ISSN: 2688-8653

Analysis of Poverty Reduction Mechanism in Digital Inclusive Finance

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Abstract

TSince 2020, when the poor were lifted out of poverty in an all-round way and a well-off society was built in an all-round way, China has solved the long-standing historical poverty problem and made an important contribution to lifting the world out of poverty. However, poverty is a long-term, dynamic and systematic process. General Secretary Xi Jinping once said: "Taking off poverty and taking off one's hat is not the end, but the starting point of a new life and a new struggle." We still have a long way to go in order to realize the overall development of mankind and the common prosperity of the people. This paper takes Digital inclusive finance as the breakthrough point. First, it makes a comprehensive analysis of China's digital inclusive finance development from two aspects: the scale of Internet development and Peking University Digital inclusive finance Index. Secondly, the mechanism of digital inclusive poverty reduction is analyzed. Finally, corresponding suggestions are put forward for the development of digital inclusive finance.

Keywords

Digital Inclusive Finance; Poverty Reduction; Mechanism.

1. Introduction

General Secretary Xi Jinping pointed out in the party's Report to the 20th CPC National Congress that the most arduous and arduous task of building a modern socialist country in an all-round way is still in the countryside. In particular, the poverty-stricken population in relatively backward areas has a high degree of poverty vulnerability and is vulnerable to natural factors, economic factors, policy factors and other factors, which lead to the phenomenon of poverty alleviation and poverty return. Digital inclusive finance can provide better financial services for the disadvantaged groups, reduce the risk of returning to poverty, and promote high-quality economic and social development. Therefore, from the perspective of Digital inclusive finance, this paper studies its mechanism of action to inhibit the risk of returning to poverty and reduce the possibility of the disadvantaged groups returning to poverty due to financial problems, which has certain significance.

2. Analysis of the Development Status of Digital inclusive finance

Digital inclusive finance is an organic combination of digital technology and inclusive finance. It refers to the actions to promote inclusive finance through financial services supported by digital technology. It applies digital technologies such as big data, cloud computing and mobile internet to the field of inclusive finance, significantly improving the availability of inclusive finance and effectively expanding the coverage of financial services.

2.1. The scale of Internet service coverage has increased year by year

The construction of digitalization depends on the popularity of internet services. The high coverage rate of internet services can support the development of digitalization services and provide better basic conditions for digitalization transformation. According to the statistics report on the development of China's internet, the number of internet users in China has reached 1,051 million by 2022. compared with the end of 2021, the number of internet users has increased by 19.19 million. at present, the probability of internet access has reached 74.4%. China's Internet service coverage is increasing year by year, especially in recent years due to the impact of the novel coronavirus epidemic. Online activities such as online education, online meetings and online office have increased significantly. Objectively, this has had a certain degree of impact on the digital process in China, and has strongly promoted the growth of the number of Internet users in China.

2.2. The development status of digital inclusive finance

In this paper, the data used in the analysis of the development of digital inclusive finance is the digital inclusive finance index jointly released by Peking University and Ant Colony Research Institute. The 31 provinces in China are divided into seven regions, namely northeast, north, northwest, southwest, south, east and central China. The development status of China's digital inclusive finance is analyzed in the form of sub-regions.

With the increasing popularity of the Internet and the acceleration of the digital process, digital inclusive finance has been developing at a high speed. Since the first year of Digital inclusive finance Outbreak in 2011, Digital inclusive finance has developed rapidly. The growth rate of Digital inclusive finance in 2012 has reached 125%, which has doubled compared with that of 2011, and then the growth rate has slowed down year by year. However, it should be noted that the growth rate is still higher than the growth rate of China's GDP in the same period, especially in 2020, the growth rate of China novel coronavirus still reached 5.61% in the first year of the outbreak. Its enormous potential should not be underestimated. However, in terms of sub-regions, the development degree of digital inclusive finance varies greatly among regions. Judging from the total amount, the digital inclusive finance index in East China has reached 407.75, while the digital inclusive finance index in Northwest China is only 346.37, with an index gap as high as 61. Judging from the average growth rate, the average growth rate in economically underdeveloped regions is generally higher, for example, the average growth rate in the northwest region is 38.1%, that in the southwest region is 36.2%, and that in the economically developed region in east China is only 25.5%. On the whole, the growth of inclusive finance in the eastern region is slower than that in the western region, which indicates that inclusive finance has great potential and advantages in the economically and infrastructure backward regions.

From the analysis of the overall growth trend, each region shows a positive growth trend every year, but there is a large gap in the growth of each region, and the growth rate is slowing down year by year; East China has the largest coverage index, followed by North China. The coverage index of Southwest China and Northwest China limited by economic factors and geographical factors is not high, but its growth rate is higher than other regions. On the whole, the coverage of inclusive finance in various regions of our country is generally good.

The overall growth trend of the index of the depth of use of digital inclusive finance in various regions began to show a relatively large growth trend in 2011. With the continuous development, the growth trend is also from fast to slow, and gradually tends to be stable. Analysis by region shows that there are still significant differences between the numerical depth index of inclusive finance used in northwest and southwest regions and other regions, but both are positive growth.

The digitalization in various regions showed a rapid growth trend in early 2011, especially in 2012 and 2013, with the growth rate exceeding 100%. However, like the coverage and depth of use in inclusive finance, the growth rate gradually slowed down with the passage of time.

ISSN: 2688-8653

To sum up, Digital inclusive finance still has great development potential in various regions of our country, especially in the relatively backward northwest and southwest regions, with considerable development potential.

3. Analysis on the Mechanism of Poverty Reduction in Digital inclusive finance

3.1. The innovation of digital inclusive finance

Inclusive finance has a long history of development in our country. It has played an indelible role in our country's economic development for more than 40 years. However, with the continuous progress of technology and the continuous innovation of financial products, there are also some disadvantages. First, it is vulnerable to geographical restrictions. Financial institutions in remote areas or mountainous areas need a large amount of manpower, material resources and financial resources to carry out their business and often have to bear high operating costs. At the same time, there may be an increase in its loan interest rate due to cost considerations. Therefore, in remote areas, there are either no financial institutions involved or higher interest rates, which greatly limits the ability of low-income people to access financial services. Second, in order to prevent risks, considering that the borrowers are mostly low-income people, the factors affecting repayment are various and unstable, and the risks generated are often higher than those of other customers, which greatly increases the possibility of overdue payment and bad debt rate, and increases the risk cost. Third, there are few technical means involved. Financial institutions usually use the traditional manual audit and management methods and lack the support of digital technology, which leads to low efficiency and difficulty in scale-up. By comparison, Digital inclusive finance can effectively solve these pain points and difficulties of inclusive finance, and has the following advantages:

(1)Digital inclusive finance breaks the time and space limit. Digital inclusive finance uses digital technology and Internet platform, which can save a lot of manpower, material resources and financial costs, and provide services through mobile terminals, the Internet and other channels, without the need to establish physical outlets, greatly reducing operating costs. Compared with the traditional physical financial institutions, digital inclusive finance can break the time and space limit, so that financial services can be provided at any time and any place, which provides great convenience for residents in remote areas.

(2)Digital inclusive finance has reduced the risk of information asymmetry and made use of the digital information platform to enable both lenders and borrowers to effectively understand each other's needs and effectively improve information transparency and risk control. Digital inclusive finance uses artificial intelligence, big data analysis and other technologies to integrate different social credit data and behavior data, which can effectively improve the awareness and trust of both lenders and borrowers, more accurately provide personalized products and services for users, comprehensively use various data sources from a longer-term perspective, and effectively improve the ability of risk identification and control.

(3)Digital inclusive finance lowers barriers to financial services. Significant documentation and information are required for prudential risk relative to inclusive finance, and higher collateral or credit ratings are required. Digital inclusive finance only needs to use digital means such as big data and cloud computing to perform comprehensive rating based on customer information data such as historical consumption, credit records and transaction numbers of users, so as to provide true and effective financial services, make services more comprehensive and convenient, and lower the threshold of financial services.

To sum up, the breadth of coverage, risk prudence and digital technology blessing of Digital inclusive finance all provide more financial service support to low-income groups such as small and micro-enterprises or rural residents in need, so as to promote their development and increase their income.

3.2. Analysis of the Mechanism of Digital inclusive finance's Poverty Reduction

By providing more convenient and flexible financial services, Digital inclusive finance will provide more financial service support for low-income groups such as small and micro-enterprises or rural residents in need, and promote their development and increase their income. The main mechanisms are as follows:

(1)Increase the income level. Digital inclusive finance helps low-income people achieve better financial management, asset appreciation and risk management by providing them with more flexible and diversified financial services, thus improving their income level. In addition, Digital inclusive finance can also provide financial services to rural areas to promote the development of local industries, raise the income level of local residents and reduce their risk of returning to poverty.

(2)Improve the ability to resist risks. Through the introduction of digital technology and the increase of digital inclusive finance institutions, financial products have been continuously innovated and developed, which has greatly broken the original situation. The emergence of the low purchase threshold of the lowest "one-yuan starting purchase" has greatly increased the residents' savings selectivity. The continuous innovation of diversified financial products has broken the threshold limit for financial management and investment. The convenience in the use of financial service products is beneficial to residents' coping with force majeure risks such as diseases and disasters, and to avoid the occurrence of expenditure poverty.

(3)Promoting economic development. The development of digital inclusive finance can promote the development of digital economy. Digital economy is an economic form based on digital technology. Through the application of digital technology and the Internet, digital inclusive finance institutions can extend the corresponding industrial chain, provide more employment opportunities for low-income groups, and increase the income of low-income groups.

4. Digital inclusive finance Development Proposal

To sum up, through the analysis of the poverty reduction path of Digital inclusive finance, vigorously developing Digital inclusive finance can improve the income of low-income groups and also play a certain role in rural revitalization. Therefore, in order to promote digital inclusive finance, the following measures can be taken:

4.1. Strengthen the construction of digital infrastructure

The development of Digital inclusive finance requires a high coverage digital infrastructure, which is the basic condition for the development of Digital inclusive finance. According to the above analysis of the current development of the Internet, it can be concluded that China's Internet coverage rate has reached 74.4% at this stage, and there is still much room for development. Therefore, it is urgent to strengthen the coverage of Internet services, especially in backward areas. On the one hand, the relevant government departments can increase their support for the construction of digital infrastructure, and attract more investors or enterprises to participate in the construction of this field by means of desired laws and policies, tax incentives, capital investment and preferential policies. At the same time, the introduction of protection policies and regulations will also help to provide the necessary legal protection and norms for the construction of digital infrastructure, and reduce possible improper competition and illegal acts. On the other hand, strengthening the digital technology infrastructure can help financial institutions to enhance their digital and intelligent strategic leadership and better provide digital services for individuals and small enterprises, thus promoting the development of digital inclusive finance.

4.2. Encourage Innovation and Development of Digital inclusive finance

To enable Digital inclusive finance to better adapt to the practice of rural revitalization, Digital inclusive finance must adapt to the changing market and consumer demand through continuous innovation. The government can encourage financial institutions to carry out the innovative practice of Digital inclusive finance by formulating relevant policies and regulations. These policies and regulations should provide corresponding support and incentives, such as special funds or tax incentives. On the one hand, relevant financial institutions should strengthen internal technology research and development, and focus on skills training in the fields of big data, intelligence, algorithms, science and technology, etc., so as to improve the ability of digital technology and innovation, and actively explore new business models and new digital products and services, so as to better meet the needs of consumers and thus promote the development of digital inclusive finance. On the other hand, the government should learn from the experience and practices of the international community and relevant industry associations, take into account the continuous changes and transformation of the market and consumers, and continuously adjust and optimize the policies and regulations to continuously provide a better policy environment for digital inclusive finance innovation.

4.3. Strengthen the publicity of Digital inclusive finance

Pratt & Whitney's products continue to innovate, and the boom in the number of products has also led to some problems in consumers' understanding of them. Consumers in backward regions, in particular, will not pay as much attention to Digital inclusive finance as those in developed regions. Therefore, it becomes particularly important for the products and services of Digital inclusive finance. On the online channel, media exposure needs to be strengthened. With the help of new media platforms such as Tik Tok and Aauto Quicker, big data can be used to promote Digital inclusive finance in different ways for different user groups to deepen consumers' understanding of digital inclusive finance products. Offline channels, relevant financial institutions should "sink" to villages, towns, communities and other places to establish contact with them: provide one-on-one consultation and services to residents through community staff, volunteers and other means. In this way, digital inclusive finance institutions can be closer to the actual needs of residents, understand their specific conditions, and provide more personalized services. Financial institutions can establish ties with communities and villages and towns by "sinking", which can enhance residents' understanding and trust of digital inclusive finance services, increase their enthusiasm and participation in using digital inclusive finance services, and further promote the popularization and development of digital inclusive finance services.

5. Conclusion

In summary, his paper firstly analyzes the development status of China's digital inclusive finance, comprehensively analyzes the development status of China's digital inclusive finance through the development scale of the Internet and the use of Peking University Digital inclusive finance Index, compares the advantages of Digital inclusive finance over the traditional inclusive finance, and analyzes the poverty reduction mechanism of Digital inclusive finance, and draws the conclusion that the development of Digital inclusive finance is beneficial to improving the income level of low-income groups. Therefore, the conclusions of this paper are as follows:

The rapid development of Digital inclusive finance since 2011, especially in the cities located in the central and western regions, is still at a high level. Under the condition that China will build

ISSN: 2688-8653

a well-off society in an all-round way and the poor people will get rid of poverty in an all-round way in 2020, this paper gives a referential direction for how to consolidate the achievements of poverty alleviation and effectively link up with the rural revitalization, namely, vigorously develop digital inclusive finance services. On the one hand, digital inclusive finance can effectively reduce the financial service threshold, play a positive role in the use of financial services by low-income groups, and can provide them with convenient, flexible and efficient financial services. On the other hand, traditional financial institutions have strict procedures and standards in the loan process, which makes it difficult for groups just emerging from poverty to obtain loans. However, Digital inclusive finance uses more open and people-oriented financial services to more accurately assess the financial risks of borrowers through the use of big data and intelligent technology, so as to provide safer and more reasonable financial services for the poor who need financial support.

Acknowledgments

This work was partially supported by Research on Innovation Path of Financial Support for Agriculture under Rural Revitalization Strategy --Taking Fujian Province as an Example[grant number: FWX19003].

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