

China's NGO Microcredit: Is It A Sustainable Industry?

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Abstract: This paper provides an overview of the development of microcredit projects operated by Non-government Organizations (NGO) in China and discusses the challenges for further development. This paper concludes with presenting some potential initiatives to address key restrictive issues faced by China's NGO microcredit development and suggests that policy makers should encourage the development of NGO microcredit by establishing China-specific policy, legislative, regulatory and supervisory frameworks.

1. Introduction

"Microcredit" refers to the activity of "extending small loans to very poor people for self-employment projects that generating income, allowing them to care for themselves and their families" (Microcredit Summit, 1997). In recent years, microcredit has sprung from past failure of lending to the poor as an innovative strategy of poverty alleviation. Inspired by the remarkable success of Grameen Bank in Bangladesh, Banco Solidario in Bolivia, Bank Rokyat in Indonesia (BRI), Badan Kredit Desa (BKD) in Indonesia, and Foundation for International Community Assistance (FINCA) village banks in Latin America, and advocated by the United Nations and the World Bank, the

concept of microcredit has spread throughout the world.

In the past three decades, China has made remarkable achievements in poverty alleviation. However, measured by government absolute poverty line and low income line, at the end of 2007, there were still 14.79 million absolute poor and 28.49 million relative poor living in rural China (National Bureau of Statistics of China, 2008). This population represents a potential huge market for microcredit. However, in China microcredit is a relative new phenomenon. Since 1993/1994, several microcredit programs under different organizational structures have emerged in China: (1) NGO microcredit program which includes projects operated by NGOs and pilot projects funded by international bi- and multi-lateral aid agencies and international NGOs; (2) government program; (3) microcredit program operated by Rural Credit Cooperatives (RCC); and (4) commercial microcredit services provided by microloan companies.

Concerning the long-term development goals of NGO microcredit in China, and the obstacles

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were foreseen in achieving those goals, this paper aims at presenting some quantitative information and extracting the features, problems and challenges. The special attention is given to NGO microcredit because NGO approach is the basis of what has come to be called "the microcredit revolution" in Asian and Latin America, but relatively undeveloped in China, although NGOs pioneered China's microcredit development.

This paper draws upon knowledge from variety of sources: the first-hand information and primary project documentations gathered during Zhang's 2006 interviews with a variety of practitioners, donors, and experts from microcredit community in China,¹⁾ and Zhang's 2007 filed survey on the Supporting Service Centre of the Poor (SSCOP) in Liuzhi Special District, Guizhou Province, a microcredit project had been operated by China Foundation for Poverty Alleviation (CFPA) for 7 years, the key reports written by donors, practitioners and experts, as well as official statistics. It is our hope that this paper will contribute to the development of for NGO microcredit in China.

The rest of this paper is organized as follows: Section 2 gives an overview of the evolution of NGO microcredit in China, and briefly surveys the characteristics of each period. Section 3 discusses the key limitations of current environment, as well as some of the general issues concerning NGO microcredit. Section 4 concludes with providing some suggestions for sustainable

development of NGO microcredit in China.

2. The Evolution of NGO Microcredit in China and the Sectors Involved

Microcredit in China appeared primarily in 1980s and was accepted as an effective instrument of fighting poverty in the middle-1990s (Holcombe and Xu, 1996; ADB, 2000; Chia and Counts, 2002; PlaNet Finance, 2004; Shen and Cheng, 2004; Sun, 2006). From the early 1980s to the early 1990s, microcredit was mainly used as credit component of some integrated agricultural development projects funded by international bi- and multi-lateral agencies and international NGOs for agriculture promotion. International Fund for Agriculture Development (IFAD) perhaps was the first international partner to China's experiment with microcredit. Since 1981, IFAD has provided US\$ 380 million concessional loans to Chinese Government to develop 15 integrated agricultural development projects and on average two-thirds of funding was allocated to the credit component in which some microcredit technologies such as group-lending, women-targeting and skill training were used (Holcombe and Xu, 1996, IFAD, 2001).

The development of NGO microcredit within China can be categorized into three stages:

Stage I (1993/1994 to October 1996):

This is an early experiment stage which was marked by the "Funding the Poor Cooperative (FPC)" experiment initiated by Rural Development Institute (RDI) of Chinese Academy of Social Sciences (CASS). In late 1993, RDI initiated

1) A list detailing who was interviewed can be found in Appendix 1.

an “Action and Research Plan” with the help of Ford Foundation and Grameen Trust. In May 1994, RDI launched the first FPC project in Yixian County of Hebei province, which replicated the methodology of Grameen Bank. The establishment of Yixian FPC is a mile-stone in China's microcredit development and it indicates the introduction of complete non-government microcredit project (Du and Liu, 2001; Wu, 2001; Peter, 2003).²⁾ Since then, about 300 NGO microcredit projects have been operated across China (Peter, 2003; PlaNet Finance, 2004; Cui, 2004, in Montgomery and Weiss, 2006). Most projects identified themselves as using an adoption of Grameen Bank's group lending approach, although direct loans to individuals also exist. Main target group is poor families in poor regions, with a special focus given to women. Loans are characterized by small size (CNY 500-3000 per loan), mutually-guarantee, renewal loan discipline, frequent repayment (weekly, bi-weekly or monthly installments) and sequential lending within group. Several key reports have shown some projects have achieved remarkable repayment rates (Shen and Cheng, 2004; CFPA, 2006a and 2006b; PlaNet Finance China, 2006; Sun, 2006).

The external donors proving technique assistance, concessional loans or grants for NGO microcredit in China (including the donors from

Taiwan and Hong Kong of China) include the multilateral donors of UNDP, UNICEF, UNFPA, IFAD, WFP, ILO, FAO. World Bank and ADB; the bilateral donors of Australian Agency for International Development, Canadian International Development Agency, Dutch Cooperation, European Union; German Agency for Technical Cooperation and KfW Bankengruppe, Japan International Cooperation Agency (JICA), Department for International Development, international NGOs of Consultative Group to Assist the Poor (CGAP),³⁾ Christian Action Research and Education, Development International Desjardin,⁴⁾ Grameen Trust and Grameen Foundation USA, Heifer Project International, Hope International, International Crane Foundation, Mercy Corps International, Opportunity International, Oxfam Group Hong Kong, Plan China, PlaNet Finance, ProCredit and Development of Rural Sichuan, Salvation Army Hong Kong, Trickle up Program and World Vision, international Foundations of Citi-group Foundation and Ford Foundation.

There are no comprehensive accounts on total funds (including loan capital provision and funds in technique assistance) invested by international donors. At the end of 1998, UN system and World Bank had developed pilot projects in 150 counties of 22 provinces and regions with total funding of CNY 160 million (ADB, 2000). PlaNet

2) Currently, 5 FPC projects are in operation. FPC has received significant technique assistance and funds from various donors such as Gremmen Trust and Grameen Foundation USA, Ford Foundation, and Lin Yang, an individual donor from Taiwan. In 2000, RDI set up a Microfinance Training Center to provide training course for microcredit institutions in China with the help of Ford Foundation, CGAP and Citi-group Foundation.

3) CGAP is a consortium of 33 public and private development agencies working together to expand access to microfinance services for the poor. CGAP's staff working from World Bank offices in Washington, DC and Paris, serve donor agencies, microfinance institutions, and other microfinance practitioners. For detail, see: <http://www.cgap.org/portal/site/cgap/>

4) DID is a Canadian NGO specializing in credit unions.

Finance (2004) reported that about 260 donor-funded microcredit project had served tens of thousands of clients with a total investment of about US\$ 30 million across China. Peter (2003) estimated that at least US\$ 50 million in aid had been invested both in loan capital provision and related technique assistance over the last decade.

Stage II (October 1996-1999/2000):

In this stage, some Chinese government-affiliated NGOs such as CFPA, China Family Planning Association, Women's Federation, China Women Development Foundation, Labor Union, Disabled Persons' Federation, and other domestic NGOs began their microcredit programs by using fund raised from out sources or fiscal funds. But a repaid expansion of government microcredit program quickly dominated the earlier NGO pilot initiatives. Based on the initial success of some pilot projects, microcredit has come to be regarded by the government as a potentially effective alternative for poverty reduction (ADB, 2000; Peter, 2003) and the government decided to adopt modified Grameen approach to disburse loans as part of the poverty alleviation subsidized credit program. Government microcredit projects were operated by local government by using subsidized loans distributed through local Agriculture Bank of China (ABC), and fiscal poverty alleviation funds.⁵⁾ Main target group is poor families designated by local governments. The statistics of Leading Group of Poverty Alleviation showed that by August 1998, government

microcredit program had issued CNY 600 million in loans in 605 counties, 22 provinces (ADB, 2000). By 2001, the government microcredit experiment had involved total investment of about CNY 3.8 billion (Wang, et al., 2004). Although government program has gained merit for massive funding and wide geographic coverage, reaching the real poor is still a problem, and low recovery due to the lack of performance-oriented knowledge in credit management is not satisfactory (Peter, 2003). Since non-financial institutions in China are prohibited from providing financial service, at the end of 1998, People's Bank of China (PBC) and ABC cast doubt on the lawfulness of the set-up under which government agencies act as intermediaries to operate microcredit. Requested by "The Provisional Management Rules for ABC's Poverty Alleviation Subsidized Loans" jointly issued by PBC and ABC in June 1999 and "Management Rules for the Subsidized Loans in China" jointly issued by PBC, Ministry of Finance and the Poverty Alleviation, Development Office of State Council's Leading Group of Poverty Alleviation and ABC in 2001, subsidized loans were directly disbursed to rural households by ABC and most government agencies stopped handling microcredit activities and turned into institutions only providing non-financial services, such as introducing borrowers to ABC. Government microcredit program came to obsolescence soon (He, 2005)

Stage III (2000-):

This stage is characterized by rapid expansion

5) Since ABC has no distribution network in township and villages, government program relies mainly on the local government poverty alleviation institutions or agencies for implementation. Government poverty alleviation institutions or agencies are responsible for disbursing loans, collecting the repayment, and repaying it to ABC.

of RCC microcredit and commercial microcredit.

Pushed forward by international agencies such as IFAD and ADB, and based on the experimental experience of Desjardins Microcredit Project in Luanping County of Hebei Province—which channels loans through RCCs, a new trend of concentrating effort of using RCC as microcredit implementing institution has emerged at the end of 1990s. PBC issued related guidelines—“Provisional Management Rules for Rural Household Microcredit on Credit by RCC” (PBC, July 1999), “Guidelines for RCC Rural Household Group Guarantee Loans” (PBC, January 2000) and “Guidelines for RCC Rural Household Microcredit on Credit” (PBC, December 2001)—to provide managerial and operational framework for RCC microcredit practice. Since 2000, national-wide promotion has started based on the existing institutional networks of RCC. RCC operates microcredit using the discounted-rate agriculture-supporting re-lending from PBC and its mobilized saving. By the end of 2003, nationally wide, more than 90% of RCCs had provided microcredit loans (Wu, 2005). By the end of September, 2005, the sum of outstanding RCC microcredit loans had been CNY 278.3 billion, accounting for 49% of the outstanding rural households loans (Jiao, 2007). By then end of June, 2006, the rural households counted by RCC microcredit program had account for 32.7% of the total rural households of China (PlaNet Finance China, 2006). Form 1999 to the end of 2007, the cumulative agriculture-supporting re-lending provided by PBC and local PBC branches was CNY 1,228.8

billion (PBC, 2008). Before 2007, more than 90% of agriculture-supporting re-lending was used for supporting RCC microcredit program (Xu, 2006). It should be noted that microcredit service provided by RCC is one kind of formal rural credit rather than typical microcredit popular around the world (IFAD, 2001; He, 2005) and its aim is to supporting the reform of RCC (Peter, 2003; Montgomery and Weiss, 2005). The target group is rural households with no special emphasis on poor families or women and providing microcredit to poor remains an issue to be solved (Peter, 2003; Montgomery and Weiss, 2005; Sun, 2006) because RCC still prefers to make large loans to better-off farmers, and township, and village enterprises (ADB, 2000).

In 2005, in the Document No. 1, “Opinions on Several Policies on Further Strengthening Agricultural Work and Enhancing the Comprehensive Agricultural Productive Capability”, the Central Committee of the Chinese Communist Party and the State Council clearly stated that in some areas with more mature markets, microcredit organizations sponsored by private sectors could be established in order to meet the credit demand of rural households. In May, 2005, PBC chose Shanxi Province, Sichuan Province, Guizhou Province and Shanxi Province as pilot site to develop “sustainable and commercial microcredit institutions”. By the end of 2007, seven commercial microcredit institutions set up by private sectors have been licensed (PBC, 2008). “Guidance on Rural Microloan Business Promoted by Banking Financial Institutions”

promulgated by China Banking Regulatory Commission (CBRC) in August 2007 helped expand microcredit business to all banking financial institutions. "Guidance on Pilot Microloan Companies" jointly issued by the PBC and the CBRC on May 4, 2008, and "Notice on Village Bank, Credit Company, Rural Mutual Credit Cooperative and Microloan Companies" jointly issued by the PBC and the CBRC on May 8, 2008 lead to the emergence of new types of MFIs like microloan companies, rural mutual credit cooperatives and village/township banks etc.

3. Challenges Faced by NGO Microcredit

Broadly, there are two major groups of NGO microcredit schemes operating in China:

(1) The pilot projects funded or run by international donors. Since the government insists that international agencies must work with a domestic government partner, special temporary project management organizations (offices) were set up and local government officials worked as staff temporary. These pilot projects usually focus on "policy" poverty reduction targets and institutional and financial sustainability is usually not the objectives (ADB, 2000).

(2) Projects sponsored by international or domestic aid agencies and operated by registered NGOs. Typical projects include FPC

administered by RDI of CASS, and the SSCOP administered by CFPA.⁶⁾ Some pilot projects have converted into institutional-basis NGO projects by registered their county-level management organizations with the Local Department of Civil Affairs as non-profit NGOs which have independent legal entity and profit centers. Typical projects are UNDP/Chinese International Center for Economic and Technical Exchanges (CICETE) projects.⁷⁾

NGO microcredit in China have shown positive effects on poverty alleviation (Park and Ren, 2001; Chia and Counts, 2002; Sun, 2006), but they did not achieve a meaning scale. NGO microcredit suffers due to the un-conducive policy environment, the small scale and low out reach, low sustainability, poor institutional management and some methodological issues.

3.1. *The un-conducive policy environment*

In China, there is a lack of policy, legislative, regulatory and supervisory frameworks for NGO microcredit. In contrast, specific policies and regulations have been enacted by the government to microcredit programs in other forms. In particular, the policy framework seems to be quickly changing in a conducive way to the fast-expanding commercial microcredit

6) In 1996, China Western Human Resource Development Centre (CWHRDC) started to implement two microcredit projects under World-Bank funded Qinba Mountainous Poverty Reduction Project: Ankang SSCOP project in Ankang City of Shannxi Province and Langzhong SSCOP project in Langzhong City of Sichuan province. CFPA was in charge of the operation of the two projects. In 2000, CFPA established Microcredit Department to take over the management of SSCOP projects from CWHRDC.

7) UNDP is an active actor in China's microcredit practice. In 1994, working in collaboration with CICETE, UNDP launched a Poverty Alleviation and Sustainable Development Program (PASDP) in Yunnan. PASDP gradually spread to 48 counties in 6 provinces. After PASDP was closed in 2001, UNDP/CICETE set up two-follow projects (2001-2004): Comprehensive Approach for Poverty Reduction (CAPR) and Sustainable Microfinance to Alleviate Poverty (SMAP). SMAP focuses on 4 selected PASDP projects on the basis of their potential to become self-sufficient. CAPR projects continue to operate depending on revolving funds or fiscal poverty alleviation funds.

operations. The lack of formal policies and regulations for NGO microcredit is not surprising, as NGO microcredit has not gone to scale and remained quantitatively insignificant; however, the implication of not having formal policies in place subjects NGO microcredit organizations to uncertainty and keeps them from obtaining sustainable sources of on-lending capital and offering a wide range of financial products to their clients (Chia and Counts, 2002).

In China, non-financial institutions are not allowed to engage in financial operations. Out of 300 NGO projects, only FPC, SSCOP and UNDP/CICETE projects have received special permission from the government (State Council and PBC) to conduct microcredit experiments. Most NGO microcredit projects were not approved or authorized by the banking regulators, PBC and the CBRC, and they instead gained informal acceptance to operate through a memorandum of understanding between the donor and local government (Chia and Counts, 2002; PlaNet Finance, 2004). PBC and CBRC, although considering these schemes to be illegal, have expressed their tolerance, partly due to the poverty alleviation mission of these projects, what some in the industry have referred to as “benign neglect” (Montgomery and Weiss, 2005).

Donor-funded projects are mostly managed and executed in collaboration with local government departments or agencies, and run on pilot basis in county level by temporary project

management offices depending on the limited funds from international donors. Although a number of previously pilot projects have registered their gross-roots operational institutions as NGOs, their conversion is firstly for funding-raising—which is vital for organization's or microcredit scheme's survival after the donor-funded term ends up—rather than institutional development (Peter, 2003).

In addition, until recently, legally Beijing-based NGO is not allowed to own regional branches in provinces and provincial-based NGO is not allowed to own county-level or prefecture-level branches (Ministry of Civil Affairs, 1998 and 1999). Before the end of 2006, although the county-level operation institutions have registered as independent NGOs, the FPC headquarter in Beijing remain an action-research program by a team from RDI rather than a registered independent institution.⁸⁾ CICETE, the headquarters of UNDP/CICETE projects, is a government institution that is responsible for the collaboration with international institutions. Despite the non-governmental label, most gross-roots institutions have ambiguous ownerships status. In practice, county-level institutions are subject to local government's interference which is presented from design to execution (Peter, 2003).

The governance of most NGO microcredit organizations is weak and it is difficult “for the headquarters to control the operation of county programs, as these programs are far away from

8) In 2006, RDI registered in Beijing an institution named Rural Development Foundation (RDF) with Ministry of Civil Affairs as the headquarters of FPC.

Beijing (the headquarters) and the means of monitoring is not very effective” (Shen and Cheng, 2004, p.25). Recently, there are signs that this is changing. According to Mr. Dongwen, Liu, the Director of Microcredit Department of CFPA, in 2005, CFPA took advantage of a reform of regulations governing NGOs to make a strategic reform and transformed from project-based microcredit to intuitional-based microcredit organization by turning 5 grass-roots operational institutions (SSCOP) from local NGOs to CFPA legal branches and making them directly responsible to the headquarters in Beijing, thus clarified the ownerships of the branches and improved the governance structure. The aim of CFPA is to turn its Microcredit Department into a licensed sustainable Microcredit Institution to engage in lending and other financial services. At the end of 2008, CFPA registered its microcredit department as Zhonghe Rural Credit Management Co., Ltd. in Beijing.

Legally, most county-level institutions are NGOs rather than microcredit institutions driven by a clear mission. Strict entry barriers to establish Microcredit Institutions are presented in the financial laws or regulations. Saving services and deposit mobilization remain strictly to be prohibited. As a consequence, almost all NGO projects rely on capital funds from grants or concessional loans from international donors and the private sector. The acute lack of capital inhibits the scale and expansion of NGO microcredit program. As an exception, SSCOP of CFPA received CNY 80 million concessional loans from

State Development Bank, which substantially helped CFPA expand its microcredit operation.

Interest rate remains a major concern of the government towards microcredit development (Jackelen and Mi, 1997; Peter, 2003; Shen and Cheng, 2004; Montgomery and Weiss, 2005). A conventional view that loans to poor people should be made at low interest rates is held widely by policy makers (Shen and Cheng, 2004). Then, “concerns about the high costs of microcredit and predatory lending practices have led policy makers to use mandatory interest rate ceilings as a means to protect customers” (Microfinance Gateway, 2005). Even though there is a gradual liberation of interest rate in China, most NGO projects must charge the maximum interest rate permitted under law.

The interest rate restriction negatively impacts the expansion of NGO microcredit projects because they can not follow the international practice of charging interest rates sufficient enough to cover the high cost of delivering microcredit and achieve full financial self-sufficiency (ADB, 2000; Montgomery and Weiss, 2005). Some experts have suggested that to be fully sustainable, microcredit projects in China needs to require rate of 30% per annual (Jackelen and Mi 1997). However, currently, most donor-funded projects charge effective interest rates ranging from 12% to 18% per annual, which are much lower than those in other countries, leaving many non-governmental programs relying on subsidies.

3.2. The small scale and the low outreach

Poverty alleviation is one of the two important goals of microcredit, and this means microcredit projects should reach as many poor people as possible. Although more than 300 NGO microcredit projects have been operated across China and have extended their outreach to the poorest areas, they lack national scope required for achieving significant impact on poverty alleviation.

PBC, UNDP and CICETE have surveyed 76 NGO microcredit projects during 1999-2002 and they reported that these scattered projects covered 2,495 villages in 241 townships of 26 provinces, and the accumulated number of clients was 394,701 (Cao, 2006). Compared to microcredit programs run by financial institutions (including RCC microcredit program and subsidized

loans program operated by ABC directly), the loan portfolio of NGO microcredit is trivial (Table 1).

By the end of November, 2006, the active 10 SSCOP programs covered 15,860 active clients with outstanding loans of CNY 25.13 million (PlaNNet Finance China, 2006). By the end of 2006, the reported active 3 FPC projects covered 12,831 active clients with outstanding loans of CNY 16.25 million (PlaNNet Finance China, 2006). UNDP/CICETE microcredit projects (CAPR and SMAP) have been operated in 48 counties, 6 provinces and in Tianjin City. Compared to FPC and SSCOP, the active clients covered per project on average and the outstanding loans per project on average of UNDP/CICETE projects are relatively small (Table 2).

Table 1: The Loan Portfolios of Financial Institutions and Non-financial Institutions (CNY million)

	1999	2000	2001	2002
Total Portfolio	16,254.9	19,180.4	27,758.6	34,342.6
By FIs	16,152.8	19,053.1	27,618.9	34,175.1
By NFIs	102.1	127.3	139.6	167.4
Share of FIs %	99.4	99.3	99.5	99.5
FIs/NFIs	158	150	198	204

Note: Non-financial microcredit includes NGO projects and government projects
Source: Cao (eds., 2006), Table: 2.3, p.185.

Table 2: The active clients and the outstanding loans of UNDP/CICETE microcredit program

Year	Total active projects/4 SMAP projects	Total active clients/4 SMAP projects	Total outstanding loans (CNY million)
2001	41/4	53,140/8,488	55.2/10.1
2002	41/4	54,751/7,865	53.9/10.1
2003	41/4	38,783/8,805	50.1/12
2004	13/4	19,333/7,374	21.7/13.1
2005	4 SMAP projects	6,315	15.1

Data Source: UNDP/CICETE Microcredit Loan Portfolio Report 2001-2004.
PlaNNet Finance China (2006)

Note: The 2005 data are from PlaNNet Finance China (2006) and we only have data of 4 SMAP projects.

3.3. Low sustainability

The second goal of microcredit is to sustainably operate. Any microcredit program has to find a balance between economic self-sustainability and poverty alleviation (Bislev, 2001). Operational self-sufficiency and financial self-sufficiency are two important measures for the performance of microcredit program. Operational self-sufficiency is defined by CGAP as cash receipts from financial services at least cover the non-financial cash costs (operational costs, loan loss costs and the (usually subsidized) real fund costs) of providing

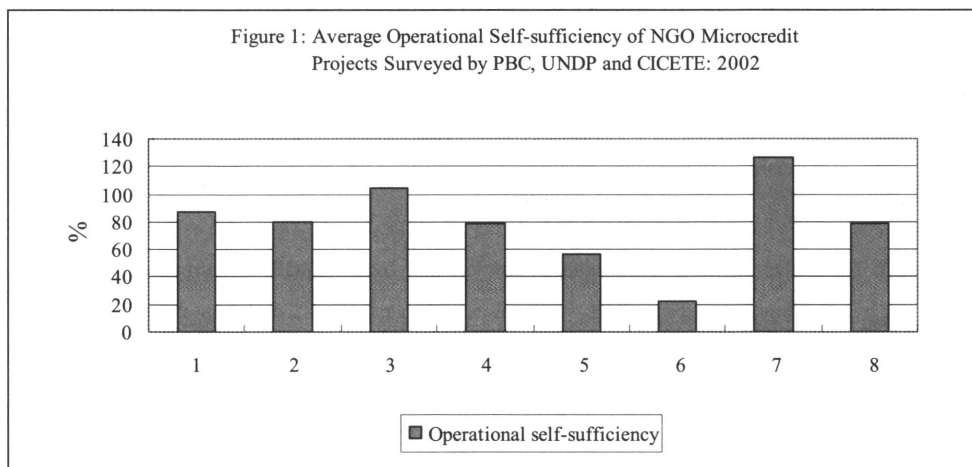
such services (Shen and Cheng, 2004). Financial self-sufficiency is defined as “income generated is able to cover the financial cost and the input cost of capital” (Peter, 2003, p.2). Sustainability is vital to the popularity of microcredit as it will make microcredit attractive to the donors to support the schemes after the introductory phase.

After several years of operation, out of more than 300 non-governmental microcredit programs in China, only a handful could boast that

Table 3: Operational Self-sufficiency/Financial Self-sufficiency of FPC, SSCOP and SMAP (%)

		2000	2001	2002	2003	2004	2005
FPC	Yixian	147/106	136/101	100/88	112/102		
	Nanzhao	139/106	142/123	108/108	121/111		
SMAP	Chifeng		90.7/-	102.1/-	113.9/103	97.1/-	
	Xingren		97.1/-	120/-	89.1/64	94.1/-	
	Yilong		90.7/-	95.9/-	60.1/-	41.1/-	
	Dingxi		50/-	51.6/-	83.14/47	76.2/-	
SSCOP	Average					59/51	106/91

Data Source: UNDP/CICETE Microcredit Loan Portfolio Report 2001-2004; CFPA (2006a);2005 Microfinance Project Report; Shen and Cheng (2004); Sun (2006)



1: SSCOP (2 samples); 2: China Women Development Foundation program (3 samples); 3: PFC (2 samples); 4: UNDP/CICETE program (15 samples); 5: UNICEF program (6 samples); 6: World Bank program (2 samples); 7: Women's Union program (2 samples); 8: Other donor-funded projects (4 samples)
Data source: CAO (eds, 2006); Graph by the authors.

they have achieved operational self-sufficiency, even financial self-sufficiency (Table 3). The results of the survey conducted by PBC, UNDP and CICETE on microcredit programs in China revealed that there was a long way for most NGO microcredit projects to go before operational sustainable (Figure 1).

Especially donor-funded pilot projects generally operate as “county level” experiments and are often terminated once donor terms come to an end. They can not achieve operational and financial sustainability within the project terms of 3-5 years and with relative small fund input. The average operational self-sufficiency of UNDP/CICETE projects (including 4 SMAP projects) is 53.4 % in 2001 (41 active projects), 55.8% in 2002(41 active projects), 59.7% in 2003(41 active projects) and 53.8% in 2004, much lower than those of FPC, SMAP and SSCOP projects.

3.4. The lack of accounting and financial management system, risk control and capacity building

Most NGO projects, especially the donor-funded pilot projects generally have imperfect accounting and financial management system, and they instead focus attention on disbursing loans to poor families and ensuring high repayment rates (ADB, 2000). Most staff of NGO microcredit projects lack finance and business knowledge. The donor-funded pilot projects are staffed mainly by local government officials who work for the project temporarily. Among NGO microcredit projects, FPC, SSCOP and UNDP/CICETE are

notable exceptions that have laid importance on institutional management. In accordance with the standard established by the Small Enterprise Education Promotion (SEEP) project, FPC has set up accounting and financial management system to produce uniform financial reports, which include balance sheets and income statements as well as financial ratio analysis. UNDP/CICETE have developed a computerized management information system (MIS, including MIS of operational level and motoring level) based on CGAP's MIS. Among headquarters professional full-time staff and local professional trained full-time staff of CFPA, many have over 3 years of work experience in microcredit management and operation. Drawing from international experience and 10 years of microcredit management and operation, CFPA has drafted new microcredit manuals for operations, finance management and human resource management, amended and improved accounting and financial management system, improved such accounting policies as provision for loan loss and write-offs, and installed a loan tracking system named Kredits Microfinance Loan Tracking System—a professional microfinance information management software.

3.5. Methodological Issues

NGO microcredit projects in China focus exclusively on very poor and remote mountainous central and western rural areas where the perceived poverty problem is most acute, and a large proportion of microloans have been targeted to agricultural activities. Most projects replicated GB model characterized by group lending,

group/centre meeting and frequent instalments. However, limitations of direct replication of GB model are perceived given the differences between China and Bangladesh. Bangladesh is flat and very densely populated, while the poor areas in China are often sparsely populated, remote and mountainous, and the natural and economic conditions do not favour microcredit because transportation costs are high and the income generation opportunities are limited (Park and Ren, 2001; Peter, 2003; Shen and Cheng, 2004; Bislev, 2001; Cao, 2006).

It was found that some borrowers had difficulties in attending frequent meetings, accessing the market and having regular income sources to meet frequent instalments requirements. Park and Ren (2001) found that the low level of population density and the remote locations in remote, mountainous regions in China have compounded the program's difficulties, as proximity among members facilitates information and monitoring, and participating of regular meetings. Park and Ren (2001) argued that relatively high drop-out rates suggested that some households may be discouraged by the costs for participation in regularly meetings.

Having seasonal rather than regular income sources, some borrowers appeared to have difficulties in making repayment instalments and the most difficult times are the months before the summer and fall harvests (Park and Ren, 2001).

Currently, most NGO microcredit projects provide production-only micro-loans; however, the poor's demand for micro-loans is diversified (Bislev, 2001; Park and Ren, 2001; Park et al., 2003; Cao, 2006; Sun, 2006). Sun (2006) found the borrowers demand loans for education, sickness and consumption uses. Most NGO microcredit projects have not yet developed new products to satisfy the diversified and changing demand for microcredit.

The difficulties encountered by microcredit projects might mean that the direct replication of GB model is not appropriate in Chinese context. Recently, attention has been given to the kind of changes needed before importing microcredit methods in China. Some modified methods have been used in SSCOP projects. For example, the group of SSCOP is formed by 3-7 people, rather than arbitrary 5, as in GB group; monthly installment was adopted since some borrowers reported that they have difficulty in making frequent instalments; relatives are allowed to be in the same group. FPC and UNDP/CICETE projects have also experimented short-term seasonal loans products.

4. Conclusions

Although lacking impressive outreach, some NGO microcredit projects have performed well by a variety of standards, especially in reaching a poorer segment of the population (Sun, 2006). But this modality is unlikely to flourish under the current environment as it has done in other countries. Unless special policy, legislative,

regulatory and supervisory frameworks are established, NGO microcredit projects will be long way from achieving significant expansion or even operational and financial self-efficiency, then reaching significant numbers of poor clients and proving a wide ranging of financial services. Policy makers in China might look to the impressive development of Grammen Bank in Bangladesh to establish China-specific policy, legislative, regulatory and supervisory frameworks for NGO microcredit projects. Firstly, the restrictions on interest rates should be gradually removed. The next step can be to license credit-only microcredit institutions to enable professional NGO microcredit institutions to solve capital constraints by accessing funding from donors, private investors and domestic formal financial institutions, and grow at a manageable pace. The microcredit institutions should be under non-

prudential supervision of PBC and CBRC. Some well-performing credit-only microcredit institutions should be allowed to transform into full microfinance institutions to engage in lending, depositing taking and other financial services in the future. In addition, as a huge and diversified country, China should learn from different models of microcredit and adapt varieties of approaches and solutions to the Chinese context based on local circumstances, rather than focusing on one model over all the others. Finally, the government should provide more fiscal support to public goods such as rural infrastructure, education, health and agricultural extension services in poor areas, so as to improve the investment opportunities, and the productive and repayment capacities of the poor, and hence their access to credit services.

Appendix 1:

Interviews with Practitioners, Donors, and Experts of Microcredit Community in China

Time	Practitioners, Donors, or Experts
December 15, 2006	Prof. Baomin, Zhang: President of Rural Development Foundation, the Headquarters of Funding the Poor Cooperative and Professor of Rural Development Institute, Chinese Academy of Social Sciences. Ms. Hong, zhang: Deputy Director of Citigroup Microfinance Training Center, Rural Development Institute, Chinese Academy of Social Sciences.
December 23, 2006	Prof. Guangwen, He: Director of Department of Finance, China Agriculture University. Prof. He conducted field survey in Liuzhi SSCOP in 2005.
December 29, 2006	Mr. Dongwen, Liu: Director of Microfinance Department of China Foundation for Poverty Alleviation, the Headquarters of Supporting Service Centre of the Poor
January 6, 2007	Prof. Sangui, Wang: School of Agricultural Economics and Rural Development, Renmin University of China. Prof. Wang conducted field survey in Caohai Community Trust Funds, a joint microcredit project funded by International Crane Foundation and local environmental protection authorities in Caohai Natural Reserves of Weining County, Guizhou Province.
January 10, 2007	Mr. Changwen, Gou: Deputy Director of PlaNet Finance, China, a France NGO supporting microfinance development in China. Mr. Gou was the Director of Nanzhao FPC from 1995 to 2002.

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