

# Current Situation and Future Prospect of Microcredit in China

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# I. Microcredit Operations Conducted by Various Institutions

**The microcredit suppliers in China can be categorized into the following eleven types:**

- NGO MFIs for Public Interest;
- Subsidized Microcredit Projects for Poverty Alleviation Developed by State-owned Banks such as the Agricultural Bank of China (ABC) and the Agricultural Development Bank of China (ADBC);
- Rural Credit Cooperative (RCC) Farmers Microcredit Project;
- Microcredit Project Implemented by Urban Commercial Banks and Guarantee Companies;

# I. Microcredit Operations Conducted by Various Institutions

- Credit-only Microcredit Companies (MCC) (the People's Bank of China (PBC) Pilot Project);
- Village Banks (CBRC Pilot Project);
- Rural Mutual Credit Cooperatives (RMCC) (CBRC Pilot Project);
- Lending Companies of Commercial Banks (CBRC Pilot Project);
- Subsidized Microcredit Project for Poverty Alleviation Conducted by Rural Financial Institutions;
- China Postal Savings Bank (CPSB) Microcredit Pilot Project;
- Commercial Bank Microcredit Pilot Project.

## II. Future Prospect of Microcredit

### 1. RCCs:

If considering farming household loans as microcredit, it is estimated that RCCs serve more than 70 million or 90 million farming households, accounting for 30% of overall farming households in the country.

It is likely to envisage the little momentum for further growth or even contraction of microcredit business without the adjustment of corresponding policies and regulations in the near future.

## II. Future Prospect of Microcredit

2. ABC: The ABC has decided to issue Jinhui Farming-Benefited Card with farmer microcredit as its core business so as to alleviate farmers' difficulties in getting loans. demonstrating that ABC has a strong desire to change its mindset, and attempt to make full use of modern technological means, such as mobile banking, to solve farmers' difficulties in borrowing from banks. Nevertheless, the most significant risk is likely to be how to avoid moral hazard of borrowers and guarantee normal collection of loans so that historical mistakes can be effectively prevented.

## II. Future Prospect of Microcredit

3. CPSB: the balance of loans with each loan below 100,000 Yuan on average will amount to 80 billion Yuan within three years, and the balance of loans with each loan below 1 million Yuan will reach 600 billion Yuan within five years, accounting for 30% of total loans outstanding. The risk and challenge faced by CPSB for further development at present and in the future is lack of talented personnel, relevant experience, and risk control capability in operating financial businesses.

## II. Future Prospect of Microcredit

4. Shareholding Commercial Banks: Based on the situation of microcredit businesses operated by shareholding commercial banks, they can be categorized into two kinds. The first displays the situation of majority of banks which haven't paid enough attention to their microcredit operations, and those banks need to confirm their willingness and then develop relevant skills so that microcredit can be expanded into a large scale.

The second can be represented by such leading pioneers as Baotou Commercial Bank and Harbin Bank. With their continuous exploration and expansion, they must keep their minds alert, learn from experiences and improve their operation and management capacities, preventing the risk of running too fast.

## II. Future Prospect of Microcredit

5. MCC: It is shown that such type of MCCs may be one of MFIs with the fastest speed of growth in the coming two or three years in China. Currently, the attention should be paid not only to vigorous promotion but to risk prevention. Operational risk and moral hazard are probably key risks for major concern.

## II. Future Prospect of Microcredit

6. RMCC: it comes to a conclusion that the prospect is not optimistic in the near future for RMCCs to achieve relatively fast, extensive, healthy, and sustainable development. But there still exist passion and potential for further development if government policies can be more favorable in developing RMCCs. Under such circumstance, the probable risks lie in poor and unsustainable operations or other problems such as illegal deposit mobilization and fund raising as well as financial order disturbance, etc.

## II. Future Prospect of Microcredit

7. Social Organizations or NGO MFIs:  
Social organizations and NGO MFIs don't have much space to reach a large scale unless favored by policy changes. Nevertheless, if they can successfully be transferred to MCCs or even banks with a good management after going through a long and painful process, they will ultimately enjoy a rapid expansion and growth, especially those located in provinces.

### III. Improvements in Relevant Policies and Regulations for Further Discussion

1. The territory limitation puts on the operations of village banks and MCCs.

A proper adjustment for this policy needs to make. For example, when these institutions reach certain standards after two to three years' normal operation, they can expand their businesses to adjacent areas.

2. The financing limitation is set for credit-only MCCs.

According to the existing regulations, any credit-only MCC can only mobilize wholesale loans with the value up to 0.5 times its registered capital from two banking institutions, which is an over-conservative policy that needs to be adjusted. For instance, the proportion of financing can be enlarged from 0.5 to 4 times step by step, and even larger depending on the circumstances.

### III. Improvements in Relevant Policies and Regulations for Further Discussion

3. It is unreasonable to cap the interest rate of RCCs' microcredit at 0.9 to 2.3 times the basic rate. As compared to the provision for other organizations engaging in microcredit whose interest rate can be four times the basic rate, it is also unfair for RCCs.
4. The government should issue some policies and regulations for public-interest MFIs with pursuit of sustainability which can at present be defined as those organizations with the loan balance of each client less than 50,000 Yuan. Public-interest MFIs deserve an appropriate legal status, and the support of wholesale funds as well as favorable policies for them to strengthen their quality and capacities.

### III. Improvements in Relevant Policies and Regulations for Further Discussion

5. If the Ordinance of Lenders can be issued, it will be regarded as a great regulation to legalize non-depository informal credit practices as well as to promote further development of microcredit.

### III. Improvements in Relevant Policies and Regulations for Further Discussion

#### 6. The market should be open to foreign capital and technology.

Now in accordance with the government policies and regulations on microfinance, all kinds of microfinance or microcredit institutions can only operate within counties where they are located, which presents a restriction on domestic and international investment in general and commercial capital inflow in particular because of investment cost increase and profit margin decline even though such provision is conducive to risk control from the perspective of regulators.

A realistic risk will be that foreign institutions are unable to adapt themselves to local surrounding and achieve successful localization. Moreover, there are no many investors that show their true willingness to serve low segment.

### III. Improvements in Relevant Policies and Regulations for Further Discussion

7. Supporting organizational system at meso level needs to be built up.

Besides developing diversified retail microcredit agencies mentioned above, various supporting organizational systems are required to be formed so as to support those retail agencies in favor of their healthy development, which include wholesale funds, credit bureau, external auditing companies, rating agencies, consulting companies, training agencies, guild/association or network, and so forth.

8. It is a question worth consideration that China's government should play a role in creating an enabling policy environment for microfinance services or in directly taking part in offering credit services.

Thank You!