Research on the Impact of Inclusion Finance Development on Rural Relative Poverty

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Abstract: In 2020, the focus of China's poverty reduction work will be shifted from the control of absolute poverty to the control of relative poverty. The development of inclusion finance is an effective means of targeted poverty alleviation in the new stage. Based on the panel data of 31 provinces in China from 2012 to 2019, the paper calculates the inclusion finance index of each province, and empirically test the impact of inclusion finance on rural relative poverty. The results show that inclusion finance has played a positive role in the alleviation of relative poverty in rural areas, but the financial support in the control variables is not conducive to the alleviation of relative poverty.

1. Introduction

In recent years, China's fight against poverty has achieved great success. By 2020, China has achieved the goal of alleviating poverty among the rural poor under the current poverty standards, and the absolute poverty problem in rural areas has been resolved historically. But it does not mean the end of poverty control in China. The career of China's poverty reduction will move from the control of absolute poverty to a new stage of control of relative poverty. Financial poverty alleviation, especially the development of inclusion finance, is an effective means to manage relative poverty in the new stage. The period of 2021 is the first year of the “14th Five-Year Plan”. How to better play the guiding role of inclusion finance is not only a supplement to the theory of relative poverty governance, but also the need to consolidate and expand the achievements of poverty alleviation in the new stage. It shows that the study of inclusion finance has important meanings in theories and realities.

2. Literature Review

In the field of Academia, most scholars measure relative poverty from the perspective of income. Van etc.(2015)advocated to use 40% and 50% of the median income as reference indicators. In order to measure China's relative poverty standards, Li Ying etc.(2021)made selections based on the income ratio from two aspects, one is the unified national measurement, another is the urban and rural...
calculations respectively.\footnote{1}

Currently, there is no unified compilation method for the calculation of inclusion finance indicators. For example, Xiao Xiang etc.(2014) used an improved index power model in order to compile a set of financial inclusion indexes that can be used for comparison between countries. Ma Yufei etc.(2016) used the above methods to measure the inclusion financial index of 37 countries and regions, and made policy recommendations for the development of inclusion finance in China.

Existing researchs mainly focus on whether inclusion finance can help achieve poverty reduction. Zhu Yiming etc.(2017) used the two-stage least squares method and instrumental variable quantile method based on the data of 2018 counties nationwide to come to the conclusion that inclusion finance is beneficial to the increase of rural residents' income. Wu Lijuan etc.(2018) used the fuzzy breakpoint regression method to further analyze the poverty alleviation effect and economic growth effect of inclusion finance on the rural Pay attention to regional differentiation in the implementation of the financial benefit strategy.\footnote{2}

It can be seen that the existing literature has shortcomings in the construction of inclusion finance index. Based on the existing research results, this article considers the dimension of digital development level when calculating the inclusion finance index to analyse further.

3. Compilation of Inclusion Finance Index

This article constructs an inclusion finance index from four dimensions: digital level, coverage, usage, and service quality. Digital level includes Digital financial inclusion index. Coverage includes The number of branches of financial institutions per 10,000 people, The number of financial service personnel per 10,000 persons, Number of financial institution outlets per square kilometer and Number of financial service personnel per square kilometer. Usage includes Deposit balance accounts for % of GDP, Per capita deposit balance, Per capita loan balance, Loan balance accounts for % of GDP, Insurance depth and Insurance density. Service quality includes Per capita loans as a percentage of per capital income, Insurance compensation expenditure per capita and The ratio of insurance compensation expenditure to premium income.\footnote{3}

According to the coefficient of variation method, calculate the inclusion finance index.

4. An Empirical Study of Inclusive Finance on Relative Poverty in Rural Areas

4.1 Model Design

Each variable passed the Hausman test at the level of 1%. Therefore, in order to estimate the impact of inclusion finance on the relative poverty in rural areas, a fixed-effect model was adopted. The specific model is as follows:

\[
RP_{it} = \beta_0 + \beta_1 IF_{it} + \beta_2 X_{it} + \mu_1 + \mu_2 + \epsilon_{it} \quad (1)
\]

In formula (5), \(i\) and \(t\) are used to represent region and time, respectively, inclusion finance index(\(IF_{it}\)) is an explanatory variable, and relative poverty in rural areas(\(RP_{it}\)) is an explained variable, \(X_{it}\) indicates other control variables that affect relative poverty in rural areas, respectively, \(\mu_1, \mu_2\) indicate regional fixed effects and Time fixed effects, \(\epsilon_{it}\) represents random disturbance terms, \(\beta_0, \beta_1, \beta_2\) are the parameters to be estimated. Among them, if \(\beta_1\) is a positive number, inclusion finance will play a positive role in alleviating the relative poverty in rural areas.
4.2 Variable Selection

(1) The explained variable. Regarding the measurement of relative poverty in rural areas, this article uses the proportion between 50% of rural disposable income of each province and 40% of disposable income of urban residents to measure rural relative poverty.\(^4\)

(2) Core Explanatory Variables. The Inclusion Finance Index of 31 Provinces from 2012 to 2019 Calculated Above is Selected as the Core Explanatory Variable.\(^5\)

(3) Control Variables. This Paper Selects the Following Four Control Variables: Industrial Structure (is), Financial Support (Gov), Urbanization Level (Urb) and Infrastructure (Ist).

4.3 Data Source

Selecting 31 provinces in China from 2012 to 2019 as the research objects. The relevant data are based on the “China Statistical Yearbook” and “China Population and Employment Statistical Yearbook” collated and calculated.

4.4 Empirical Results

In order to estimate the impact of inclusion finance on the relative poverty in rural areas, the regression results obtained according to formula (5) are calculated. Among them, model (1) represents the impact of inclusion finance on rural relative poverty without the introduction of fixed effects, model (2) adds regional and time effects for further analysis, and models (3)-(6) represent the specific values of coefficients after gradually introducing control variables. It can be seen that inclusion finance is positively related to the relative poverty in rural areas. Each control variable has passed at least a 10% test. Among them, The coefficient of financial support (GOVt) is -0.251, which has aggravated the relative poverty in rural areas. And other control variables’ coefficient are positive.\(^6\)

5. Conclusion

In order to better estimate the mitigation effect of inclusion finance on the relative poverty in rural areas, firstly, this article constructed the 2012-2019 inclusion finance index of 31 provinces from the four dimensions of digitalization, coverage, usage, and service quality. Then through the empirical results show that inclusion finance has alleviated the relative poverty in rural areas with a coefficient of 0.044. Combining the above conclusions, this article puts forward the following suggestions.

First, financial institutions should shoulder their own social responsibilities, actively participate in the construction of inclusion finance, improve product quality and increase publicity efforts to enhance their own credit level. In addition, with the popularization of the Internet, financial institutions must continue to innovate and launch products that can meet the diverse needs of residents within the scope of services through Internet information technologies such as cloud computing and big data.\(^7\)

Second, it is necessary to change the way of unilaterally expanding the scale of fiscal agricultural expenditure, optimize the structure of fiscal expenditure according to regional characteristics, and rationally allocate capital investment in different agricultural fields. Using different financial support methods for different groups, combining social relief with industrial support, and expanding the “hematopoietic” function of financial support, forming a policy system that adapts to the high-quality
development in China.

References


