

Analysing the Impact of Financial Development on Poverty Reduction: The Roles of Employment and Digitalization in Emerging Economies



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Abstract: *The effectiveness of financial development in reducing poverty may depend on labour market results and the uniformity of digital transformation; that is why financial development is generally distinguished as a driving force of economic growth. Grounded in the Financial Intermediation Theory, the purpose of this study is to examine the impact of financial development on poverty reduction by using employment as a mediator and digitalization as a moderator in digitally transforming emerging economies, over the period 2006–2025. This study applies panel regression techniques, mediation analysis, and moderation analysis to investigate the relationships among the variables and uses data from the World Bank’s indicators. The outcomes of this study show that there exists a relationship between financial development and poverty through the mediating effect of employment, both directly or indirectly, whereas digitalization also intensifies this relationship by increasing economic prospects and financial growth. The results analysis contributes to the existing body of knowledge by putting forward a consolidated and unified mediation–moderation foundation that gives novel ideas and different viewpoints into the Finance-growth-poverty trilogy and proposes policy implications and governance challenges for fostering and advancing unbiased economic sustainability in developing economies.*

Keywords: Financial Development, Poverty, Employment, Digitalization, Emerging Economies

Introduction

In order to achieve useful endeavours, financial development plays a crucial role in economic expansion by channelling capital, pooling savings, promoting investment, and expanding credit availability. Financial development cannot reduce the poverty rate spontaneously, especially when there is limited access to capital for under-resourced and economically disadvantaged families. FD can be defined as enhancing economic inclusion, access to finance, financial deepening, institutional efficiency, and systemic resilience (Dwivedi, 2026). In reality, financial development plays an important role in boosting business activity by cutting information asymmetries, minimizing intermediation costs, and reassuring capital deepening and efficiency gains. Even so, the connection between finance and economic performance is not always simple. Previous research proposes that hyperinflation and credit booms can raise spillover risk, cause bottlenecks, and lessen the positive consequences of financial development. This has brought about rising curiosity in the episodic finance-growth nexus, where there comes a point at which the advantages of fiscal growth exhibit a downward threshold effect (Ogbodo et al., 2026).

Financial development encourages industrial development, boosts employment, guarantees fairness, and has an ecological impact. Maybe there comes a point where the poor are unable to get the development perks of FD, as the growth capital received from financial corporations is invested in futile and useless activities, which results in ruining the growth process (Khanday et al., 2024). So, it means that an increase in FD may not always contribute to decreasing the poverty level in the country because there are times when the capital received is used for fruitless and ineffective activities, which result in impeding economic advancement.

Poverty can be decreased with the increase in economic progress, which in turn is an outcome of financial development (de Haan et al., 2022). Nana Djomo et al. (2025) document that the expansion rate of the incomes of the poor increases by 0.4 percent with an increase in financial development. A previous study indicates that in Nigeria, upward and downward disruptions of the same extent to FD and the presence of

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information asymmetry in the FD and poverty nexus create varied outcomes in poverty alleviation (Khanday et al., 2024).

Poverty is still a main hurdle in emerging economies in spite of thriving financial development and digitalization. There is limited prior research that illustrates the relationship between financial development and poverty and the mediating role of employment and the moderating role of digitization in intensifying this relationship. There are many studies that explain the impact of financial development on poverty, but how and under what conditions financial development reduces poverty is still questionable. In general, the moderating role of digitalization is still under, and also the mediating role of employment is not so much studied and investigated in the financial development–employment relationship. This study addresses this gap by developing a first-stage moderated mediation model in which employment mediates the relationship between financial development and poverty, while digitalization moderates the financial development–employment relationship.

Research Question

This study tackles the following research questions

1. Does financial development reduce poverty?
2. Does employment mediate the relationship between financial development and poverty?
3. Does digitalization strengthen the effect of financial development on employment? And
4. Does digitalization strengthen the indirect effect of financial development on poverty through employment?

The purpose of this research is to investigate the impact of financial development on poverty by using employment as a mediator between this relationship and digitalization as a moderator in the financial development and employment relationship. This study furthermore examines whether digitalization reinforces the poverty-decreasing cause of financial development through employment across the digitally emerging developing economies.

The contribution of this study in the literature is the incorporation or blend of financial development, employment, digitalization, and poverty into a single framework. For the benefit of society, financial development plays a part in creating employment, which can result in the reduction of poverty. For businesses and financial institutions, it gives avenues for the growth and development of business and workforce expansion by taking into account financial inclusion and the latest technology. For policymakers, it can help in policymaking regarding financial inclusion, poverty reduction, and digital and advanced technology. The study also upholds SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth), and SDG 9 (Industry, Innovation and Infrastructure) by connecting financial development and digital transformation with lucrative work and economic empowerment (United Nations, 2015, 2026).

Literature Review

Financial Development and Poverty Reduction

Financial development can be defined as the growth, stability, and expansion of the financial sector and financial market in an economy (Yakubu et al., 2025). The decrease in poverty cannot happen at once; it occurs at a slow pace due to many factors, including unemployment, illiteracy, low income of the labour force, and the outbreak of economic and social disruptions. These are the circumstances that slow down poverty eradication.

The research conducted by Khan (2025) in Indonesia shows that there is a long-run smooth relationship between financial institutions, economic growth, and poverty alleviation. Previous studies performed by different researchers demonstrate that there is a significant contribution of economic development to poverty reduction in the economic progress and development of OIC (Organization of Islamic Cooperation) countries and also observed a positive connection between the two (Kumari & Giri, 2026). There is research that

indicates both direct and indirect effects of FD on poverty reduction by taking into account different factors prevailing in the economy (Afridi et al., 2024).

Prior studies also reveal that by the combination of both fintech and economic participation, the poverty rate decreases and it increases justice and fairness in the economic system, especially in economies where there are more chances of disempowerment (Alnasser Mohammed, 2025).

The literature on financial development and economic inclusion has been discussed a lot in previous and recent research. There is not much literature available regarding financial inclusion and poverty reduction, whereas the research available has shown that financial development played a very crucial role in the reduction of poverty. Financial services also played a part in this, as easy access to financial services like online mobile banking has decreased the poverty rate and contributed to the economic development of the country. The rate of poverty in Kenyan households has decreased by 2% with the introduction of mobile money (Wong et al., 2023).

Financial Intermediation Theory supports this study, which explains the function of the financial sector in pooling savings and capturing deposits. This study is primarily underpinned by Financial Intermediation Theory, which explains the role of financial institutions in mobilizing savings, increasing transparency, bridging the gap, reducing information asymmetries, and deploying capital towards constructive and useful activities. The connection between financial development, economic growth, and poverty eradication has been elucidated by Financial Intermediation Theory (Shah, 2026).

H1: Financial development has a negative and significant impact on poverty reduction.

Employment and Financial Development

The increase in financial development has directly affected marketization, monetization, metropolitan growth, workforce, and knowledge capital (Degirmenci et al., 2025). Prior research illustrates that in Iran, the hiring of exploited labourers in the workplace has negative impacts on the Iranian market and also on the development of the individual workers (Kim, 2024).

The Sustainable Development Goals indicate that SDG 8 “Decent Work and Economic Growth” can be obtained by the support of GDP and employment, which are the main economic indicators. The purpose of this goal is to boost and upgrade the work environment, remunerative labour and lucrative work (Mitić et al., 2023). A previous study shows that in the development of an economy, small businesses play an important and crucial role as they provide jobs, new and creative ideas, and also contribute to the growth of the market (Komninos et al., 2024).

H2: Financial development has a significant positive effect on employment.

Employment and Poverty Reduction

There are two types of poverty: one is called financial poverty, which means that financial resources are not good enough to meet the basic necessities of life, and the second one is called economic poverty, which means that a person has a low salary or is unemployed – having no source of income. From a societal point of view, we can say that poverty means having no access to financial resources to meet the daily needs of life, and from an environmental point of view, poverty can be defined as poor living conditions in which one can survive a very difficult life. (Ng et al., 2025). Research in Indonesia shows that financial intermediaries play a very crucial role in the growth of individual capital and, as a result, the poverty rate has decreased in the country. (Takyi et al., 2025).

Many poverty reduction programs have been started, such as small-scale financial services, rationing programs, and employment programs, to reduce the rate of poverty. But it is very difficult for these strategies to bring results immediately due to many reasons, including weak infrastructure, hurdles, lack of financial

resources, and ineffective systems. So, in order to bring effective results, new and innovative policies and approaches have been developed and implemented to tackle the economic conditions (Ayoungman et al., 2025).

H3: Employment has a significant negative effect on poverty.

Employment as a Mediator

The digital economy is one of the best ways of reducing poverty. The rise in the digital economy gives rise to new jobs such as online cabs, delivery services, and other online professions, which can contribute a major chunk to the economic system (Gao et al., 2025). A study in one of the developing countries indicates that digital technology results in the reduction of the poverty rate, and on the other hand, financial development can also decrease the poverty level by giving access to finance to the common man (Kamalu & Wan Ibrahim, 2024). Therefore, the purpose of this study is to check the effectiveness of employment in the relationship between financial development and poverty reduction and also by using digitalization as a medium to strengthen the relationship between financial development and poverty.

H4: Employment mediates the relationship between financial development and poverty reduction.

Digitalization as a Moderator

Financial services are the main component of financial development. Access to the internet plays a very critical role in financial services. In the absence of the internet, one cannot use the online banking application, so this creates problems for the common man. (Van & Le Quoc, 2025). The two most important factors in driving economic growth and progress are technology and digitalization. According to Solow’s growth model, for a rise in the standard of living, advanced technology is the most important and valuable fundamental determinant (Rani et al., 2026).

Advanced and new technology is promoting fintech in each and every market, which results in the efficiency and productivity of the financial market. This not only boosts the workforce but also helps in the financial development and introduction of new and advanced financial services (Song et al., 2024). With the introduction of fintech, such as online mobile banking and electronic payments, underdeveloped communities become more effective and efficient as they easily adapt to this latest technology (Huang et al., 2025). According to Nepal et al. (2024), the stock market also has an impact of financial services on its working conditions.

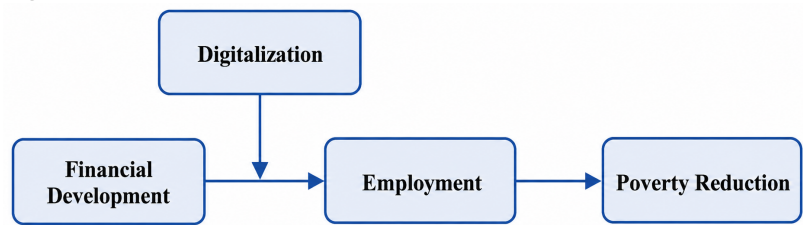
Studies by Senadjki et al. (2026) indicate that the effectiveness and productivity of the young generation and females have been increased due to the development of financial services such as access to the internet and electronic payments. Digital technology plays a role in moulding the system by restricting the means of information and usage (Hidayat-ur-Rehman & Alam, 2026).

H5: Digitalization positively moderates the relationship between financial development and employment, such that the positive effect of financial development on employment is stronger at higher levels of digitalization.

H6: Digitalization strengthens the indirect effect of financial development on poverty reduction through employment (**Moderated Mediation**).

Research Model

Figure 1



Research Methodology

Research Design

To analyse the link between financial development and poverty reduction in emerging economies, our study incorporates a positivist research philosophy with a deductive approach and applies a quantitative research method. To investigate the impact of financial development on poverty reduction, our study incorporates digitalization as a moderator and employment as a mediator. The approach adopted in our study is panel data because we have both cross-sectional data from twelve economies and time series data over the period 2006-2025. The basis for taking up panel data is due to country fixed effects and to observe global diversity. Panel data is useful for examining the moderation and mediation relationship along with regression analysis.

Population and Sample Selection

The population selected for the study comprises twelve digitally emerging economies across the globe, which include Pakistan, India, Bangladesh, Nepal, Sri Lanka, Indonesia, Malaysia, the Philippines, Vietnam, Kenya, Ghana, and Nigeria. These countries are selected because of their significant and extensive developments in digitalization, fintech, online banking, and economic and financial resilience. The reason for selecting these countries is that they are developing economies and, in the phase of development, they have to face a lot of challenges regarding employment, poverty, and advanced technology. So, by taking these countries, we are able to test the mediating and moderating roles of employment and digitalization in a far better way. The study covers the period from 2006 to 2025. The total number of observations is 240, and by taking into account the omitted values from different variables in different countries, the total and final values become 127 country-year observations.

Data Sources and Data Collection

As the study depends on secondary data. So, the data for this research is collected from the World Bank's World Development Indicators. This is one of the best and most reliable sources of information worldwide. Annual data are collected from 2006 to 2025 for twelve countries. As the World Bank's World Development Indicators are one of the recognized data providers, all the data is collected from this website according to the proxies used for each variable in the study.

The data is arranged in panel format, where each country represents a cross-sectional unit and each year represents a time dimension. The software used for results analysis is Stata, and we will run different tests for analysis, which include descriptive statistics, regression, correlation, moderation, and mediation.

Measurement of Variables

Dependent Variable

The dependent variable used in this study is poverty. The proxy used for poverty is the poverty headcount ratio available in the World Bank's Poverty and Inequality Platform or World Development Indicators

Independent Variable

The independent variable used in the study is financial development. The proxy used for financial development is domestic credit to the private sector as a percentage of GDP.

Mediating Variable

The mediating variable used in this model is employment. The proxy used for measuring employment is the employment-to-population ratio, which indicates the proportion of the population that is working and employed in the country.

Moderating Variable

The moderating variable used in the study is digitalization. By integrating digitalization into the research model, we will examine how digitalization strengthens the relationship between financial development and

poverty. The proxy used for measuring digitalization is the proportion of the population using the Internet. It can be predicted that digitalization strengthens the relationship between financial development and poverty.

Control Variables

There are some control variables that have been added in the study to separate the relationship between the independent and dependent variables. Economic development is used as a control variable in this study. The proxy used for economic development is GDP per capita. Economic development has an impact on both poverty and employment. Inflation is included as a control variable in the study to control for the continuous and persistent rise in the average price level. Trade openness is included as a control variable to check the market depth, economic and financial openness, and globalization interdependence.

Model Specification

The study estimates a series of panel regression models.

Total Effect

$$POV_{it} = \alpha + \beta_1 FD_{it} + \beta_2 X_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

Financial Development → Employment

$$EMP_{it} = \alpha + \beta_1 FD_{it} + \beta_2 X_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

Employment → Poverty

$$POV_{it} = \alpha + \beta_1 FD_{it} + \beta_2 EMP_{it} + \beta_3 X_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

Moderation

$$EMP_{it} = \alpha + \beta_1 FD_{it} + \beta_2 DIG_{it} + \beta_3 (FD_{it} \times DIG_{it}) + \beta_4 X_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

Moderated Mediation

$$\text{Indirect Effect} = (\beta_{FD \rightarrow EMP} + \beta_{FD \times DIG} \times DIG) \times \beta_{EMP \rightarrow POV}$$

Research Analysis

Table 1

Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
fd	222	45.86017	32.38425	7.923223	133.817
pov	150	16.13133	9.298489	3	56.2
emp	240	59.24145	11.56271	34.253	80.053
dig	226	30.49702	24.64502	1	98.02061
ecodev	240	3.430557	2.975884	-10.54886	11.33704
inf	240	7.908352	6.595261	-4.76386	49.7211
traopen	222	65.84171	42.25222	24.70158	202.5771

Table 1 shows the descriptive statistics of all the study variables across twelve different economies. The mean of financial development is 45.86, whereas poverty has a mean of 16.13, which indicates that there are differences in financial development and poverty levels across countries. The mean of employment is 59.24, and the mean of digitalization is 30.50. The mean value of economic development is 3.43, and that of inflation is 7.91, which indicates varied fluctuations. The mean of trade openness is 65.84. So, the results of descriptive statistics show that there is enough cross-country and temporal variation, which supports further panel-data analysis.

Table 2
Correlation Analysis

Variables	1	2	3	4	5	6	7
1. fd	1.000						
2. pov	-0.5308*	1.000					
3. emp	-0.0435	0.0395	1.000				
4. dig	0.6070*	-0.3609*	0.1526*	1.000			
5. ecdev	0.1002	-0.1016	-0.0482	-0.0834	1.000		
6. inf	-0.4596*	0.2486*	0.1124	-0.2023*	-0.2949*	1.000	
7. traopen	0.7678*	-0.4651*	0.4437*	0.5477*	0.1394*	-0.1920*	1.0000

***p < 0.01, **p < 0.05

Table 2 shows the correlation analysis among the variables. There exists a significant negative relationship between financial development and poverty ($r = -0.5308$), which indicates that an increase in financial development results in a decrease in poverty. There exists a strong positive correlation between FD and digitalization ($r = 0.6070$) and trade openness ($r = 0.7678$). There is a negative correlation between poverty and digitalization ($r = -0.3609$) and trade openness ($r = -0.4651$), which indicates that an increase in digitalization and trade openness resulted in a decrease in poverty level. There is a weak, insignificant correlation between employment and FD and poverty. The relationship between inflation and FD is negative ($r = -0.4596$) but positive with poverty ($r = 0.2486$). There is a positive relationship between trade openness and employment and digitalization. Overall, the results indicate mixed relationships among the key variables. The correlation coefficients also do not indicate severe multicollinearity concerns among the explanatory variables.

Table 3
Regression Results

Variables	Coefficient	t-value
fd	-.1101723	-2.02
pov	.0810939	0.92
emp	-.0045951	-0.09
dig	-.2544938	-0.81
ecdev	.0252214	0.13
inf	-.0234424	-0.67
traopen	19.1584	3.64

Table 3 shows the regression results among the variables. There is a negative and statistically significant impact of financial development on poverty ($\beta = -0.1102$, $t = -2.02$), which indicates that an increase in financial development resulted in a decrease in the poverty level. The coefficient of poverty is positive and statistically insignificant ($\beta = 0.0811$, $t = 0.92$). The relationship between employment and poverty reduction is negative and insignificant ($\beta = -0.0046$, $t = -0.09$). The coefficient of digitalization is negative and statistically insignificant ($\beta = -0.2545$, $t = -0.81$). The coefficient of economic development is positive and insignificant ($\beta = 0.0252$, $t = 0.13$). the coefficient of inflation is negative and insignificant ($\beta = -0.0234$, $t = -0.67$). Besides this, the coefficient of trade openness is positive and statistically significant ($\beta = 19.1584$, $t = 3.64$). In a broader way, the analysis demonstrates that there is a significant relationship between financial development and poverty, and there exists a statistically insignificant relationship in the case of control variables. This analysis now gives us the opportunity to investigate the moderation and mediation relationships.

Table 4*Multicollinearity Test*

Variable	VIF	1/VIF
Fd	6.87	0.145509
Traopen	5.26	0.189953
Dig	3.02	0.330763
Emp	2.04	0.490836
Inf	1.55	0.645768
ecodev	1.09	0.913851
Mean VIF	3.31	

Table 4 provides the multicollinearity test or Variance Inflation Factor (VIF) test among the variables. The VIF values should be below the accepted value of 10. So, the results indicate that the VIF value of all the variables is below 10, which shows that there is no multicollinearity between the variables. The VIF value of financial development is 6.87. The VIF value of trade openness is 5.26. The VIF value of digitalization is 3.02. The VIF value of employment is 2.04. The VIF values of Inflation and economic development are relatively low, i.e., 1.55 and 1.09, respectively. The mean value of VIF is 3.31, which is much less than the threshold value. The corresponding 1/VIF values are also shown in the table, and their values are also within the acceptable range. Hence, we can say that there is no multicollinearity in the independent variables. These findings validate that all the variables used in the research can be integrated together for further regression, mediation, and moderation analyses.

Table 5**Baseline Regression Results**

Variable	Pov
fd	-0.110 (2.02)*
emp	0.081 (0.92)
dig	-0.005 (0.09)
ecodev	-0.254 (0.81)
inf	0.025 (0.13)
traopen	-0.023 (0.67)
_cons	19.158 (3.64)**
R2	0.28
N	127

*p < 0.05, **p < 0.01

Table 5 shows the baseline regression results for financial development and poverty. The coefficient of financial development is statistically significant and negative ($\beta = -0.110$, $t = -2.02$), which indicates that an increase in financial development results in a decrease in poverty. The coefficient of employment is statistically insignificant but positive ($\beta = 0.081$, $t = 0.92$). A negative and insignificant effect can be shown in the case of digitalization ($\beta = -0.005$, $t = -0.09$). At the same time, all the control variables in this model are statistically insignificant. In this model, the value of R^2 is 0.28, which means that approximately 28% of the variation is seen in poverty.

Table 6

Fixed-effects (within) Regression

Pov	Coefficient	t-value
fd	.1951445	1.08
ecodev	-.1598434	-0.42
inf	-.1851325	-0.79
traopen	-.1967869	-1.40
_cons	27.17376	2.95

Table 6 shows the fixed effect regression results. The coefficient of financial development is positive and statistically insignificant ($\beta = 0.195$, $t = 1.08$), which demonstrates that an increase in financial development results in an increase in the employment rate. The coefficient of economic development is negative and insignificant ($\beta = -0.160$, $t = -0.42$). There is a negative and insignificant connection between inflation and employment ($\beta = -0.185$, $t = -0.79$). In the same way, the coefficient of trade openness is negative and statistically insignificant ($\beta = -0.197$, $t = -1.40$). In this model, the independent variable has no statistically significant impact on employment. That is why there is little indication of a direct relationship between financial development and employment.

Table 7

Mediation

Emp	Coefficient	t-value
Fd	.0442476	1.20
Ecodev	.1220697	1.38
inf	-.1031629	-1.06
traopen	-.0559423	-1.63

Table 7 shows the results of mediation analysis. The coefficient of financial development is positive and statistically insignificant ($\beta = 0.044$, $t = 1.20$), which demonstrates that higher financial development results in a higher employment level. There is a positive and insignificant effect of economic development on employment ($\beta = 0.122$, $t = 1.38$). The coefficient is negative and statistically insignificant ($\beta = -0.103$, $t = -1.06$). There is a negative and insignificant effect of trade openness on employment ($\beta = -0.056$, $t = -1.63$). In total, the independent variable has no significant effect on employment. For conventional mediation, there is little chance for the first direction for an insignificant $FD \rightarrow EMP$ relationship. For this reason, we will also test the indirect effect of financial development on employment by using employment as a mediator.

Table 8

Pov	Coefficient	t-value
Fd	.2319236	1.62
Emp	-2.017885	-2.71
Ecodev	.1136492	0.27
inf	-.1454192	-0.93
traopen	-.2942317	-3.00

Table 8 indicates the mediation analysis between poverty and employment, by taking into account employment as a mediator. The value of the coefficient for financial development is positive and statistically insignificant ($\beta = 0.232$, $t = 1.62$), which shows that there is no direct link between FD and poverty. There is a negative and significant link between employment and poverty ($\beta = -2.018$, $t = -2.71$), which means that an increase in employment results in a decrease in the poverty level. The connection between economic development and poverty is positive and insignificant ($\beta = 0.114$, $t = 0.27$). There is a negative and

insignificant effect of inflation ($\beta = -0.145$, $t = -0.93$). Trade openness shows a negative and statistically significant connection with poverty ($\beta = -0.294$, $t = -3.00$). The coefficient of employment is negative and significant, which means that employment is a very critical variable that helps in the reduction of poverty.

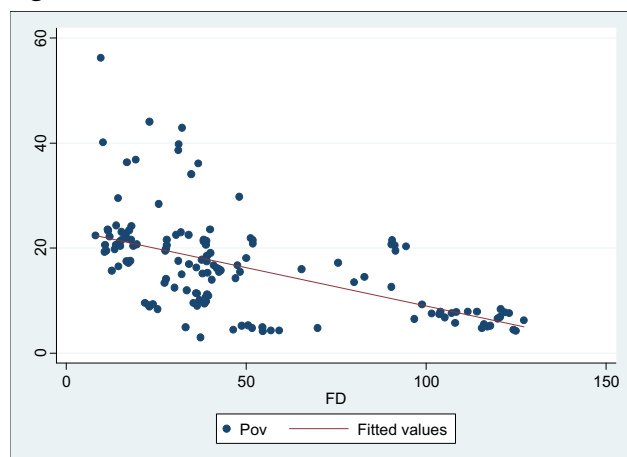
Table 9

Moderation

Emp	Coefficient	t-value
Fd × Dig	.052663	1.34
Emp	.055616	0.62
Ecodev	.1226214	1.50
inf	-.1525501	-1.90
traopen	-.0629193	-2.23

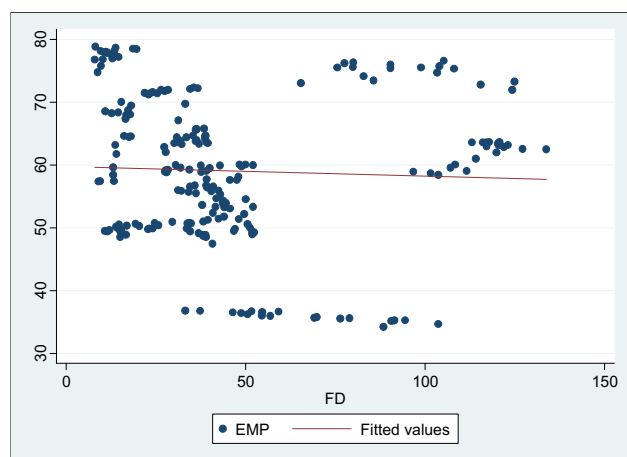
Table 9 shows the moderation analysis in which the impact of financial development on employment is observed by using digitalization as a moderator. The effect of the interaction term (Fd × Dig) is positive and insignificant ($\beta = 0.053$, $t = 1.34$). The coefficient of employment is positive and insignificant ($\beta = 0.056$, $t = 0.62$). The relationship between economic development and employment is positive and insignificant ($\beta = 0.123$, $t = 1.50$). The impact of Inflation is negative and insignificant ($\beta = -0.153$, $t = -1.90$). The impact of trade openness on employment is negative and statistically significant ($\beta = -0.063$, $t = -2.23$).

Figure 1



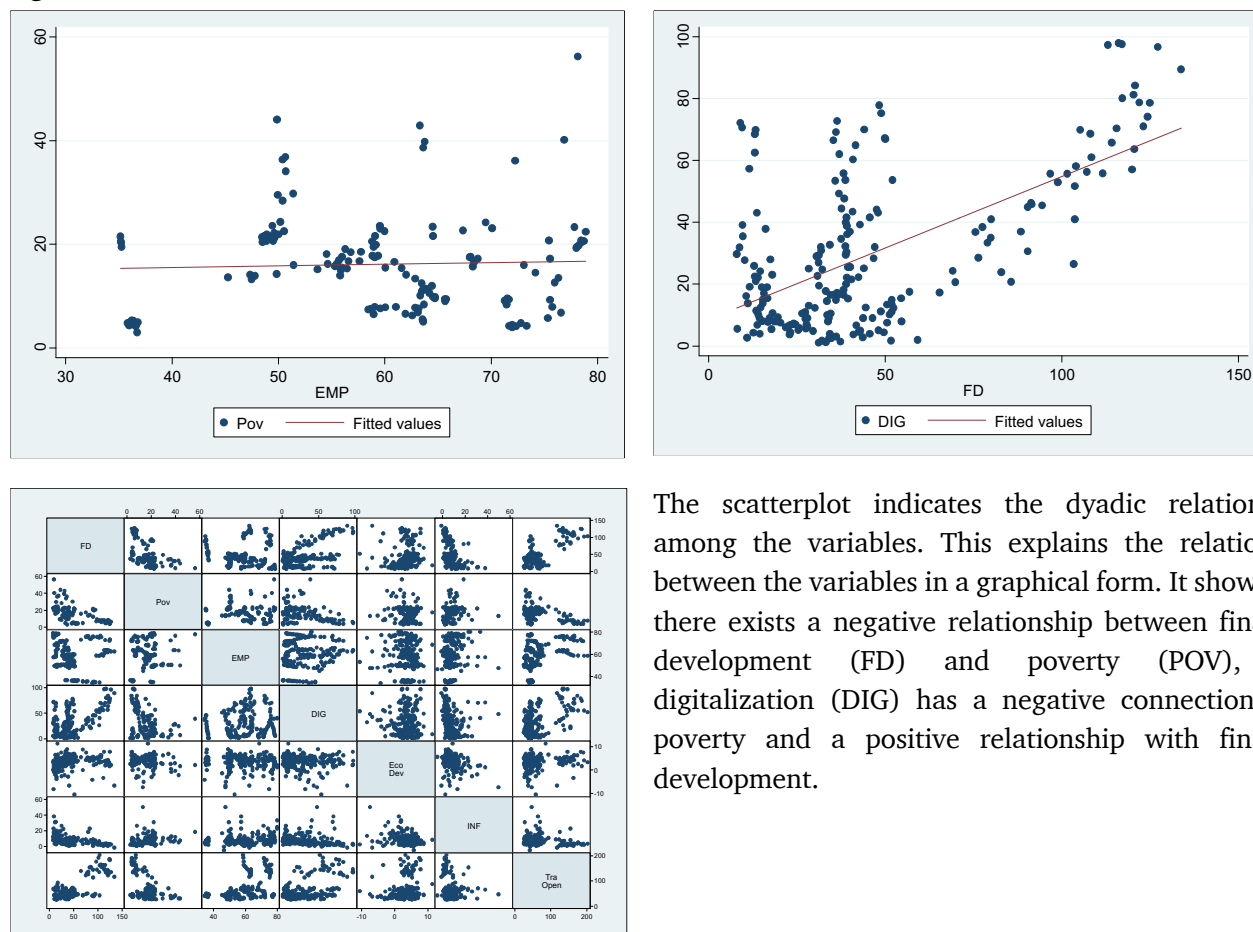
The downward sloping fitted line in the scatter plot indicates that there is a negative relationship between financial development and poverty.

Figure 2



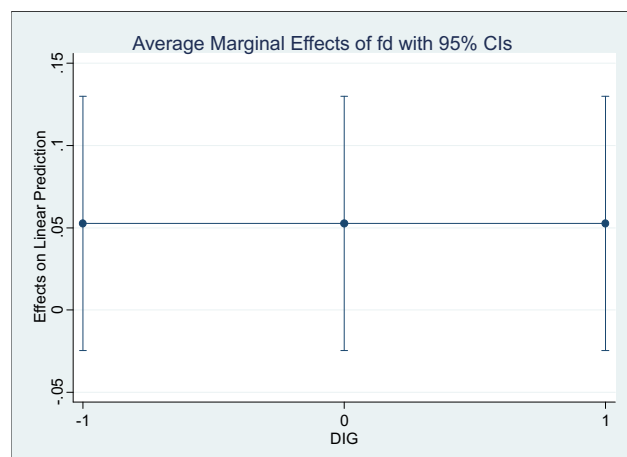
The flat downward fitted line in the scatter plot shows that there is a weak negative relationship between financial development and employment.

Figure 3



The scatterplot indicates the dyadic relationships among the variables. This explains the relationship between the variables in a graphical form. It shows that there exists a negative relationship between financial development (FD) and poverty (POV), and digitalization (DIG) has a negative connection with poverty and a positive relationship with financial development.

Figure 4



The plot shows marginal effects of financial development on different stages of digitalization, i.e., low, medium, and high. The 95% confidence intervals overlapping zero suggest that the marginal effect is positive but statistically insignificant at every stage of digitalization.

Discussion

The findings of the study give diverse results regarding the relationship between financial development and poverty reduction. The correlation analysis exhibits a significant and negative relationship between financial development and poverty ($r = -0.531$), while the results of the coefficient obtained from the regression are also significant and negative ($\beta = -0.110$, $t = -2.02$), which means that it supports H1 at the initial stage. Whereas the results obtained by running the fixed-effect model are positive but statistically insignificant ($\beta = 0.195$, $t = 1.08$), which means that it rejects H1 in the case of fixed effects. The difference shown in H21 results may be a pooled relationship that is compelled by cross-country diversity rather than changes in a

single country or economy. Grounded in the Financial Intermediation Theory, it is anticipated that financial development enhances asset distribution and financial inclusion, but at the same time it may also have an impact on financial resources productivity and profitability (Shah, 2026; Khan, 2025). So, it means that financial development alone cannot drive results for poverty reduction unless employment and digitalization play their roles in the betterment of this relationship. The findings of our research are consistent with the outcomes of previous studies that the relationship between financial development and poverty is different for different economies across the globe (de Haan et al., 2022; Khanday et al., 2024).

The mediating role of employment in the relationship is supportive. Financial development has a positive effect on employment ($\beta = 0.044$, $t = 1.20$); therefore, we will reject H2. On the other hand, employment has a significant negative effect on poverty ($\beta = -2.018$, $t = -2.71$); therefore, H3 has been accepted, which indicates that in the case of more employment, the rate of poverty in the economy decreases. The pathway that leads FD to EMP is insignificant; therefore, H4 is rejected (approximately -0.089). These results all indicate that poverty can be reduced with increased employment, but alone, financial development cannot make all this happen. This outcome is uniform and consistent with the prior research, which illustrates that employment plays an important role in development outcomes (Komninos et al., 2024; Degirmenci et al., 2025). H5 is rejected in this case, which means that the moderation term cannot work; the moderation results do not provide an FD $\times$ DIG interaction coefficient. In the same way, H6 is also not accepted and cannot be established. Therefore, the outcomes of this study reflect that employment can decrease poverty in the country while taking into consideration financial development and digitalization mechanisms for a moderated mediation framework.

Conclusion

The goal of this study is to investigate the effect of financial development on poverty by taking into account employment as a mediator and digitalization as a moderator across digitally developing and emerging economies over the time period 2006-2025. The theoretical and conceptual framework that is used in the study illustrates that financial development has an effect on poverty reduction both through employment and digitalization. This study uses a single moderation-mediation framework to analyse the finance–employment–poverty relationship. The outcomes of this study provide valuable perception and understanding for society and policymakers at a larger level in implementing new policies regarding poverty reduction and inclusion of new and latest technology for the wellbeing of society. In short, the purpose of this study is to understand that financial development can play a crucial role in poverty reduction by introducing a digital environment and enhancing employment policies.

Recommendations

Boost Financial Sector Resilience: Governments should introduce reforms related to financial accessibility for all types of enterprises so that it will result in workforce expansion and poverty eradication.

Expanding and fostering digital empowerment: Policymakers should foster the expansion of digital finance and advance fintech democratization in order to improve financial inclusion and enhance the poverty-reducing impact of financial development.

Improve and increase job creation: Governments should boost career growth, increase job creation, and broaden career options to help in the financial development and economic growth of the country.

Establishing a pro-innovative Digital economy: It is the responsibility of the Regulatory authorities to promote digital banking, mobile payments, and financial technology (FinTech) while keeping in view cyber governance.

Implementation of Development Policies: It is the responsibility of the government to implement unified growth policies and principles and pursue holistic development approaches and frameworks.

Limitations

Measurement of Variables: Some selected proxies are used for the measurement of financial development, digitalization, employment, and poverty, due to which only the unidimensional nature of these variables can be captured.

Integration of other variables: The study incorporates employment as the mediating variable and digitalization as the moderating variable, whereas other variables can be taken into account, such as institutional quality, education, or governance, to expand the scope of the research.

Cross-Country Diversity: Due to the selection of different digitally transforming emerging economies, the studied relationship may have leverage due to differences in economic and financial systems, workforce conditions, and policy implementation.

Future Directions

Broaden Geographical Coverage: Future studies may widen the research by taking into account more countries, including developing, under, and developed countries, to see the impact of the relationship in a broader way.

Incorporate other Mediating and Moderating Variables: Future research may incorporate some new mediating and moderating variables, i.e., institutional quality, education, or governance, to study the relationship between financial development and poverty reduction.

Explore Alternative Proxies for Digitalization: Future studies may investigate different indicators for digitalization and may also use indices of digital growth to check its role in the financial development and poverty nexus.

Use Advanced Econometric Techniques: Future research may utilize new and advanced econometric techniques, which include dynamic panel techniques, panel structural equation modelling using Smart PLS, nonlinear models, or machine learning approaches to examine complicated relationships and address potential endogeneity issues among financial development, employment, digitalization, and poverty reduction.

Perform Cross-Market and Sectoral Analysis: Future studies may undertake sector-specific comparison, domain trends, and field-specific metrics to analyse the impact of financial development on poverty reduction.

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