives. As of the end of June 2025, the outstanding credit facilities granted by Guilin Bank's Baise Branch to clients in the mango industry chain reached 62.76 million yuan, benefiting 714 growers, with unsecured loans accounting for as much as 86% of the total.

Secondly, end-to-end services enhance the efficiency of collective economic development. Guilin Bank's service scope has expanded beyond mere capital provision to encompass the entire industrial chain, extending to both upstream and downstream sectors. Leveraging “Finance+” agricultural support platforms such as the “Tiantian Kaixin Group” community group-buying platform and rural revitalisation livestreaming studios, the bank has established a “Bank + Leading Enterprises + Farmers” production-to-sales linkage model to assist village collectives in broadening their agricultural product sales channels.

Thirdly, multi-party collaboration across the industrial chain has established a risk-sharing mechanism. Through a multi-party cooperation model involving “leading enterprises + banks + farmers”, Guilin Bank has linked entities across the industrial chain, thereby achieving the dispersion and shared bearing of credit risks. Leveraging the credit endorsement and order commitments of leading enterprises, this model disperses the credit risk of individual loans to village collectives across the entire industrial chain; by collaborating with government-backed financing guarantee institutions and agricultural insurance companies, and introducing tools such as credit enhancement through guarantees and insurance hedging, a multi-tiered risk mitigation system comprising “credit + guarantee + insurance” has been established.

Based on the above analysis, Guilin Bank's four-tier service network, rural elite governance, and industrial chain finance mechanisms provide a viable pathway for city commercial banks to empower rural collective economies in terms of cost control, information mitigation, efficiency enhancement and risk sharing. However, institutional innovation does not necessarily equate to successful implementation. As demonstrated by Guilin Bank's experience, the effectiveness of these three mechanisms is highly dependent on a series of prerequisites: the light-asset model requires village collectives to possess basic financial needs; the elite governance mechanism requires the sustained participation and effective incentivisation of rural elites; and industrial chain finance requires a sound industrial foundation and the leadership of leading

enterprises. When these prerequisites are not met, the efficacy of the mechanisms will be significantly diminished.

#### **4. The Practical Challenges Faced by City Commercial Banks in Empowering the Rural Collective Economy**

The preceding section analysed, based on the case of Guilin Bank, how a four-tier service network achieves cost control, how governance by rural elites alleviates information asymmetry, and how industrial chain finance enhances efficiency and shares risks. Theoretical analysis indicates that city commercial banks possess inherent advantages in serving the rural collective economy, and that the institutional design demonstrates a certain degree of feasibility. However, there remain multiple practical obstacles between theoretical logic and practical implementation. This chapter will, in light of these practical challenges, systematically analyse the key constraints facing city commercial banks in empowering the rural collective economy from the three dimensions of cost, risk and efficiency.

##### **4.1 Cost-related Challenges: The Operational Pressures on the Service Network Continue to Mount**

Although the four-tier service network adopted by city commercial banks is innovative in terms of cost control, it faces multiple pressures in practice. Firstly, the effectiveness of the light-asset model is highly dependent on the activity levels and transaction volumes at service points. If the collective economic development in the villages covered by a service point lags behind and financial demand is insufficient, it will be difficult to cover the operating costs of the service point, leaving the bank in the awkward position of having built facilities that are not being utilised. Furthermore, the effectiveness of tiered coordination relies on efficient collaboration across all levels. As the number of service points increases and coverage expands, information transmission between tiers may become distorted or delayed, and coordination costs may rise rather than fall. Striking a balance between scale expansion and coordination efficiency is a practical challenge facing Guilin Bank. The cost advantage of county-level deposits may narrow as market competition intensifies. Should other financial institutions simultaneously step up their efforts to attract deposits in the county-level market, the competitive cost of such deposits will rise, potentially eroding Guilin Bank's advantage in funding costs.

##### **4.2 Governance by Rural Elites: Uncertainties Surrounding the Implementation of the Model**

Elite-led governance in rural areas has proven highly effective in mitigating information asymmetry; however, the stability and replicability of such mechanisms in practice face numerous challenges. The willingness of rural elites to participate in rural financial services is influenced by multiple factors: if the incentives are insufficient to cover their time costs, their participation may wane; if the incentive mechanisms are poorly designed, they may give rise to conflicts of interest between elites and farmers. The effectiveness of integrating soft and hard information depends on the comprehensiveness and accuracy of data collection. However, information on village collective operations is often poorly standardised and lacks timeliness; relying solely on the individual capabilities of station managers makes it difficult to guarantee the completeness and timeliness of information. Furthermore, familiar networks may be subject to issues such as "favour-based loans" or "connection-based loans", and soft information may be distorted by subjective emotions. Moreover, establishing a trust network based on personal connections requires a long period of accumulation and has a limited scope of effectiveness. In newly entered market areas, the cost of building trust networks is high; for business expansion across villages or townships, the effectiveness of familiar-based trust may diminish. This governance model, which relies heavily on "people", will face bottlenecks during replication and scaling.

##### **4.3 The Dual Dilemma of Efficiency and Risk: High Barriers to Replicating Supply Chain Finance**

The development of bespoke industrial chain products requires substantial investment in preliminary research and product design, resulting in high R&D costs; furthermore, product solutions are highly

dependent on the operational characteristics of specific industrial chains, making replication across different chains challenging. For regions with weak industrial foundations and incomplete industrial chains, the replicability of this model remains questionable. The extension of full-chain services requires banks to possess cross-sectoral resource integration capabilities, including the operation of e-commerce platforms, live-streaming sales and cold-chain logistics. For city commercial banks that primarily focus on traditional deposit and loan business, the transition to becoming comprehensive service providers faces multiple challenges, including talent reserves, technical capabilities and organisational structure. The effective operation of the industrial chain risk-sharing mechanism relies heavily on the willingness of leading enterprises to cooperate and the coverage capacity of guarantee institutions. However, leading enterprises are not universally present; for village collectives lacking the driving force of such enterprises, this mechanism is difficult to apply. Furthermore, the business focus of financing guarantee institutions remains on small and micro-enterprises and farmers, resulting in limited coverage of village collective economic organisations.

## **5. Advice**

Based on the analysis of the aforementioned challenges, this paper argues that, in order to better empower the development of new rural collective economies, urban commercial banks need to make concerted efforts across three dimensions—model optimisation, capacity building and institutional improvement—to formulate a systematic policy framework.

### **5.1 Optimising the Cost Dimension: Promoting the Sustainable Development of the Service Network**

In response to the pressure of service network operating costs, it is recommended that efforts be focused on the following areas: firstly, establishing a mechanism for evaluating the efficiency of service points. Implement categorised management based on indicators such as service point transaction volumes and the number of rural collectives covered, and consolidate and optimise underperforming service points to avoid a situation where “construction is prioritised over operations”. Second, explore diversified revenue models for service points. Whilst ensuring the provision of basic financial services, expand into value-added services such as insurance agency, agricultural product sales agency and financial literacy promotion to enhance the self-sustaining capacity of service points. Third, deepen bank-government cooperation to secure policy support. By signing strategic cooperation agreements with local governments, service point development should be incorporated into the overall rural revitalisation plan to secure policy subsidies for premises and operations.

### **5.2 Strengthening the Risk Dimension: Improving Incentive and Constraint Mechanisms for Elite Governance**

To address the issue of stability in rural elite governance, the following improvements are recommended. Firstly, establish a certification system for station managers. Conduct regular professional training for station managers and grant certification to those who pass the assessment, thereby enhancing both their professional capabilities and their sense of belonging and honour. Second, optimise the incentive mechanism for station managers. Building upon the existing model of “basic subsidy plus business commission”, explore ways to link station managers’ earnings to the long-term development of the villages they serve. Third, establish standardised protocols for the collection of soft data. Develop a credit assessment template for village collectives, converting the soft data collected by station managers into quantifiable, traceable standardised data, thereby reducing the risks of interference from personal relationships and information distortion. Fourth, establish a rotation and succession mechanism for station managers. This will prevent service points from becoming overly reliant on a single station manager, cultivate a pool of reserve station managers, and ensure the sustainability of the elite governance model.

### **5.3 Enhancing Efficiency: Lowering the Barriers to Replicating Industrial Chain Finance**

To address the challenges in replicating industrial chain finance, the following breakthroughs are recommended: Firstly, build a repository of industrial chain finance service templates. Systematically summarise the core elements of successful cases such as the Mango Loan and Sando Orange Loan to create

replicable product templates, thereby reducing product development costs for new industrial chains. Second, establish a cross-sector resource integration platform. Forge strategic partnerships with e-commerce platforms, logistics firms and agritech companies to avoid each bank having to build their own infrastructure from scratch. Third, explore a “One Village, One Product” differentiated service strategy. For regions lacking a complete industrial chain, guide city commercial banks to focus on a single link or a single product, using a “point-to-area” approach to gradually extend the service chain, thereby reducing the pressure of transitioning into comprehensive service providers.

## 6. Conclusion

In summary, this study analyses the logic and challenges underlying city commercial banks’ efforts to empower the rural collective economy within the “cost–risk–efficiency” framework. Theoretically, it fills a gap in research on the differentiation of city commercial banks, whilst in practice it provides practical case references for financial support to agriculture. Compared to existing research, which tends to conflate different types of financial institutions and separate the analysis of mechanisms from that of challenges, this study focuses on city commercial banks as the primary subject and achieves an organic integration of the two. However, it has yet to resolve the core challenge of replicating this model in underdeveloped regions with weak industrial foundations. The relevant recommendations for optimisation provide practical insights for the expansion of city commercial banks into rural areas and the improvement of rural financial systems. Future research could further explore pathways for integrating digital finance with the expansion models of city commercial banks, thereby promoting the deep integration and coordinated development of financial services and the rural collective economy.

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The authors declare no conflict of interest.

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