

Visa Paper for 2021 China Development Forum

Empowering Poverty Alleviation and Rural Revitalization through Digital Financial Inclusion

Executive Summary:

Driving financial inclusion for inclusive growth is a global focus and a key approach for China to win the battle of poverty alleviation and build a moderately prosperous society in all respects. China's vision is to basically realize socialist modernization by 2035, enabling more citizens to enjoy modern civilization and contributing to global economic and social development. Digital financial inclusion will play an increasingly greater role in this journey. The rapid digital advancement has laid a solid foundation for financial inclusion. With the strong policy support by Chinese government at all levels, digital financial inclusion services in China has penetrated the grassroots through various channels and have achieved remarkable results in improving the financial services coverage and accessibility. Reducing the operating costs and risk of financial services and improving the livelihood capabilities of the financial inclusion targets are important ways to realize business sustainability of digital financial inclusion, support poverty alleviation rural revitalization.

Key Words:

Financial inclusion, fintech, digital transformation, rural revitalization

In 2020, China completed the task of poverty alleviation on schedule; accelerating the rural revitalization is the only way to consolidate the poverty alleviation achievements and further improve the livelihood of rural residents. Financial resources support rural revitalization. Rural financial demands are changing under the new trends, such as the increase of returning entrepreneurs, the expansion of the scale of new agricultural business entities, and the change in lifestyle for the new-generation migrant works.

Inadequate financial services are an important factor restricting the development of rural areas. Financial inclusion can help enhance the convenience and affordability of financial services, reduce the production and living costs for rural residents, save money and improve the quality of life. Particularly with the rapid development of fintech, digital financial inclusion can break through the obstacles faced by traditional financial services and better contribute to rural revitalization.

1. International Experience for Promoting Digital Financial Inclusion

During past years, financial inclusion has increased around the world, often significantly. Generally speaking, basic access to financial services has grown first in urban areas, then expanded to rural areas. Now, access in rural areas is growing closer to national averages.¹

Despite this progress, urban areas still tend to be ahead of rural ones, with more diversity in providers and use cases. Some countries are seeing the emergence of an “inclusive digital financial ecosystem” in urban areas, where there is broad-based usage and range of financial services, as well as an interconnectedness among those services. The existence of such ecosystems can be a foundation for increased incomes and poverty alleviation by transforming livelihoods and providing new forms of work.

An inclusive digital financial services ecosystem demonstrates three concurrent conditions: access to a range of financial services, usage across a range of digital financial services, and interconnectedness among different types of financial services and providers.

Singapore is a good example of a country that is successfully growing a digital financial services ecosystem in a highly urbanized context. It is a digitally advanced city with strong digital infrastructure. Virtually all the population has a formal financial account as well as a debit card. Nearly all citizens older than 15 years old (90%) made or received a digital payment through an account in the last year (as of 2016).²

More recently, the elements of a digital financial services ecosystem have continued to grow. In July 2017, seven Singaporean banks introduced PayNow in order to facilitate account-to-account transfers using a mobile phone or ID number rather than bank account numbers. PayNow transacts S\$1 billion (USD 740 million) per month.³ In 2018, the Monetary Authority of Singapore (MAS) introduced the Singapore Quick Response Code (SQRC), which is based on the global EMVCo standard. The SQRC connects nine international payment companies including Visa, seven banks, 32 wallet providers and four government agencies.⁴ This single common QR code means much simpler processes for merchants to accept payments and better consumer experiences. In 2019, the Land Transport Authority introduced SimplyGo to enable contactless digital payments on trains and buses.

Singapore’s success in rapidly introducing interoperable digital financial solutions reflects the willingness of MAS to foster investment, innovation and competition in the financial sector. MAS has actively promoted a regulatory sandbox approach for fintech entrants, which has

¹ Authors’ calculations from the World Bank Group (2017) The Global Findex Database as well as country data such as the National Council for Inclusive Finance (DNKI) Financial Inclusion Insights Indonesia 2018.

² The World Bank Group (2017) The Global Findex.

³ As of November 2019. November 13, 2019 speech by Mr. Ravi Menon, Managing Director, MAS at BIS-World Bank Roundtable on Impact of Technology on Financial Inclusion and Financial Stability.

⁴ https://www.mas.gov.sg/development/e-payments/sgqr/#_sgqr-partners

reportedly spurred innovation and made regulatory authorities better able to respond to the potential risks technology brings to the financial system.⁵ MAS is also opening up the banking industry to new competition with digital bank licenses.⁶ Since 2016, virtually all citizens have had a unique biometric identification connected into MyInfo, a consumer e-KYC platform that a broad array of banks, payment, insurance and fintech providers use for identity verification.⁷ MAS, in collaboration with the InfoComm Development Authority, also supports the Business Sans Borders (BsB) initiative — a cross-border, open connector of platforms (a “meta-hub”) that enables payment integration between small and medium enterprises domestically and internationally.

The convenience and efficiency of fintech has advanced its application in developing countries, promoting the development of new businesses such as online payment and e-wallet. The fintech application has effectively strengthened the digital transformation of the local economy, which in turn can create a better foundation for the development of fintech.

Across Africa, countries have long experienced underdeveloped financial systems and large populations without access to formal financial services. Individuals and small businesses alike rely heavily on informal methods to save and borrow. Africa’s lack of an inclusive formal financial system has real and lasting impact – research shows that it can contribute to persistent income inequality and slowed economic growth.⁸ But technology is rapidly changing the landscape of financial services in Africa. It can address or help circumvent long-standing barriers to financial inclusion, with digital services complementing or substituting traditional financial channels. Among other factors, technology has helped increase Africa’s banked population from less than 25% of adults in 2012,⁹ to 43% by 2017.¹⁰ There has been especially significant innovation in the payments industry. Sub-Saharan Africa has quickly adopted a mobile-first approach to financial services and is home to nearly half of all mobile money users. Research shows that for unbanked individuals, digital payments can be an initial on-ramp toward other financial services and fuller financial inclusion.

In recognition of fintechs’ transformative potential, Visa is continuously investing in new ways to extend our network’s reach to allow partners to benefit from the speed, security, reliability and global scale of our established technology. For instance, Visa built our Fintech Fast Track program to ease and speed up the process of integrating with Visa, ultimately helping fintechs

⁵ IMF (July 2019) *Singapore Technical Note: FinTech: Implications for the Regulation and Supervision of the Financial Sector*. IMF Country Report 19/229.

⁶ Ting, Choo Yun (January 7, 2020) “21 applications submitted for up to 5 Singapore digital bank licenses: MAS”, *The Straits Times*. <https://www.straitstimes.com/business/banking/21-applications-submitted-for-5-singapore-digital-bank-licences>

⁷ <https://www.singpass.gov.sg/myinfo/common/aboutus>

⁸ <https://openknowledge.worldbank.org/bitstream/handle/10986/9335/WPS6088.pdf?sequence=1&isAllowed=y>

⁹ <https://globalfindex.worldbank.org/>

¹⁰ <https://globalfindex.worldbank.org/>

scale and deploy at a faster speed than they could have alone. The program is growing rapidly. This year, we saw 360% growth in participants year-over-year, with hundreds of fintechs now part of Fintech Fast Track program. Of note, there was an increase in participants from new categories such as digital wallets, cross-border remittances, and person-to-person payments. Upon participation, in the program, Visa offers a selection of specially curated tools to continuously collaborate and innovate together to bring new solutions to market. Visa's Fintech Fast Track Program is very active in sub-Saharan Africa, where in as little as four weeks companies are being onboarded and linked to Visa-certified platforms and sponsoring banks.

Many African markets have 'leapfrogged' traditional technologies, transitioning to advanced digital financial services. For instance, across the continent, mobile money usage has grown at double digits per year. Such developments are thanks in part to the proliferation of innovative fintech players across the continent. With ongoing innovation and rapid uptake of new digital services across Africa, technology designed to address and serve financial services can help include individuals previously left outside the formal financial system. Access to global networks will support pan-African and global scale and expansion. This connectivity, coupled with an open, flexible policy environment that prioritizes open competition and facilitates security, will help ensure that the burgeoning local fintech sector can thrive and reach its full inclusion potential.

2. China Practices: Digital Finance Serving Rural Revitalization

In September 2020, Visa and the Development Research Center (DRC) of the State Council completed a joint research report on "Empowering Financial Inclusion in China through Digital Innovation". Our research shows that the development of digital financial inclusion in China can be generally divided into two major levels. The first level is to optimize and upgrade the basic financial resources allocation in underdeveloped and rural areas – on the demand side, these may include ATMs, bank cards and mobile payments that are widely popular; on the supply side, traditional financial institutions informatize data, adopt electronic settlements, standardize internal managements — all these can be categorized as primary digital financial inclusion. The second level is built upon the Internet, fintechs in big data, cloud computing, blockchain, artificial intelligence and the Internet of Things are developing new financial businesses and satisfying more advanced financial demands through innovative financial products and services.

As China's economy enters a new stage of high-quality development, fintech is empowering digital financial inclusion at the above two levels simultaneously. On one hand, China needs to continue promoting primary digital financial inclusion in underdeveloped areas, especially those rural and remote areas; on the other hand, China can make full use of the current fintech achievements, while actively developing digital financial inclusion via integrating fintech and financial inclusion at a more advanced level.

Digital penetration varies widely among different populations, which creates the digital divide. The digital gap limits the use of fintech in rural areas. There are four main reasons why rural residents are not using fintech tools enough and the digital transformation progress is slow. First, rural areas still lack mature financial infrastructure; the Internet coverage is lower than cities; the infrastructure to support the adoption of new financial tools, such as mobile payments, is still insufficient. Second, the advantage of big data is yet to play a role in rural areas, due to insufficient data collection and utilization; most of the rural residents have not been covered by the credit system. Third, due to data security and other reasons, the opening and sharing of government public data in rural areas is still very difficult, though data that are relevant to rural mobility, subsidies, social securities, etc. are of great financial values. Fourth, compared with traditional financial institutions such as banks, fintech companies need to improve their brand recognition and build trust among rural consumers; this requires a longer transformation process.

At present, big data, cloud computing, artificial intelligence, mobile internet are penetrating the financial sector, providing an effective way to enhance the ability of finance in serving rural revitalization. In recent years, financial institutions and technology enterprises have been actively using fintech tools to satisfy the needs of rural residents and improving their financial capabilities through financial education activities. In 2016, with partners, Visa created a “Financial Inclusion & Education Demonstration Zone – Jinhui Project” in Northeast China, targeting to benefit rural resident in Great Xing’an Mountain Poverty Alleviation Area (covering Heilongjiang Province, Jilin Province and Inner Mongolia Autonomous Region) through capacity building, research and advocacy on financial inclusion and education. According to research in 2020, 66% of the respondents claimed that they had increased financial knowledge compared to several years before. More than half (55%) of that group stated that they understood financial services better and 22% said their livelihoods had improved since 2016.

In the meantime, the Demonstration Zone Program also developed a follow-up survey on the coverage and accessibility of financial services and consumer satisfaction. The survey found positive advancement of digital financial services in rural areas. In 2020, 81% of respondents used smart phones versus 52% in 2017; more than 70% of respondents used QR code to pay and be paid, compared to 28% in 2017; 25% of the respondents used mobile banking, versus 16% in 2017. As part of the program, Visa and partners conducted a three-year (2016-2018) pilot in Inner Mongolia, benefiting 45,000 rural residents and increasing the number of loan repayment via mobile phones and the internet by 125%. In addition, the digitalization of Government to Person (G2P) subsidies continues to drive financial inclusion at scale, with increased use of G2P cards to access formal financial services. Most survey respondents got their first bank card for government subsidies (82% in 2017 and 75% in 2020). Subsidy cards have become an important breakthrough in deepening financial services in rural areas; 29% of

the respondents acknowledged that the card can also enable them to access other financial services; the ratio of using subsidy cards for money transfer and payment continues to grow.

Micro and small businesses (MSBs) are the integral parts of market subjects in rural and county areas, particularly for absorbing the rural labor force and promoting the integration of urban and rural areas. The challenges MSBs facing are evident in emerging markets, as 50% or more have unmet credit needs and 42% lack bank accounts. Women continue to play a crucial and growing role in the economy as small business owners, but more than 70% of women-owned businesses still have difficulty accessing funding. According to a baseline research that Visa conducted in host cities of Beijing 2022 Winter Olympic Games, MSBs in rural hospitality are mainly facing two common challenges. First, rural MSBs are often in lack of digital capability. About 70% of surveyed business owners have not yet adopted digital bookkeeping, of which 45% were "worried about how to handle digital tools" and 35% were "worried about the high costs of such tools." In terms of marketing, only 32% of businesses have adopted online marketing methods, while 29% lack professional promotion talents. Second, rural MSBs usually have limited financing channels and relatively simple assets. Over 70% of the rural MSBs fund their businesses themselves or with the support of friends. 48% said they have almost no assets and the others said their assets mainly consist of cash (20%), bank deposits (18%) and real estate (16%). In addition, only 26% have applied for bank loans, including those who were rejected by banks.

In 2019, Visa launched "Beijing 2022 and Women" program in partnership with China Women's Development Foundation and Beijing Sport University, with an aim to empower women-led MSBs by building their skills, capabilities and access to external resources in order to help them better benefit from opportunities brought by Beijing 2022. By January 2021, through working with women's federations, government departments, and industry associations in two Beijing 2022 host cities – Zhangjiakou, Hebei Province and Yanqing, Beijing, the Beijing 2022 and Women Program has successfully organized two rounds of pilot empowerment courses for 1,250 women small business owners, generating active participation and positive feedback. A local example is a women entrepreneur, who rent courtyards and turned them into rural homestays, developed various experience programs, and hired local villagers to produce local specialties such as dried begonia fruit and scutellaria tea. The program also helps her build up an online booking system and contribute to local job creation and rural economic development. The program targets to cover more than 5,000 women-led small businesses by 2022 and contribute to the inclusive and sustainable growth of host cities.

3. Policy Recommendations

The Visa-DRC joint research report on "Empowering Financial Inclusion in China through Digital Innovation" shows that, reducing the operating costs and risk of financial services, and improving the livelihood capabilities of the financial inclusion targets are important ways to

realize business sustainability of digital financial inclusion, support poverty alleviation and rural revitalization. In addition to regulatory guidance, there are five key drivers that contribute to the development of China's digital financial inclusion — Inclusive Digital Financial Services Ecosystem; Interoperable Digital Infrastructure; Innovative and Effective Digital Technology; Increasingly Importance of Capacity Building and Financial Education; and Integrated International Experiences.

China has achieved remarkable results in the above five areas. As China continues to reform and open, there are still tremendous opportunities to capture. Based on the above five drivers, we're proposing the following policy recommendations:

- 1) **Continue optimizing the inclusive ecosystem of digital financial inclusion:** enable the interconnectivity and data sharing amongst traditional financial service providers, emerging financial technology companies and digital platforms, also accelerate the penetration of diversified financial services to rural and grassroots level; promote the digital transformation of new rural business entities, realize its integration with the digital financial inclusion ecosystem, paving the way for the transformation and modernization in agricultural and rural areas.
- 2) **Filling in the shortcomings of rural digital financial infrastructure:** the social credit system infrastructure should further improve the responsibility for information reporting, increase the level of coordination, promote the sharing of information between the public sector and financial institutions, and reduce the overall risk of the financial industry; establish share-friendly credit information platform through digital technology and Internet platform; set up a sound and modernized payment and clearing system to enhance the rural payment service, with enriched functionalities and scenarios fulfilling the needs of "three rural" (rural area, agriculture sector, rural population).
- 3) **Promote responsible innovation:** use digital technology to develop effective mechanism for risk mitigation and consumer protection; strengthen data and privacy protection, reduce risk of data breach, make good use of alternative data in enhancing financing of small and micro business, continue to explore new ways in terms of quality and efficiency improvement as well as mitigation of risk.
- 4) **Strengthen capacity building and digital financial education of the underprivileged:** through the synergies of public-private partnership, steadily improve the operation capabilities of the vulnerable groups so that they have the ability to repay loans; enhance the financial education of rural population, promote digital financial services and launch education program about online financial fraud.
- 5) **Advance international exchange and cooperation:** while introducing international experience, should also focus on the integration with local culture and systems to tell a compelling story about China and promote its success and best practices.

Since the launch of the financial inclusion strategy in China in 2016, Visa-led programs had reached more than 10 million people as of December 2020, including over 9 million rural residents, nearly 400,000 rural government officials, over 900,000 primary and middle school students in rural areas, nearly 120,000 rural public school teachers, and more than 370,000 rural financial employees.

The year 2020 marks the final year of China's poverty alleviation efforts. The year 2021 is key for China to promote the implementation of the rural revitalization strategy. China has abundant opportunities to upgrade its digital economy infrastructure into an even more inclusive, interoperable, and sustainable ecosystem, as it enters a new phase of economic and social development. Visa will continue working with our partners and contributing to China's efforts all through the journey.