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The Rural Poverty Reduction Effect of Digital Inclusive Finance in China: Mechanism and Promotion Path

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Abstract:

In recent years, the Chinese government has introduced a series of policies and measures to encourage financial institutions to leverage new-generation information technology to create financial products and services that benefit farmers and the public, thereby enhancing the level of digital inclusive finance in rural areas. Leveraging its low cost, wide coverage, and convenience, digital inclusive finance has opened up a new path for addressing long-standing poverty issues. Taking China as an example, digital inclusive finance exerts significant rural poverty reduction effects through mechanisms such as supporting rural industrial development, enhancing the accessibility of financial services, and strengthening farmers' risk management capabilities. However, issues like insufficient promotion, weak financial literacy among farmers, inadequate assessment systems of financial institutions, and mismatched service products persist in rural areas. Addressing these issues, this paper proposes promotion paths for digital inclusive finance from both the demand and supply sides, aiming to further unleash its rural poverty reduction potential.

Keywords:

Digital Inclusive Finance, Rural Poverty Reduction, Mechanism, Path

1.Introduction

Digital inclusive finance is a new financial model that aims to achieve inclusiveness, fairness, and progress in financial services. It leverages financial technology, particularly advanced technologies such as big data, cloud computing, and mobile internet, to promote the development of financial services that are inclusive to a wider range of consumer groups, micro and small enterprises, and impoverished populations. For rural areas, digital inclusive finance, with its characteristics of low cost, wide coverage, and convenience and efficiency, has opened up new paths to address the long-standing issues of inadequate financial services and poverty. Traditional financial models, constrained by high costs and limited coverage, often struggle to reach remote

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and impoverished rural areas, leading to widespread financial exclusion. The emergence of digital inclusive finance, however, has broken the spatiotemporal boundaries of traditional financial services through advanced technology, enabling financial services to cover rural areas more extensively, especially those impoverished groups that were previously marginalized by the financial system.

As the largest developing country in the world, China established "developing inclusive finance" as a national strategy in 2013 and introduced a series of policies and measures to promote its popularization and application in rural areas. At the same time, China has achieved remarkable achievements in poverty reduction. In the context of the digital economy, enabling rural areas to benefit from digital inclusive finance in a long-term and sustainable manner may become a key breakthrough for future tasks such as rural poverty reduction, rural revitalization, and common prosperity in China. Therefore, taking China's actual situation as an example, this paper explores the mechanism of digital inclusive finance in reducing rural poverty from different perspectives, points out the existing issues in the development of digital inclusive finance in rural areas, and proposes promotion paths. This research is typical and representative, providing a new perspective for financial poverty alleviation studies. It helps financial institutions understand rural market demands and innovate financial products and services. At the same time, it provides a scientific basis for relevant policymakers to introduce relevant policies and promote the healthy development of inclusive finance in rural areas.

2.Mechanism of Digital Inclusive Finance in Reducing Rural Poverty

2.1. Supporting Rural Industrial Development

Firstly, offering financial support to collectivized production and individual business owners. Digital inclusive finance provides financial backing to rural collectivized production, facilitating the expansion of production scales, the introduction of advanced technologies and equipment, and subsequently enhancing production efficiency and market competitiveness, which in turn augments farmers' incomes. By leveraging online services and mobile payments, it caters to the characteristics of small-scale individual business owners with decentralized funding needs, offering flexible loan products that satisfy their financing requirements across various production and operational stages, thereby supporting the development of related industries. Secondly, fostering the alignment of market supply and demand. Utilizing digital technologies, inclusive finance platforms enable farmers to conduct precise analyses of market supply and demand information related to rural industries, providing market forecasts and decision-making support. This effectively mitigates information asymmetry and elevates market efficiency. Concurrently, digital inclusive finance bolsters the development of rural e-commerce platforms and live streaming sales, empowering relatively disadvantaged regions to leverage their strengths in resource environments, varietal characteristics, and other aspects. These efforts are guided by market forces in carrying out production and operations, promoting rural economic revitalization, and transforming rural industries into sustainable sources of income generation.

2.2. Enhancing Accessibility of Rural Financial Services

Firstly, by broadening the reach of financial services. The application of digital technologies such as mobile internet, mobile payments, big data, and cloud computing in inclusive finance has transcended the constraints of traditional financial services' reliance on physical branches, enabling financial services to extend to wider

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rural areas, particularly remote regions. This expansion has facilitated easier access to financial services for disadvantaged groups, thereby enhancing the accessibility of rural financial services. Secondly, by lowering the financial threshold. Traditional financial services are often hindered by geographical, economic, and social factors, making it challenging for residents and low-income groups in remote rural areas to obtain essential financial services. Moreover, these services typically impose high barriers, such as credit records and collateral requirements. Digital inclusive finance, leveraging technological means, can more accurately assess the creditworthiness and risk level of disadvantaged groups, offering them more suitable financial products and services. It thus breaks down traditional barriers, rendering financial services more inclusive and convenient. Simultaneously, digital inclusive finance provides various convenient repayment methods and flexible loan terms, alleviating the repayment pressure on individual business owners.

2.3. Enhancing Risk Management Capabilities of Rural Households

Firstly, by offering diversified insurance services. Digital inclusive finance provides a wider array of insurance products and services, including life insurance, health insurance, agricultural insurance, and more. These insurance products assist disadvantaged groups in transferring risks, mitigating income loss and poverty exacerbation due to illnesses, natural disasters, and other factors. Moreover, digital inclusive finance leverages data analysis and other means to offer more personalized insurance solutions to disadvantaged groups, enhancing the pertinence and effectiveness of insurance services. Secondly, by improving risk management capabilities of rural households. Digital inclusive finance enables real-time monitoring and assessment of the credit status and risk levels of disadvantaged groups, facilitating the timely detection and response to potential risks. Simultaneously, the convenience of digital inclusive finance provides rural households with increased opportunities to access financial education and training, thereby enhancing their financial literacy and risk management capabilities. This enhancement in risk management capabilities not only helps reduce credit risks for financial institutions but also boosts the resilience of relatively disadvantaged groups against risks.

3.Issues of Digital Inclusive Finance in Rural Areas

3.1. Insufficient Promotional Efforts in Rural Regions

The booming development of digital inclusive finance necessitates comprehensive and in-depth promotional efforts to sustain its growth. However, rural areas currently lack such support, evidenced by a low Internet penetration rate and inadequate overall planning and coordination mechanisms for promotional strategies. According to data from the China Internet Network Information Center (CNNIC), as of December 2023, the Internet penetration rate in rural China stood at merely 66.5%, posing significant challenges for the promotion and popularization of digital inclusive finance in these regions. Moreover, the challenges faced in rural financial education and promotion are particularly pronounced. Issues include severe homogenization of forms and content, a lack of precision targeting specific groups, and insufficient sustained efforts. Especially in counties and more remote rural areas, there is a scarcity of innovative financial promotion activities, with an over-reliance on traditional methods such as hanging banners, painting slogans, and distributing leaflets. These practices are not only resource-intensive but also yield limited results. Additionally, financial promotions tend to be confined to specific promotional days or months, failing to achieve normalization and integration into

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daily life. The content of these promotions fails to adequately consider the individualized characteristics of vulnerable rural economic entities, such as age, education level, and occupational background, resulting in a lack of differentiated and customized promotional strategies. Consequently, the effectiveness of promoting financial products and services is significantly reduced, making it difficult to effectively meet diverse needs.

3.2. Relatively Weak Financial Literacy of Rural Residents

Digital finance talent and the financial literacy of rural households serve as the cornerstone for promoting the development of digital inclusive finance in rural areas. Currently, the shortage of digital finance talent leads to a low demand for financial products tailored to rural needs. Simultaneously, the financial literacy of rural residents remains relatively weak. Given the generally low level of financial literacy among farmers, they often have limited knowledge of financial matters, weak risk identification and prevention awareness, and a fragile economic foundation with limited risk-bearing capacity. This makes them more conservative when confronted with emerging technologies. In particular, their lack of proficiency in operating electronic devices and financial products further exacerbates their hesitation and fear towards trying digital inclusive financial products, thereby hindering their access to efficient digital inclusive financial services. This phenomenon profoundly embodies the essence of "financial exclusion," where despite the inherent demand for inclusive financial services among rural households, they are unable to effectively access the financial service system due to their own limitations, thus being excluded from mainstream financial activities.

3.3. Inadequate Assessment System of Financial Institutions

Currently, the credit risk assessment framework of financial institutions remains inadequate, particularly in managing risks associated with rural micro-economies. Traditional credit models, which heavily rely on collateral and historical loan records, struggle to align with the actual needs of numerous small and micro-enterprises in rural areas with limited scale. The overly standardized risk assessment processes employed by financial institutions often fail to fully consider the unique financing characteristics of rural micro-economic entities, making it difficult for these groups to access necessary credit resources. This, in turn, restricts the flexibility and effectiveness of digital inclusive finance in serving these economically vulnerable sectors. Furthermore, the construction of credit systems in rural areas is still in its infancy, confronted with challenges such as data fragmentation, discrete distribution, and sharing barriers. Although many local governments have embarked on building credit information sharing platforms, financial institutions still face numerous inconveniences when assessing the credit status of farmers and agricultural enterprises. They are often compelled to rely more on offline research and assessment methods to obtain detailed customer information, which undoubtedly increases the cost burden of digital inclusive financial services and complicates credit assessment and risk management. Ultimately, this weakens the willingness and efficiency of financial institutions to provide inclusive financial services to farmers.

3.4. Incompatibility of Service Products

In the agricultural sector, financial institutions still exhibit a phenomenon of being disconnected from rural development trends. The financial products and services offered by rural digital finance platforms have failed to keep pace with the increasing market demands and have not been effectively aligned with the diversifica-

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tion and complexity of agricultural and rural development. The underlying reason lies in the fact that financial institutions have yet to design financial products and services that are market-oriented and tailored to the needs of farmers, small and micro-enterprises, and new-type agricultural business entities. This has prevented digital inclusive finance from fully realizing its potential in supporting rural development. Many financial institutions are limited to serving only select pilot industries or regions, lacking effective, easily promotable, and replicable models. Clearly, this approach is insufficient for successfully expanding the rural market. Some financial innovation products, though named with the prefix "agricultural," may be disconnected from the actual needs of rural industries, failing to effectively meet the practical requirements of rural areas. For example, banking services in rural areas may place undue emphasis on deposits while neglecting loans, and favor mortgage-backed loans over credit loans, resulting in a lack of necessary financial support for critical areas of agriculture, rural areas, and farmers.

4.Paths to Promote Digital Inclusive Finance for Alleviating Rural Relative Poverty

4.1. Demand Side: Enhancing Willingness and Capability

From the perspective of the demand side, ensuring that financial services are acceptable to the demand side is a prerequisite for digital inclusive finance to exert its rural poverty reduction effect. The demand side includes residents, agricultural practitioners, and various agricultural business entities in rural areas. It is necessary to enhance their willingness and capability to use digital inclusive finance.

4.1.1. Strengthening Publicity Efforts

Firstly, we must fully leverage various media resources, including traditional media (such as television, radio, and newspapers) and new media (such as social media and short video platforms), to form a widely covered and rapidly disseminated publicity network. At the same time, we should design differentiated publicity content targeting rural residents of different age groups, educational levels, and occupational backgrounds, using easily understandable language and formats to improve the pertinence and effectiveness of publicity. Secondly, we should regularly organize events such as financial knowledge seminars, training sessions, and experience days, inviting experts to explain and demonstrate the advantages and convenience of digital inclusive finance in person, thereby enhancing rural residents' sense of participation and identification. At the same time, by sharing successful cases, we can showcase how digital inclusive finance contributes to local economic development and income growth for residents, enhancing its attractiveness and persuasiveness.

4.1.2. Improving Rural Residents' Financial Literacy

To promote the development of rural digital inclusive finance, it is essential to focus on enhancing rural residents' financial literacy. We should actively carry out online activities, such as using social media platforms, official websites, and other means to disseminate financial knowledge, actively guiding the public to understand relevant knowledge about digital finance and increase their awareness of it. At the same time, we should vigorously conduct offline activities, such as using rural business outlets to carry out financial knowledge popularization activities, distributing corresponding promotional materials at the outlets, and using electronic

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display screens, self-service equipment and other formats to promote financial knowledge. This way, rural residents can learn to distinguish the authenticity of financial products, establish awareness of financial risk prevention and control, and enhance their financial literacy. This will allow rural residents to have more exposure to and understanding of digital inclusive finance and learn how to use digital financial tools to increase their income and improve their living conditions.

4.1.3. Improving Infrastructure in Rural Areas

Infrastructure is a prerequisite for the development of rural digital inclusive finance. Firstly, we must solidly advance the construction of rural internet infrastructure. By continuously enhancing coordination and investment efforts, and implementing key projects such as the upgrading and transformation of rural information infrastructure, we can further expand the scale of investment in rural internet infrastructure and accelerate the application and popularization of rural broadband. Secondly, we should expedite the upgrading and transformation of rural information infrastructure. We should actively promote the renewal of rural network access equipment, line transformation, and service upgrades, vigorously enhancing the capacity and speed of rural fixed network access. Lastly, we should actively explore the application of digital scenarios that benefit and assist farmers. We should encourage rural enterprises to leverage digitalization, informatization, and intelligent technologies to achieve the transformation and upgrading of digital agriculture and rural areas, laying a solid foundation for the promotion of digital inclusive finance.

4.2. Supply Side: Innovating Services and Enhancing Support

From the perspective of the supply side, advancing digital inclusive finance to alleviate relative poverty in rural areas requires joint efforts from financial institutions, government departments, and relevant regulatory agencies to continuously innovate product services and strengthen policy support.

4.2.1. Improving Ancillary Facilities for Financial Services

Firstly, optimize the layout of service points to ensure balanced distribution in rural areas, especially increasing support for remote and poverty-stricken regions. Through a reasonable layout of service points, we can achieve broad coverage and deep penetration of financial services. Secondly, strengthen infrastructure construction, improve internet coverage and network quality in rural areas, and provide a solid network foundation for the development of digital inclusive finance. Thirdly, promote the integration of online and offline services, establish an online and offline linked service model, provide face-to-face consultation and services through offline service points, and realize convenient transactions and query functions through online platforms. The two complement each other to improve the efficiency of financial services. In addition, collaboration with other social services, such as rural e-commerce platforms and logistics companies, should be strengthened to create an integrated comprehensive service model integrating finance, e-commerce, and logistics, further expanding the application scenarios of digital inclusive finance in rural areas.

4.2.2. Innovating Digital Inclusive Financial Service Products

Firstly, we should enhance the depth of integration between products and local industries, designing financial service solutions that can effectively support the development of rural industrial chains, such as devel-

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oping agricultural insurance, agricultural credit, and financial service combinations for agricultural supply chains, promoting a virtuous cycle among industries. At the same time, we should promote the innovation of customized products, such as startup loans for small and micro-enterprises and rural entrepreneurs, and agricultural machinery and equipment financial leasing services, precisely meeting the needs of different groups. Secondly, we should increase investment in research and development in the field of financial technology, especially in smart risk control and credit assessment. By leveraging advanced AI and big data technologies, we can establish more sophisticated risk management models and provide more personalized and efficient financial services to rural residents. This can not only improve approval efficiency but also reduce credit risks, benefiting more rural households with good credit status. Furthermore, we should enhance the usability and inclusiveness of products, developing intuitive and easy-to-understand operation interfaces and simplified processes, so that rural residents with limited education can also easily use them. Through the integrated online and offline service model and rural financial service stations equipped with professional guidance, we can solve the technical operation difficulties of rural users. Lastly, we should establish a dynamic product adjustment mechanism, continuously optimizing and adjusting service products based on rural economic development and market demand changes, ensuring the timeliness and forward-looking nature of services. At the same time, we should actively collaborate with other institutions and social forces, such as government departments, e-commerce platforms, and social organizations, to jointly explore and innovate comprehensive financial service models suitable for rural development, jointly contributing to the alleviation of relative poverty in rural areas.

4.2.3. Constructing an Ecosystem for the Development of Rural Digital Inclusive Finance

The healthy development of rural digital inclusive finance requires the formation of a good ecosystem. This not only considers issues such as the collection, aggregation, traceability, as well as confirmation of rights, valuation, and pricing of "agriculture, rural areas, and farmers" data, but also focuses on the digital transformation of rural financial institutions and the digital innovation of financial services and products. At the same time, legislation on digital inclusive finance, infrastructure construction, industry standards, and regulatory policy formulation are also important components of building an ecosystem. Based on the actual situation, establishing complete financial infrastructure, forming a diversified, multi-layered, and comprehensive financial service system, constructing resilient and compatible application scenarios, and building an efficient regulatory and policy support system are four important directions. Through the implementation of these measures, we can effectively promote the development of rural digital inclusive finance and serve rural poverty reduction efforts.

Author Contributions

Conceptualization: Zhang W. Lin HQ.; Methodology: Zhang W. Lin HQ.; Formal analysis: Lin X. Yu N.; Investigation: Yu N.; Resources: Zhang W.; Writing – original draft preparation: Zhang W. Lin HQ. Lin X.; Writing – review and editing: Zhang W. Lin X. Yu N.; Supervision: Zhang W.; Project administration: Zhang W. Lin HQ.; Funding acquisition: Zhang W.

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