

Financial Inclusion, Poverty Alleviation, and Digitalization

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Abstract. The link between financial inclusion, reducing poverty, and digitalization is examined in this essay. Economic globalization has emerged as a key trend in the growth of the global economy. With the continuous and deepening influence of the trend of economic globalization, the development of various regions in the world's economic environment needs to be balanced. The large gap between countries, urban and rural areas, regions, and social classes is typical of unbalanced economic development. Inclusive finance is a concept proposed to solve the problem of poverty from the level of financial services. A more universal and beneficial financial system is necessary for each country's economic growth and social development, so achieving financial inclusion has received the attention of many countries. Therefore, based on the region-specific data collected, the relationship between inclusive finance for economic growth and poverty alleviation will be examined from two perspectives in this paper: inclusive finance for poverty alleviation and inclusive digital finance. Through an analysis of the current state of inclusive finance, the limitations of its development and recommendations for future development will be discovered.

Keywords: Financial Inclusion; Poverty Alleviation; Digitalization.

1. Introduction

The United Nations first introduced financial inclusion in 2005, and economically underprivileged populations are far less likely to be included in the financial system, according to Lyons and Kass's research [1]. In contrast to the "law of two or eight" advocated by the traditional financial industry, where 20% of the customers generate 80% of the profits, the most significant difference in financial inclusion is that it is a very different approach. The most significant difference of inclusive finance is that it subverts the traditional concept of serving mainly the rich to a certain extent so that disadvantaged customers can also get equal access to financial services. In order to efficiently and thoroughly provide financial services to all socioeconomic classes and groups, particularly those in rural regions, urban and rural impoverished groups, and micro firms, which traditional finance neglects, constitutes inclusive finance.

In recent years, financial inclusion has been flourishing. Currently, the most relevant literature and materials are academic studies on inclusive finance and economic growth [2]. Tan demonstrates how regional financial development may reduce poverty by boosting income and stimulating the economy. [3]. The Chinese government has adopted a combination of poverty alleviation policies to achieve the national goal of overall prosperity by 2020. The 13th Five-Year Plan clearly states that the rural poor will be lifted out of poverty by 2020 under the current standards. Based on the imbalance of regional economic development, the positive effect of financial inclusion on economic growth is demonstrated empirically [4]. With the development of Internet technology, inclusive finance can use the Internet as a carrier to promote the convenience and feasibility of financial trade. Thus, it can improve the economic income of poor people and achieve the purpose of poverty alleviation.

By examining the effects of inclusive finance on reducing poverty and the interaction between inclusive finance and digitalization, this research investigates the present development status, constraints, and potential future directions of inclusive finance. In order to investigate the current status and causes of the economic backwardness of the impoverished areas, this research primarily concentrates on the Qinba region of China. The positive impact of inclusive finance on poverty alleviation is derived from the policies and measures implemented by the Chinese government for poor regions. The combination of Internet technology and inclusive finance will also be a major

emphasis of the paper, as well as its beneficial effects on reducing poverty and its practical importance through the examination of pertinent data.

The paper will be divided into six parts; the first part is an introduction, the second part is a basic explanation and discussion of financial inclusion, the third part examines the relationship between financial inclusion and poverty alleviation, the fourth part examines digital financial inclusion, the fifth part discusses the limitations and prospects of financial inclusion, and the sixth part summarizes the findings of this paper.

2. Definition and importance of financial inclusion

With the uneven development of financial services and the Internet in the world, there are information barriers in the financial system of each region, so it does not provide a fairer opportunity for every economic individual to participate in the financial trade. The problem of the poor and disadvantaged groups finding it challenging to get financial services through official channels is known as financial exclusion [5]. Around 1.4 billion individuals globally still do not have access to basic bank accounts, according to the World Bank [6]. The United Nations proposed financial inclusion in 2005. Financial inclusion refers to access to appropriate and effective financial services and products for people and groups from all segments of society with financial service needs under the requirement of equal opportunities and in a sustainable manner [7]. The financial system of financial inclusion aims to lower the obstacles preventing individuals from all walks of life from taking part in financial commerce. Financial inclusion is not a policy to relieve low-income people but to improve people's essential quality of life, adhere to a sustainable business model, and promote economic development and shared prosperity. Financial inclusion has been identified as an enabler for 7 of the 17 Sustainable Development Goals [8]. One of the crucial problems for the G20 Summit is financial inclusion. The World Bank Group (WBG), the Alliance for Financial Inclusion (AFI), the Global Partnership for Inclusive Finance (GPIFI), and several other international organizations are assisting developing nations in achieving the objective of financial inclusion.

The World Bank considers inclusive finance a key enabler for reducing extreme poverty and promoting shared prosperity [9]. The development of inclusive finance has been included by the Chinese government at the national strategic level. It has implemented a number of policies to create and fund an inclusive financial system [10]. A development strategy to advance inclusive finance has been put out by the Chinese State Council. It is a 2016–2020 development strategy. Establishing an inclusive financial service and guarantee system that is compatible with the fulfillment of a moderately affluent society by 2020 is the primary objective of inclusive finance in China [11]. Therefore, inclusive finance has been developing rapidly in Chinese society.

The vigorous development of FinTech makes financial services and trade more widely available. FinTech can effectively promote the process of financial inclusion. According to the statistics, the unbanked population has been reduced by 35% in the last decade [12]. The current financial inclusion services can rely on the Internet and digital science to effectively reduce costs and expand the range of financial transactions. During Covid-19, digital financial services provide secure, low-cost, and non-contact financial instruments for individuals and businesses [13].

3. Inclusive Finance for Poverty Alleviation

One of the current global and societal hot topics is economic inequality. The United Nations (UN) introduced the idea of financial inclusion for the first time in 2005 with a view to boosting the economic income of those with low incomes. The Communist Party of China (CPC) Central Committee formally endorsed a financial inclusion strategy in 2013 [14]. China's State Council released the Plan for Promoting the Development of Financial Inclusion in 2015. (2016-2020). By the 100th anniversary of the establishment of the Communist Party of China, China's first of two 100-year plans call for the complete construction of a prosperous society in 2021. This critical poverty

alleviation policy and measure play a necessary "blood transfusion" role in eliminating absolute poverty [15].

The reason why people put forward the concept of "inclusive finance" is significant because finance was not inclusive before. In the past, there was a certain threshold for people to participate in finance; whether it was investment or financial management, they needed certain conditions to participate. Therefore, for the affluent class or people in big cities, the financial services problem could have been bigger in general. For the poor, ethnic minority, remote areas, disabled people, and other disadvantaged groups, there is a common problem of lack of information. China's 385 poor counties are distributed spatially in Fig. 1, which demonstrates that the country's poor counties are predominantly found in the center and western areas.

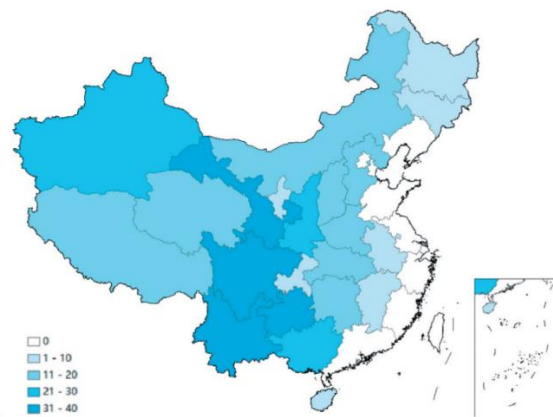


Fig. 1 Spatial distribution of 385 impoverished counties across China [16]
 Note: The darker the color, the more impoverished counties are located in the region

Qinba is one of the 14 underdeveloped and poor regions in China. Located at the junction of six provinces and cities in Sichuan, Chongqing, Shaanxi, Long, Hubei, and Henan, the Qinba region is primarily mountainous and hilly, with undulating terrain. The topography and fragile ecological environment result in poor transportation and low-risk tolerance of people in the area.

Table 1. Farmer’s household participation in savings.[17]

Variables	Characteristics	Number of samples	Proportion	Confidence interval
Having bank deposits or not	Yes	285	48.55%	(44.51%,52.59%)
	No	302	51.45%	(47.41%,55.49%)

Table 1 shows that in the undeveloped regions of China's Qinba, a country with high savings rates, this amount is significantly lower than the country's average [18]. The room for financial inclusion to develop in this region would be enormous. Farmers in the Qinba region generally have low incomes, resulting in low or even zero savings. The remote location and difficult transportation in the Qinba region led to information barriers for farmers. Also, the lack of local banks is one of the main problems leading to this phenomenon.

Inclusive finance is currently an important initiative in China's fight against poverty. In the Plan for Promoting the Development of Inclusive Finance (2016-2020), there are precise requirements to improve the coverage, accessibility, and satisfaction of financial services. Based on the data analysis, the paper's results indicate that savings and commercial insurance enhance the risk resistance of farmers' households and stabilize their consumption levels. On the contrary, microcredit increases the livelihood stress of farmers' households. Numerous academics have examined the connection

between economic growth and the reduction of poverty in depth and come to the conclusion that economic expansion can reduce poverty successfully. This conclusion is also supported by the findings of theoretical and empirical investigations [19, 20]. Consequently, the vigorous development and popularization of inclusive finance is an effective measure to help countries around the world get out of poverty.

4. Digital Inclusive Finance

The global social economy is currently evolving due to digitization and information technology. The concept of inclusive finance combined with digitalization to form inclusive digital finance was first proposed at the G20 Summit in Hangzhou in 2016, broadly referring to all acts promoting inclusive finance through digital financial services. With the growth of big data finance, Internet finance, and blockchain technology, more people, particularly the poor, may access financial services in more accessible and cost-effective ways, resulting in the provision of more targeted financial services [21]. Digital financial services (DFS) can reduce friction at every step of the financial services lifecycle, from opening an account to conducting customer due diligence, authenticating transactions, and automating other product-specific processes [22]. In this paper, we focus on the "universality" and "benefit" of financial inclusion from the concept of financial inclusion.

"Universality" is a fundamental characteristic of financial inclusion. Digital financial services (DFS) and fintech significantly reduce the transportation and transaction costs of trade. DFS and fintech will simultaneously decrease the entry barrier for involvement in financial commerce and widen the scope of such participation. "Benefit" will make financial services use the Internet and other advanced technology to effectively break the problem of information barriers to trade, reduce costs and increase people's enthusiasm for participation.

The advantages of increasing DFS have been increased by the present Covid-19 epidemic [23]. DFS provides the option of remote payments and transactions, effectively avoiding the need for physical contact. DFS is not affected by realistic distances, and countries and governments can provide fast and secure financial support by moving money around. In summary, the main prerequisite for DFS implementation is still the registration of bank accounts by previously unbanked people and knowledge of the basics of financial trade. The number of mobile money accounts surged by approximately 200 percent between 2014 and 2017, and 35% of persons in rural regions reported using a mobile money service [24]. Fig. 2 shows the data related to Mobile Money from 2012-2018. With the popularity of digital inclusion, active mobile money accounts and active mobile money agents have been on the rise and significantly increased. At the same time, the volume of mobile money transactions is also increasing with the increase of agents and accounts



Source: Digital Economy for Ghana Diagnostic Report, World Bank Group 2019.

Fig. 2 Key Mobile Money Statistics [25]

Table 2 displays the findings of the initial regression on China's rural rejuvenation through inclusive digital financing. Model 1 is based on the digital inclusive finance index, and its findings show that the current expansion of this sector can significantly help rural areas develop economically.

Model 2 is based on the scope of digital inclusive finance (DIF B), and its findings show that the rise in the number of digital financial accounts has a similar impact [26].

Table 2. Baseline regression [27]

Variables	(1)	(2)	(3)	(4)
	RV	RV	RV	RV
DIF	3.793***(7.51)			
DIF_B		3.288***(6.04)		
DIF_D			2.368***(8.19)	0.336(0.78)

Note: *, **, and *** indicate significant at the 10%, 5%, and 1% levels, respectively, and t-values are represented in parentheses.

5. Limitations & Future outlooks

Overall, inclusive finance appears essential for fostering the quick growth of the entire community and economy. For small and micro-entrepreneurial enterprises and farmers, inclusive finance will help these low-income people speed up the pace of poverty alleviation and improve their basic living standards. The breadth of the financial services sector can be increased by internet financial businesses, which can cover the gaps left by conventional financial institutions. The growth of inclusive finance also confronts a number of difficulties at the same time.

In China, the growth of inclusive finance has only recently begun and is still in the exploratory and experimental stages. First, the relevant policies and regulations could be better. The need for standardized criteria hinders the large-scale promotion of inclusive finance. Secondly, the distribution of financial infrastructure could be more balanced. Commercial bank branches are unevenly distributed between urban and rural areas. The need for standardized places for financial transactions in rural or remote areas restricts financial trade. Third, there is an imbalance between resource supply and demand. The difficulties of financing for target consumers including small and micro firms, farmers, and low-income persons is still a prevalent status quo as compared to the more comprehensive financial services enjoyed by urban and middle- and high-income groups. Fourth, the stereotyped ideology of low-income people. On the one hand, low-income people fear that they cannot repay the loan; on the other hand, they are unwilling to pay high borrowing interest to the bank.

Future digitization should be tightly connected with financial inclusion. With the goal of bridging the digital divide in financial inclusion and boosting overall societal adoption rates, it is imperative that digital financial services be further tailored for the elderly and those with restricted mobility. Inclusive finance legislation should continue to be strengthened and improved, standards and processes for inclusive finance should be standardized, and supervision of inclusive finance should be strengthened. Commercial banks should enhance their network coverage and expand the scope of financial services. Commercial banks, on the other hand, ought to offer a variety of goods and services to suit the demands of low-income individuals in the market.

6. Conclusion

In this paper, we study inclusive finance's objectives and development status to derive the help and limitations of inclusive finance for poor regions. Based on this paper's research on the Qinba region, we find that various inclusive finance initiatives can promote economic growth in poor regions and effectively increase the financial income of low-income people. When inclusive finance is combined with digitization, transaction costs are greatly reduced, and inclusive finance's reach is increased. The degree of Internet use and financial inclusion development has a very beneficial and significant effect on reducing poverty. Therefore, in the future, inclusive finance will be deeply integrated with the Internet to reduce extreme poverty, narrow regional economic disparities, and promote shared

prosperity in new ways. In addition, this paper should popularize the knowledge of finance and the Internet to poor regions to help poor people better use the products of inclusive finance and increase the options available.

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