

Analysis and Proposals on the Poverty Reduction Effect of Inclusive Finance in China's Counties

Xiaozhou Zhu^{1, a}

¹School of Finance Qilu University of Technology (Shandong Academy of Sciences), Jinan City, Shandong Province, China
^a841633624@qq.com

Abstract: Poverty has long been an important issue in China's development, and the disparity between rich and poor in many families is obvious, which hinders the development process of China's economy and the stability of social development. Although China has implemented numerous poverty alleviation measures, poverty still plagues the daily lives of many families and hinders social progress, with a particular concentration of poor families in counties. The current policy of precise poverty alleviation and poverty alleviation is driven by county financial reform and innovation, while a variety of measures have been taken to rely on the financial industry to solve the problem of poverty in counties has become the current guiding direction for policy formulation and social development. Inclusive finance refers to a financial service system that will provide services to all segments of society (especially poor households) in a reasonable and diversified manner according to market standards so that all segments of society can benefit from financial information services. Therefore, county government departments should give full play to the poverty reduction role of inclusive finance, increase investment in education, optimize industrial structure, promote economic growth, reasonably allocate fiscal expenditure, optimize financial infrastructure construction in rural areas, alleviate relative poverty and interrupt return to poverty, fully implement rural revitalization, and thus achieve the great rejuvenation of the Chinese nation.

Keywords: Financial inclusion, Poverty reduction effect.

1. Background of Writing

Widening poverty and income disparity has become one of the major challenges to global development in the 21st century, and the international community, especially developing countries, is particularly concerned about it. Since China's reform and opening up, its economic growth has gained momentum, and according to the National Bureau of Statistics, China's GDP increased year by year from 2001 to 2021, with an average annual GDP growth rate of 12.28%; at the same time, the 2021 government work report pointed out that by the end of 2020, China's poverty incidence rate dropped to 0.6%, and decisive achievements were made in poverty eradication and anti China has made significant achievements in poverty eradication and has made positive contributions to the successful promotion of poverty reduction in the world. Poverty eradication is not only a historical challenge common to all human beings, but also a common task that people all over the world need to face. As of November 23, 2021, all the poor people in China's counties under the current standard have achieved poverty eradication, and all 832 poor counties have been removed from the list, which means that absolute poverty in Chinese society has been eliminated, but after absolute poverty has been eliminated, the poverty problem still cannot be ignored, i.e. China has entered the stage of relative poverty. The National Population Development Plan (2016-2030) states that in the process of eliminating absolute poverty and building a poverty governance system that is consistent with China's national conditions, especially during the 14th Five-Year Plan period, China should shift its development focus from mainly addressing absolute poverty and county poverty to alleviating relative poverty and addressing urban and rural poverty in an integrated manner [1]. In particular, during the 14th Five-Year Plan period, the focus of development should change from mainly addressing absolute poverty and county poverty to

alleviating relative poverty and addressing urban and rural poverty in an integrated manner [1]. Although absolute poverty has been eliminated at this stage, the development of various undertakings in poor areas is still at the exploratory stage, and the ability of sustainable poverty eradication needs to be improved, and the risk of returning to poverty still cannot be ignored. The problem of poverty is not only related to the economy and people's livelihood, but also related to social stability and the long-term stability of the country.

With the comprehensive victory in the battle against poverty, China's core strategic deployment in the field of "three rural areas" has shifted to the revitalization of the countryside, i.e., the revitalization of the five major aspects of prosperous industry, ecological livability, civilized countryside, effective governance, and affluent living. To revive the nation, the countryside must be revitalized. The comprehensive promotion of rural revitalization cannot be achieved without the strong support of the financial sector. As the focus of financial services for the real economy, inclusive finance has the characteristics of broader coverage and deeper involvement, and can more fully meet the multi-discipline and multi-level financial needs of the majority of Chinese villages in the process of revitalization, playing a more important role in promoting the effective implementation of the rural revitalization strategy. It is of great practical significance to continuously deepen the construction of inclusive financial system in counties and improve the service level and depth of inclusive finance to rural areas for the realization of rural revitalization strategy [2].

2. Current Status of Research

There are three main stages of research related to the effects of financial development and poverty reduction.

The first stage is the research on the relationship between financial development and poverty levels, and the following

three conclusions exist: 1. is that financial development has a positive effect on poverty alleviation in a country or region; for example, Jalilian and Kirkpatrick (2002) verified a positive relationship between financial development and income growth of the poor through data from 26 countries. 2. is that financial development exacerbates the gap between rich and poor, thus worsening poverty; Jeanneney and Kpodar (2005) analyze the relationship between poverty alleviation and financial development volatility and find that financial development can reduce poverty, but the volatility of finance can offset the benefits and therefore adversely affect the poor groups; 3. is that financial development and poverty reduction show an inverted "U" type relationship, which can be effective in reducing poverty only when the level of financial development reaches a certain level [3].

The second stage is the research on the relationship between the level of financial inclusion and poverty alleviation, and the existing literature argues that financial inclusion reduces poverty by increasing the availability of financial services to the poor and improving the living conditions of the poor, for example, Krishan and Manish (2010) argue that financial inclusion lowers the threshold of access to financial services and enables the poor and low-income people to access financial services at an acceptable price and thus improve the lives and thus the socio-economic development of poor areas [4].

The third stage is the research on digital finance, foreign scholars believe that digital finance development promotes the development of inclusive finance, Peterson K. (2017) believes that digital finance can allow low-income or non-regular income people to access financial services from formal financial institutions at a lower cost, which has positive significance for the development of inclusive finance [5].

3. Overview of Related Theories

3.1. Inclusive Finance Theory

The concept of inclusive finance was first proposed by the United Nations in 2005, and was introduced to China in the same year and received the attention of the government. "Universal" means that inclusive finance is more accessible and can provide convenient financial services for small and micro enterprises and urban and rural residents, reflecting the fairness of inclusive finance and achieving social equity and harmony. "Benefit" means that the affordability of inclusive finance is outstanding, and inclusive finance can provide low-cost financial services for all groups, including low-income people, to realize the role of financial services for the people [6]. Inclusive finance aims to eliminate poverty and achieve social equity, and inclusive finance can not only improve the availability of financial services and meet the needs of the masses for financial services, but also enhance the people's sense of access to financial services, provide convenient services for small and micro enterprises and urban low-income people, and achieve the purpose of providing equal and effective lending funds and financial services for all social classes. The development of inclusive finance does not mean providing low-income people with free financial services, but using the regenerative and incentive functions of finance to give the poor people also fair access to funds and promote the sustainable development of the financial industry. In the process of developing inclusive finance, we should focus on the principle of commercial sustainability and adhere

to market-based and policy-phase support to achieve sustainable development of inclusive finance [7].

Inclusive finance is a new concept expanded from traditional finance, which is developed from microfinance and microfinance. Inclusive finance promotes the economic and financial development in a broader and deeper direction by improving the popularity of financial services and the satisfaction of each group to enjoy financial services in all aspects. It helps poor groups to achieve a comprehensive and effective poverty alleviation, thus promoting the development of poverty alleviation. The introduction and development of inclusive finance has greatly improved the poverty situation of the existing poor and disadvantaged groups. So far, the development of inclusive finance has gone through four stages: microfinance, microfinance, traditional inclusive finance and modern digital inclusive finance [8].

The first stage is microcredit. Microcredit is a policy-beneficial credit service for a specific poor and low-income group, for example, non-interest-bearing loans, unsecured voucher loans and other services [9]. Microcredit originated in Italy in the last century when some philanthropists of the society provided small amounts of loans to low-income groups in order to reduce their loan costs and alleviate their shortage of funds. In the 1970s, microfinance became popular in Bangladesh, and the main source of loans of the Grameen Village Bank of Bangladesh was still based on the interest-free loans from charitable organizations. The Bank's main source of lending still relied on transfer donations from charitable groups, but at the same time, reforms were made to maintain the sustainability of the institution by taking deposits from some borrowers and other means to provide unsecured credit services to low-income groups. It was not until the 1980s that microfinance institutions became independent from government subsidies and social donations, mainly through deposit-taking [10].

The second stage is microfinance. With the popularity of microfinance, the poor groups are no longer limited to a single financial need, microfinance can no longer meet the increasing and diversified financial needs of the poor groups, so the microfinance model evolved from microfinance. Microfinance is no longer limited to low-income groups, but also includes small and medium-sized enterprises that are difficult to finance and have little financing, and also expands its financial services, developing savings and deposits, insurance and other financial services on top of microfinance. The most significant feature of microfinance is the diversity of financial services it provides and the diversity of institutions that provide these services, not only formal financial institutions but also informal financial institutions, etc. Its coverage is wider and more commercialized [11].

The third stage is inclusive finance. Although this model of microfinance and microfinance can help these disadvantaged groups to a certain extent, with the proliferation of human population, these two models are no longer able to meet their financial needs in recent years, and reform is imperative. Therefore, in 2005, the United Nations introduced the concept of inclusive finance to the international community for the first time. They believe that it is a new financial system that not only includes services for the disadvantaged groups but also includes other social groups, covering a broader scope. Inclusive finance has the following characteristics: 1. The target group it serves is more extensive. Inclusive finance is no longer only for specific disadvantaged groups, but for all social strata, more equitable, whether rich or poor can

participate in the financial market, can enjoy their due financial services, making a more equitable and balanced development of society. 2. The diversity of financial services products. The financial services provided by inclusive finance are no longer limited to a single business such as deposits and credit, but have become diversified and developed into a variety of financial services including investment, insurance and foreign exchange services. 3. The participating institutions have become more extensive. From the initial small commercial banks and fund companies to non-governmental institutions and policy-oriented financial institutions and new financial institutions, more and more institutions are involved in inclusive finance, providing diversified financial services to various groups in society, expanding their range of choices and improving the effectiveness of financial services. 4. Sustainable development of financial institutions. The core goal of inclusive finance is to maximize the role of financial institutions in resource allocation, and it also requires financial institutions to have a certain sense of risk prevention to deal with possible failures and bankruptcies at any time. Only in this way can financial institutions sustain their development and bring more financial services.

The fourth stage is digital inclusive finance. The development of traditional inclusive finance has achieved great results, but at the same time the traditional form is destined to be more costly and at the same time there are certain risks. Modern computer network technology not only uses network technology to reduce the cost of financial services and improve the popularity of financial services, but also uses network security technology to effectively cope with financial risks in all aspects. Therefore, along with the rapid development of modern network technology, digital inclusive finance came into being. So far at the G20 Leaders Summit in 2016 everyone unanimously adopted the G20 Advanced Principles for Digital Inclusive Finance and other documents to develop traditional inclusive finance to the stage of digital inclusive finance. Digital inclusive finance makes use of digital network technology to solve the problem of not widespread and deep financial services and financial exclusion faced by traditional inclusive finance with its broad coverage, so that every group can enjoy financial services as much as possible.

3.2. Theories on the Impact Mechanism of Financial Inclusion Development on Poverty Reduction

3.2.1. The direct impact mechanism of financial inclusion on poverty alleviation

In the previous financial model, due to the phenomenon of financial exclusion, the poor and some low-income groups were often excluded from the financial system and could not enjoy the most basic financial services they were entitled to, so they could not get enough financial resources to meet their own financial needs, which led to their inability to change their own poverty situation and were caught in the vortex of poverty. However, with the development and growth of inclusive finance in recent years, more and more groups have begun to understand and pay attention to it, and with the continuous exploration and development of inclusive finance in countries around the world, the poverty problem has been improved. The quality of life of low-income families has been gradually improved and enhanced. For the poor and low-income groups, savings and credit services are the most direct

and widespread financial needs, and they are also the most accessible financial services. Therefore, this paper discusses this direct influence mechanism based on both savings and credit services.

3.2.1.1 Savings and deposit service poverty reduction mechanism

There are many different types of financial services in banking financial institutions, but savings and deposits are the most basic financial service and the main and most urgent financial need of the poor. Its poverty reduction effect is mainly reflected in:

First, it effectively resists financial risks and enhances risk prevention ability. Due to the limited capacity of low-income groups and poor people, they have limited ability to cope with risks and weak psychological tolerance when risks come, so if they are faced with major risks caused by other unexpected situations such as major diseases or natural disasters, they will suffer a greater and heavier blow on top of their original poverty situation, leading to further poverty. The emergence of banking financial institutions has enabled these groups to restrain some unreasonable consumption behaviors of low-income and poor groups by saving their own deposits to a certain extent, which is conducive to guiding the poor groups to healthy consumption, and at the same time, through the characteristics of their own industrial structure, banking financial institutions make reasonable and suitable resource allocation for the absorbed savings deposits, helping these groups to effectively avoid financial risks. Therefore, the savings of the low-income poor groups are crucial in order to mitigate as much as possible the financial losses they face in the event of an emergency. Improve their ability to resist risks, reduce the possibility of returning to poverty, and achieve a real escape from poverty and not return to poverty.

Second, to obtain additional interest income. Many of the savings services provided by financial institutions have the function of preserving and adding value, so low-income groups can use their savings deposits to accumulate extra funds and make a short-term or long-term plan, which not only can earn a small amount of income for future needs, but also can ensure the safety of their savings deposits, which is a great protection for the poor groups.

3.2.1.2 Credit service poverty reduction mechanism

Credit service is another important and basic service of banking financial institutions other than savings and deposit service, and it is one of the financial services that are in great demand by all social strata, especially the poor strata, in recent years. Its poverty reduction effect is mainly reflected in:

First, lowering the loan threshold for the poor groups. According to the data in the "China Financial Operation Report", it is easy to find that in the eastern region with high level of economic and financial development, the number of financial institutions' business outlets, the number of employees and the scale of social financing are much higher than those in the western region, while some poor counties have almost no financial institutions. What's more, some poor groups do not have fixed jobs, so they have no fixed source of income, and they lack collateral, which is a necessary condition for obtaining loans, making it difficult for them to obtain the investment funds they need from financial institutions to maintain their basic living through entrepreneurship and other means in a society with a certain degree of financial exclusion. As a result, they have difficulty in obtaining investment funds from financial institutions to

maintain their basic living by starting their own businesses, and are caught in the dilemma of "difficulty in borrowing". However, inclusive finance has captured this core issue by providing the most basic and necessary financial services to these disadvantaged groups, largely lowering the loan threshold for poor groups, providing them with more and broader employment opportunities, increasing their income, and thus alleviating the poverty situation.

Second, it makes up for the shortage of savings deposits and provides the poor groups with much-needed working capital. The credit services of financial institutions largely increase the disposable funds of the poor groups, causing them to meet their daily needs and solve problems such as food and clothing through their own income while at the same time, they can also make reasonable deployment of their income by borrowing funds through the credit services of financial institutions [21]. Use their borrowed funds to invest in their own comprehensive cultural quality, strengthen their comprehensive skills training, and enhance their talent competitiveness, which then builds confidence for each poor group to enhance their self-worth in their work; another way is to use their borrowed funds for productive investment or capital investment, from which they can obtain high benefits to improve their existing living standards and alleviate their existing poverty. More importantly, credit services make up for many of the shortcomings of savings and deposit services by providing some poor groups with a certain degree of funding when their own savings are insufficient, solving their immediate needs and thus alleviating the pressure of suffering from deeper poverty.

3.2.2. Indirect Impact of Financial Inclusion on Poverty Alleviation

On the one hand, the development of inclusive finance promotes economic and financial growth, and thus alleviates poverty through the "trickle-down theory"; on the other hand, the development of inclusive finance reduces the gap between the rich and the poor through reasonable adjustment and balanced distribution of income, and thus reduces the degree of poverty.

First, it is the purpose of poverty alleviation by driving economic growth. Since financial development positively affects economic growth, and economic growth not only drives the development of regional market industries, but also drives the development of labor market, bringing more employment opportunities and solving the employment problem of surplus labor to a large extent. When the economic environment shows a good upward trend, the market will increase the demand for labor, resulting in a large amount of surplus labor to be solved, and the poor groups have the opportunity to increase their family income through their own efforts to a certain extent in the process to alleviate the poverty situation. Secondly, the economic development will directly lead to the increase of government revenue, and the government's substantial purchase expenditure and infrastructure construction will increase the employment of surplus labor, which will benefit the poor groups. Finally, the improvement of economic level will prompt the government to increase the financial investment, vigorously develop the education infrastructure in remote areas, improve the hardware and software of schools, and thus improve the relevant teaching level, so as to solve the problem of poverty at source; at the same time, vigorously develop the construction of medical facilities in remote areas, increase the financial expenditure on them, and allocate certain funds to

improve the quality of medical services in remote areas due to the poor medical facilities and few medical institutions. At the same time, we should develop medical facilities in remote areas, increase financial expenditures, and allocate certain funds to improve the poverty caused by poor medical facilities and few medical institutions in remote areas, so as to alleviate the poverty caused by diseases.

Second, it is to alleviate poverty through a reasonable distribution of income. The more effective and reasonable the distribution of financial resources, the more the gap between the rich and the poor can be narrowed, thus reducing the extent of poverty. It is easy to find that everyone has different views on how financial inclusion can affect poverty reduction through reasonable distribution of income. Some think that financial development will aggravate the income gap between the rich and the poor, resulting in "the rich getting richer and the poor getting poorer" and therefore not conducive to poverty reduction; one thinks that financial development is conducive to gradually reducing the income gap and thus alleviating poverty; another thinks that financial development has a time lag in poverty reduction. In the early stage of financial development, it will make the income distribution unequal and lead to "the rich getting richer and the poor getting poorer" in the financial market, which will deepen the poverty level and is not conducive to poverty reduction; however, over time, in the later stage of financial development, a large number of poor groups will participate in the financial market, which will narrow the gap between the rich and the poor and thus achieve the purpose of poverty reduction [22]. In summary the mechanism of action of financial inclusion in poverty alleviation is shown in the following figure.

4. Recommendations

4.1. Vigorously develop inclusive finance and improve the inclusive financial system

From the above analysis, it is clear that the poverty reduction effect of inclusive finance is very significant. Therefore, China should give full play to this advantage of inclusive finance in poverty reduction, so that the benefits of inclusive finance can benefit all kinds of people who need inclusive financial services, especially the relatively poor people and those who return to poverty, and continue to contribute to the next poverty reduction work. Inclusive finance in China's counties is still at a low level, and even the level of inclusive finance varies greatly among counties. At present, China's inclusive financial system is far from perfect, and inclusive financial resources are unevenly distributed, so the relevant government should join hands with relevant financial institutions to better implement inclusive financial policies, lower the threshold of financial services, encourage R&D personnel to actively innovate financial products, and thus improve the inclusive financial system.

4.2. Improve the long-term mechanism of risk sharing between the government and financial institutions

Traditional agricultural credit business is generally risk-sharing by banks and other financial institutions, thus easily causing the phenomenon of "financial exclusion", and financial institutions are particularly concerned about the financial risks that may be brought by low-income people and small and micro enterprises in county areas. As for the current

situation, the establishment of a long-term mechanism of risk-sharing in county areas can effectively reduce county financial risks and promote the development of inclusive finance in county areas.

First of all, we should improve the cooperation mechanism between financial institutions and financial subsidies, strengthen pro-poor financial and fiscal preferential policies, and improve the incentive mechanism for county financial institutions to increase the amount of agriculture-related loans. Improve the government guarantee system for county areas, and provide loan guarantee services for residents and enterprises in county areas, thus ensuring that county residents increase their demand for financial services. Improve the benefit-sharing and risk-sharing mechanism, share credit risks between the government and financial institutions, explore a long-term mechanism for risk-sharing, lower interest rates for agriculture-related loans by banks, lower premiums for agricultural insurance by insurance companies, and expand the scope of insurance coverage for agriculture-related insurance to meet the demand for financial services by residents in county areas as much as possible. Improve the financial risk early warning and risk monitoring mechanism, from risk identification, risk prediction and risk resolution at three levels, and build a framework of financial risk prevention and control covering the rural real economy and traditional financial system in all aspects. The government not only strengthens supervision, but also gives financial support to financial institutions that provide better financial services related to agriculture, so that the long-term mechanism of risk sharing can be stabilized.

4.3. Reasonable allocation of government financial expenditure to optimize the construction of inclusive financial infrastructure in the county

For example, the government should make the financial support plan more inclined to the agricultural industry, improve the marketing channels of agricultural products, and give full play to the role of e-commerce in poverty alleviation; increase the financial investment in primary and secondary schools in the county to guarantee that students in the county can exercise their right to receive compulsory education; strongly support the environment of the county area construction, improve the living environment of county residents, and create green water and green mountains; encourage and support all kinds of financial institutions to build more county financial service outlets, so that county residents who originally have difficulty in accessing financial services can enjoy financial services without going to their villages.

4.4. Innovative financial products and services

Nowadays, we have entered the information society, and cloud computing, big data and artificial intelligence have entered our lives and distributed in various fields of finance.

A shared and transparent credit data system should be formed as soon as possible, and big data and other technologies should be used to innovate financial services, expand the scale of Internet financial services, and improve the quality and efficiency of financial services. Optimize the financial service system, innovate the financial service model and provide financial services in a targeted manner. The government encourages to increase the innovation for financial products, financial technology and financial concepts, improve the investment in research and development of new financial products, and provide financial support for innovative financial products.

References

- [1] Li Xiaoyun,Xu Hanze.Some thoughts on poverty alleviation after 2020[J]. National Academy of Administration Journal, 2018 (01): 62-66.
- [2] Zhao Hui;Inclusive finance faces a new mission in the new era[N];China Bank Insurance Journal;2021
- [3] Yang J,Wang Y,Zhang Zongyi. An empirical analysis of financial development and poverty reduction in China[J]. World Economy,2008(08):62-76.
- [4] Yan Haiyun;Research on the Development of Inclusive Finance in China[D];Party School of the Central Committee of the Communist Party of China;2013
- [5] Jiang Fengxu;How digital inclusive finance can play a role in rural revitalization[N];Financial Times;2021
- [6] Zheng Changling; Inclusive finance should be both "universal" and "beneficial" [N]; Rural Finance Times; 2020
- [7] Wang Jing, Hu Guohui. Evaluation of the Development of Inclusive Finance in China and Analysis of Influencing Factors[J]. Financial Forum,2013(6):31-36.
- [8] Jiao Jinpu, Huang Tingting, Wang Tiandu et al. The development process and empirical study of inclusive finance in China[J]. Shanghai Finance,2015(4):12-22.
- [9] Du Xiaoshan. Microfinance and Inclusive Financial System[J]. China Finance,2010(10):14-15.
- [10] Li YANING, Du ZHIXiong. An empirical analysis of factors influencing microfinance customer welfare[J]. Seeking, 2011 (08): 24-26.
- [11] Shan Depeng, Zheng Changde, Wang Ying. Theoretical mechanism and research progress of financial availability, credit demand and precise poverty alleviation[J]. Journal of Southwest University for Nationalities (Humanities and Social Sciences Edition), 2016,37(09):127-134.
- [12] Gao Xia;Research on contemporary theory of inclusive finance and related countermeasures in China [D];Liaoning University; 2016
- [13] He Xuesong,Kong Rong. Mechanistic analysis and empirical test of financial inclusion to alleviate poverty in counties [J]. Journal of Northwest Agriculture and Forestry University of Science and Technology (Social Science Edition), 2017, 17(3): 76-83.