

The Current Supply of Microfinance Services in China

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Executive Summary

The article describes the supply of microfinance services in China. It introduces the 4 stages in the history of the development of microfinance in China and details the different types of microfinance providers. Each provider type is then analyzed and information is given on areas such as: history; target region and clients; lending methodology; other products (savings, insurance, remittances); and performance and challenges. The article also describes the sources of funds, and challenges faced by the microfinance providers.

1. Introduction

Before considering the microfinance industry in China, it is important to firstly define what is meant by the terms 'microfinance' and 'microcredit'. In particular it is important to clarify whether there are any limitations on loan size. Opinion is often split when considering such fundamental questions. Generally speaking, two opinions currently prevail. The first argues that any single microfinance loan should be capped at an absolute value. For instance, any loan below a certain amount can be called a microcredit, or a multiple or percentage of a country or region's GDP per capita can be set as a standard. The second point of view states that the term 'microcredit' should be based on relative value instead of absolute value. For example, any loan smaller than that disbursed by a traditional financial institution should be regarded as a microcredit.

In this article, the writer defines microcredit by using absolute value in a flexible way. For instance, at present, a microcredit means one single loan less than 100,000 Yuan in China - a sum four or five times greater than China's GDP per capita of almost 24,000 Yuan (approximately USD 3,000). According to the China Banking Regulatory Commission's (CBRC) definition of 'small enterprise loan', any single loan should not exceed 5 million Yuan. As a result it can be seen that, if applying 100,000 Yuan as the standard

threshold microcredit value, microfinance clients will not comprise small entrepreneurs and will instead only include micro-entrepreneurs, farming households, and poor families.

2. History of Microfinance Development

The development of China's microfinance industry can be divided into four phases. The first, or experimental, phase lasted from the beginning of 1994 until October 1996 and was characterized by the fact that most projects relied on international grants and soft loans, with almost no government funds. During this phase, Chinese practitioners mainly tested the feasibility of the Grameen Bank methodology, and operated through quasi-official organizations or NGOs.

The second phase is known as the expansionary phase and lasted from October 1996 to 2000. In addition to NGOs, local and national governments also started to promote microfinance, supplying financial, human and organizational resources in order to achieve the goal of poverty alleviation. At the same time, practitioners also paid attention to bringing microfinance practice in line with international best practice standards. Urban microfinance experiments, targeted towards the unemployed, were also launched during this period. However the scale of such operations remained limited.

The third phase of Chinese microfinance development lasted from 2000 until 2005 and began when formal rural financial institutions became involved in microfinance and the national government started to show interest in the regulatory environment. On the advice of the central bank, the People's Bank of China (PBOC), China's Rural Credit Cooperatives (RCC) launched microfinance activities, quickly expanding them and proving their ability to become the main actor in Chinese microfinance in the future. Meanwhile, the microfinance projects of the first two phases started to disintegrate.

The fourth phase (2005-present) started when central regulatory departments encouraged non-government and overseas funds to engage in the experimental activities of commercial MFIs. According to the guidelines of the PBOC, seven private microcredit companies were built in five provinces located in the central and western part of China in 2005. In late 2006, upon the approval of the CBRC, Rural Mutual Credit Cooperatives (RMCC) started to be set up in six provinces. One of the phase's characteristic features was the regulatory department's efforts to issue regulations to facilitate the investment of non-government and international funds in underdeveloped regions and to seek solutions to cases of financial insufficiency and inadequate competition by increasing funds in those areas.

The central government and the PBOC have paid increasing attention to microfinance and are currently studying the relevant policy implications.

3. Types of Microfinance Providers

3.1 NGO MFIs

This type of MFI was first launched in 1993 and originally initiated by the 'China Academy of Social Sciences' (CASS) and Professor Mao Yushi. Although, at one time, there were approximately 300 such projects or organizations engaged in microcredit operations, only around 100 MFIs remain in operation today. The MFIs' services cover many provinces and regions, especially poor areas. Their targeted clients are mid/low income workers and poor farmers whilst some MFIs only target female clients. Only a handful of MFIs are based in urban regions. However, Tianjin MFI, based in Tianjin City, is an example of an MFI which has generated exceptional results by focusing on laid-off female workers in Tianjin city.

Group lending is the main methodology adopted by these MFIs, while individual lending and village banking are seldom used. Loans can be paid either in installments or in a lump sum.

Generally no collateral is required in order to receive a loan. Although many MFIs disburse group guarantee loans, some institutions require up-front group funds or compulsory savings. The average loan size ranges from 1,000 to 5,000 Yuan in rural areas and from 3,000 to 20,000 Yuan in urban regions. Annual loan interest rates (including fees) range from 3% to 18%. In terms of targeted loan clients, MFIs can be categorized into three types; no gender limitation, female-focus, and male-focus. Most MFIs are yet to develop other products such as voluntary savings, insurance or remittances. It is estimated that the combined portfolio of all NGO MFIs in China is worth approximately 1 billion Yuan with a total of approximately 150,000 active clients.

The quality and sustainability of portfolio for these MFIs varies. Among the 100 MFIs, around 20 can be considered as good performers with repayment rates of over 95%. Only 10 MFIs have managed to become operationally self-sufficient.

The three major challenges faced by the MFIs are related to their: legal status, sources of funding and capacity for expansion. In addition there are a number of other issues to deal with, such as: ownership and governance, internal control mechanisms, cohesion, fund management, and external supervision.

3.2 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)

In collaboration with the Chinese government's "Eight-seven Poverty Alleviation Project"¹, ABC and ADBC carried out a subsidized microcredit project for poverty alleviation.

The project was launched in 1997 and involved the majority of poor regions and counties in the country. Originally the project targeted mid/low income workers and poor farming households. However, the scale of the project has been decreased since 2000 and now only focuses on enterprises. In 2008, ABC plans to issue its 'Jinhui' card which will give rural inhabitants preferred access to loans.

The project is mainly based on a group lending methodology and loans can be paid either in installments or in a lump sum. A group guarantee system has been adopted and no collateral is required for loans. The average loan size ranges from 1,000 to 5,000 Yuan. Although the annual loan interest rate is approximately 2.21%-3%, it can be as low as zero for loans subsidized by central and local government. There are almost no instances of additional financial products such as savings and remittances being offered.

Analysis of relevant documents and sources reveals that the project has a total loan portfolio of 23 billion Yuan. The working poor, in particular males or householders², are typically the project's main clients. However in cases where projects are held in collaboration with local women federations, female clients are also given priority.

Although the portfolio quality of the subsidized microcredit project varies over time and across regions and institutions, it can be said to be poor overall. As a result these projects are unable to achieve financial sustainability.

The project faces the following challenges:

- Lack of desire of relevant organizations and staff to implement the project
- Lack of relevant business knowledge and management capability
- Lack of personnel and outlets
- Poor collaboration with cooperative governmental agencies (such as poverty alleviation offices)
- Women federations and science and technology committees)
- Unsustainable projects.

¹ Meaning that the eight-thousand people living under the national poverty line should climb out of poverty within seven years.

² In China, especially rural areas, the husband is viewed as the householder.

3.3 RCC Farmer Microcredit Project

At present there are over 8,000 RCCs operating as independent legal entities and it is said that approximately 90% of RCCs have developed microcredit operations. This type of microcredit project can be categorized into three types: credit loans, group guarantee loans, and collateral-based loans. In the case of group guarantee loans and collateral-based loans the Central Bank (PBOC) issued an official document permitting a trial of RCCs in 1999-2000. The first RCC pilot project was initiated in Wuyuan County of Jiangxi Province in 2000 and has since spread throughout the country. Potential clients are classified via a credit ranking assessment and RCCs then identify targeted clients and loan amounts. In general, RCCs give priority to sole proprietor, rich and middle-income farmers, and cover only a handful of poor households.

RCCs currently work with credit-based, group guarantee, individual collateral/large loan guarantee, and “enterprise + farmer” loan methodologies.

Loan sizes are classified into three grades: 1,000-3,000 Yuan, 3,000-8,000 Yuan and 8,000-30,000 Yuan. The classification of loan size varies across regions and the size of group guarantee loans are generally larger than those of credit loans.

Loan interest rates are set in accordance with PBOC requirements, typically 0.9-2.3 times the basic interest rate, and should be lower than those for general loans. In addition RCCs typically offer other financial products such as savings and remittances.

The current outstanding portfolio of all credit and group guarantee loans is equal to 300 billion Yuan for a total of some 70 million farm clients. Males, as householders, are given priority as clients, however a few RCCs have cooperated with local women federations where the majority of loans are disbursed to females.

Repayment and operational sustainability rates vary greatly among RCCs, and include good, mediocre, and poor performers. However, generally speaking, the repayment rate of RCCs is around 80%.

Table 1 Summary Table for Microcredit Projects in Rural Areas

Project Type	Starting Time	Targeted Clients	Financial Sustainability as a goal	Legal Status as Financial Institution	Annual Interest Rate	Value of Loans Outstanding in RMB
International Aid Project/ Non-Official Project	Early 1990s	Poor & mid/low income households	Some projects have this goal	No, but experiment is allowed during the project phase	Varies considerably	About 0.2 billion
Government-led Project (the cooperation between ABC and government)	Middle & late 1990s	Poor & mid/low income households	No such goal but enjoy fiscal subsidy	Yes	Below 3% subsidized loan	38 billion
Credit Loan and Group Guarantee Loan of RCCs	Since 2000	All qualified farming households	Yes	Yes	Basic interest rate, but can be a little higher	More than 300 billion

Note: The information in this summary table was extracted from relevant documents and sources.

3.4 Microcredit Project Implemented by Urban Commercial Banks and Guarantee Companies

Since 2002 the PBOC has called on urban commercial banks and guarantee companies to cooperate and disburse micro guarantee loans to laid-off workers in urban areas. In such projects, guarantee companies or fiscal guarantee funds bear either 100% or 80% of the overall risk while guarantee companies charge a management fee of 1%. Urban commercial banks offer loans with basic annual interest rates of 7.29% and receive subsidies from local financial departments with the result that borrowers pay zero or very low interest.

The project has an average loan size of around 20,000 Yuan. The highest and lowest loan amounts range between 100,000-150,000 Yuan and 5,000 to 10,000 Yuan respectively. There are various repayment methods, such as lump sum and installment.

The microcredit project has expanded to reach college students, returning soldiers, farmers without land, and low-income entrepreneurs. There is no gender limitation in terms of targeted clients, and some banks have an even distribution between male and female clients. Currently, total outstanding portfolio is equal to over ten billion Yuan with several hundred thousand active clients. In addition the banks typically offer additional financial products such as savings and remittances.

In the majority of cases, the project has a fair portfolio quality with a non-performing loan (NPL) ratio of 10%. Nevertheless, operational sustainability is poor due to high-dependency on fiscal subsidies.

The project faces the following challenges:

- Passive implementation by commercial banks instead of active engagement
- Lack of proper skills and innovation
- High risk related to loan clients
- Lack of new ideas and management capacity to handle the business
- Issue of long-term subsidy reliance

3.5 Credit-only Microcredit Companies (PBOC Pilot Project)

In 2005, the PBOC initiated a new pilot project which encourages private capital to establish credit-only microcredit companies (MCC). The pilot is being run in five counties within five provinces located in the middle and western part of China. Statistics from the PBOC show that a total of seven MCCs had been built by September 2007 (Operational performance figures for this pilot can be found in table No.7). In addition, some local governments and foreign-funded institutions also set up similar microcredit companies in accordance with the guidelines of the PBOC pilot project.

The targeted clients of MCCs are local farming households, citizens, sole proprietors and entrepreneurs. The loan products and methodologies offered by MCCs are similar to those of RCCs. Usually collateral or guarantees are required in order to take out a loan. Although the project has an average loan size of approximately 100,000 Yuan, loans for different MCCs and clients can range from several thousand to several hundred thousand Yuan. The project has an average annual loan interest rate of over 20%.

MCCs offer no other financial products and are not allowed to mobilize savings.

The registered capital of MCCs ranges from 17 million to 50 million Yuan and thus far MCCs have been restricted to only operating within the pilot counties. The value of loans disbursed by each of the existing 7 MCCs range from several million Yuan to nearly a hundred million Yuan, respectively. The total value of loans disbursed by the 7 MCCs together amounts to several hundred million Yuan. In general, the MCCs have good portfolio quality. According to financial statements, most MCCs are likely to achieve financial sustainability with only one such institution having suffered a loss at the end of 2007.

It is estimated that the total loan funds of all MCCs in China amount to several hundred million Yuan, and together they have several thousand active clients.

MCCs face the following challenges:

- No recognized legal status (PBOC and CBRC have yet to issue an official document to recognize MCCs as financial institutions)
- No innovation or advancement in terms of loan products and methodology

- No standard loan criteria (some MCCs offered loans to their own shareholders)
- Tendency towards large loan sizes that exceed the scope of microcredit operations
- Conflicts among shareholders
- No source of funding that would allow a growth in scale

3.6 Village Banks (CBRC Pilot Project)

At the end of 2006, the CBRC announced a new pilot project to create three types of new financial institution (village banks, lending companies and RMCCs) in 36 counties throughout six provinces. By the end of 2007, 19 village banks, 4 lending companies and 8 RMCCs had been established. In 2008, this pilot project will be expanded to 31 provinces throughout the country. Each province will then choose up to two experimental sites.

From 2007 onwards, commercial banks have been permitted to create their own village bank in the form of sole proprietorship or joint stock partnership with either individual and/or institutional investors. In the case of the joint stock partnering option, the commercial bank will have a controlling equity stake in the village bank.

The village banks can only operate within the selected counties or towns whilst their targeted clients, operational methods, and business scope resemble those of RCCs. No information is available on the average size of loans. However, the writer believes that village banks should not be regarded as microfinance institutions. In terms of loan size, only loans lower than 100,000 Yuan can be thought of as microcredits.

According to the relevant reports, the portfolio quality of most village banks would appear to be reasonably good. By the end of 2007, two village banks had returned a profit. It is estimated that the total village bank portfolio in China amounts to approximately 0.2 billion Yuan with several thousand active clients.

The village banking project faces the following challenges:

- Control by large shareholders or traditional commercial banks
- Large loan size
- Loan disbursement only in counties
- Difficulty in collecting deposits

Questions to be considered include:

- Is it necessary for the village banks to be controlled by commercial banks?
- Can the scale of operations be expanded from counties to cities after a certain level of performance is achieved?
- Should a settlement channel for remittances be offered?
- Should effective supervision be in place?

3.7 RMCCs (CBRC Pilot Project)

RMCCs are similar to previously existing MFIs that have adopted the village banking methodology. Currently the CBRC permits qualified organizations to register as RMCCs.

The pilot project, initiated by the CBRC in 2007, involves RMCCs being regarded as cooperative or shareholding cooperative finance institutions. They are then categorized by two different activity levels, i.e. village and township level. The local farmers, citizens and enterprises that buy shares are both owners and clients of the funds. Shareholders are permitted to make voluntary savings and to apply for either group loans or individual loans.

It is estimated that the total RMCC loan portfolio in China amounts to several million Yuan, distributed among several thousand active clients.

The following challenges and problems are currently being faced by RMCCs and unregistered MFIs adopting village banking methodologies:

- Higher operational costs after registering
- No preferred policy
- Strict requirement for prudential regulations (not necessary as non-prudential regulations can be adopted instead)
- Difficulty in financing (even though they are allowed to mobilize funds according to current policies)
- Poor management capacity and staff quality
- High possibility of being controlled by the non-poor;
- Weak internal control mechanisms
- Low internal cohesion and operational and financial management
- Ineffective external supervision

For example, one RMCC in Lishu County, Jilin Province, was registered in 2007 with capital of 100,000 Yuan. However over 70,000 Yuan of this had to be used to purchase security facilities and hire professional accountants in accordance with the requirements of its administrative department. Although the fund later applied for a loan of 200,000 Yuan from the local bank, it is still a long way from achieving financial self-sufficiency and operational sustainability.

3.8 Lending Companies (CBRC Pilot Project)

According to the provisions of the CBRC, the registered capital for lending companies set up by banks must be no less than 500,000 Yuan. Four lending companies have been established since 2007.

The writer believes that these types of lending companies should not be considered as microfinance institutions. In terms of loan size, only loans lower

than 100,000 Yuan can be regarded as microcredits. In reality, there is no significant difference between the operations of lending companies and those of, PBOC launched, MCCs with the exception of how they were created. However, lending companies' capital amounts are limited in accordance with the level of support they receive from their parent banks or other financing sources. As a result, lending companies have been prevented from achieving high rates of growth. It is estimated that total lending company portfolio in China amounts to several million Yuan with several thousand active clients.

3.9 Subsidized Microcredit Project for Poverty Alleviation Implemented by Rural Financial Institutions

Since 2004, the Poverty Alleviation Office of the State Council and the Ministry of Finance have jointly conducted a pilot project. The project involves the reform of the subsidized method of poverty alleviation loans whereby a portion of central fiscal subsidized funds are allocated to local governments which then disburse poverty alleviation loans to selected financial institutions. The majority of financial institutions chosen by local governments are RCCs, while only a handful of agricultural banks are selected. Financial institutions which directly offered loans to poor households profited from a subsidized interest rate of 4% in 2004 and 5% in 2005. At first, the pilot project was carried out in 33 counties in 11 provinces throughout the country and then expanded further to 200 counties in 22 provinces in 2005. The loan fund amounted to around 2 billion Yuan within two years. Although no client data is available, if an average loan size of 5,000 Yuan is assumed, it can be estimated that the project has several tens of thousands of active clients.

The project's impact can be measured by the fact that:

- Overall loan amount has increased significantly in pilot counties
- Poverty alleviation loans are almost exclusively provided to poor farming households
- The repayment rate has been improved to over 90% for most counties (with the exception of one county with a rate of 74% - the lowest of the project)
- Poor farming households use loans in order to derive benefits from income generating activities

Since 2006, all subsidized funds have been transferred to 592 counties. The county governments are free to choose financial institutions and to directly settle the issue of subsidized interest with them. The total amount of loans disbursed to households has reached 5.92 billion Yuan.

The project faces the following challenges:

- No active engagement of rural financial institutions in some counties
- Determining whether the project can be made operationally sustainable

3.10 Postal Savings Bank Microcredit Pilot Project

In 2006, the central government approved the establishment of postal savings banks in order to offer banking services in addition to postal and savings services. In the same year, the postal savings banks launched a microcredit pilot project. As postal savings banks created special departments and hired qualified staff they gradually expanded their collateral-based microcredit trial throughout the country. After taking on board the lessons learned from the experience, the postal savings banks developed non-collateral loans for both natural persons and companies in 6 provinces. Since the first half of 2006, the State Postal Savings Bureau's 'Postal Savings and Remittances Bureau' has opened a pilot business that issues microcredit with a time deposit as collateral and expanded it throughout the whole country. Postal Savings Banks intend to return money deposited with them to rural areas in the form of microcredits.

In order to manage risk, the loan size for the above microcredits ranges between 1,000 and 100,000 Yuan. However, the loan size in three pilot provinces has been as high as 500,000 Yuan. In principle, the loan amount should not exceed 90% of the capital of the time deposits used as collateral, and the loan term should be no more than one year. These loans can be used for individual consumption and productive operation instead of being invested in securities and futures.

In May of 2007, the CBRC authorized postal savings banks to offer an experimental microcredit without collateral in 7 provinces and cities including Shaaxi and Henan. The highest credit line for individual borrowers should not exceed 500,000 Yuan. The postal savings banks formally launched this loan business in Henan in June of 2007. The loan products are classified as group guarantee loans for business households with a maximum loan amount of 50,000 Yuan per household. Group guarantee loans for farming households have a maximum loan amount of 30,000 Yuan per household. The microcredit pilot project has now been expanded to cover ten provinces, with 110 million Yuan having been disbursed to several thousand active clients. Overall, results and repayment performance have been good and the postal savings banks are now planning to submit an application to the CBRC for further expansion of the project.

At present, postal savings banks hold some 1.7 trillion Yuan in savings accounts – the fifth largest holding in the country. Outstanding collateral-based loans and credit loans amount to approximately 100 billion Yuan. In addition the postal savings banks also offer other financial products such as savings and remittances.

Postal savings banks face the following challenges:

- Lack of microcredit business knowledge and management capacity
- Poor staff quality and lack of talented employees at all levels

3.11 Commercial Bank Microcredit Pilot Project

Since 2005 the China Development Bank (CDB) has cooperated with the World Bank (WB) in order to introduce a microcredit pilot project. The project was developed by the European Development Bank and targets microenterprises and disadvantaged people who have difficulty in obtaining loans. The pilot project has been carried out in over ten cities including: Taizhou of Zhejiang, Baotou of Inner Mongolia, and Benxi of Liaoning. In addition some rural commercial banks, such as Maanshan of Anhui, have also participated in the project. The project's overall loan portfolio has reached more than one billion Yuan. Some commercial banks, such as Harbin Commercial Bank, have also developed similar businesses on their own.

Loan amounts range from several thousand to several tens-of-thousands of Yuan with an average loan of approximately 50,000 Yuan. Microcredits are not based on collateral but on a flexible guarantee. The project's portfolio quality is fairly good with an NPL ratio of less than 1%.

Harbin Commercial Bank experimented with this type of project independently and offers microcredit to farming households on commercial terms instead of relying on the usual subsidized framework. Loan amounts range from 20,000 to 100,000 Yuan with an average loan size of 30,000 Yuan and loans are based on group guarantee and warrantor guarantee methodologies. The guarantee system for urban loans, which have an average loan size of 80,000 Yuan, is very flexible. Applicants can take out group guarantees but must submit the application in the name of an individual.

The Commercial Bank Microcredit Project faces the following challenges:

- Necessity for leaders and staff to adapt their ideas in order to successfully carry out the project
- The equipping and training of qualified staff
- The learning of relevant skills and knowledge in order to guarantee the success of the project.

4. Sources of Funds for Microfinance Providers

4.1 NGO MFIs

Funding for NGO MFIs comes in the form of donations from multilateral and bilateral international aid institutions, international NGOs and the Chinese government. Other sources include private capital, wholesale loans from banks such as the CDB, soft loans from international organizations such as the Grameen Trust, Grameen Foundation USA and KFW, and client investment in village banking projects.

This category of provider faces the following funding challenges: insufficient funds and no normal financing channels.

4.2 *Subsidized Microcredit Project for Poverty Alleviation Developed by State-owned Banks such as ABC and ADBC*

Capital sources include on-lending loans from the PBOC and savings from their own depositors. Central and local government also offer fiscal funds to subsidize interest and operational expenses.

The project faces the following challenges: covering costs from low interest rates; ensuring that supply (on-lending loans and government subsidy) is sustainable; meeting policy targets; making sure the financial market is not inefficient or distorted.

4.3 *Farmers Microcredit Project Undertaken by RCCs*

(The sources of funds and challenges are the same as those of Type 2)

4.4 *Microcredit Project Implemented by Urban Commercial Banks and Guarantee Companies*

Capital sources include savings from depositors, funds from social guarantee organizations and government guarantee foundations, and fiscal subsidies from local governments.

The project faces the following challenges: banks are unwilling to undertake this project in spite of sufficient funds being offered by governmental agencies; and there are doubts as to whether the project can be sustainable.

4.5 *Credit-only Microcredit Companies (PBOC Pilot Project)*

Capital sources include funds from individual and institutional investors and entrusted funds from financial institutions which are used as registered and loan capital.

The main challenge is that there is no source of funds for further expansion begging the question as to whether MCCs can cooperate with formal banks in order to convert into village banks, where they would become minority shareholders.

4.6 *Village Banks (CBRC Pilot Project)*

The capital sources include funds from investors and savings from depositors which are used as registered capital and loan capital. Theoretically, they can mobilize funds from the financial market.

Village banks face the following challenges: capital funds are limited for most village banks (except for those engaging CDB as controlling shareholder); and the shortage in sources of savings.

4.7 RMCCs (CBRC Pilot Project)

Capital sources include investment and savings from members, entrusted funds (within the same villages or towns), and donations from other organizations.

RMCCs face the following challenges: small scale; limited sources of funds; banks are unwilling to offer funds; and the fact that relevant government policy support is not in place.

4.8 Lending Companies (CBRC Pilot Project)

Capital funding comes from parent banks. Theoretically, the companies can also mobilize funds from the financial markets.

Lending companies face the following challenges: limited sources of funds and the small scale of operations.

4.9 Subsidized Microcredit Project for Poverty Alleviation Implemented by Rural Financial Institutions

Capital funding comes from depositor savings which are applied to the poor and low-income farm households. Other sources include fiscal funds from central government which are used as subsidized interest for farm household loans and as rewards for financial institutions that implement the project.

The main challenge faced by the project is the issue of sustainability. The other challenges and problems are the same as those for Type (2) and (3).

4.10 Postal Saving Bank Microcredit Pilot

Postal savings banks are national first-grade legal entities, and all capital funding comes from their own depositors.

The main challenge faced by postal savings banks is how to guarantee the portfolio quality of loans.

4.11 Commercial Bank Microcredit Pilot Project

Capital funding comes from loans from international organizations such as the WB, wholesale loans from financial institutions, and client savings. Other sources include technical assistance funds which are generally used for training and capacity building.

The main challenge faced by commercial banks is in determining whether the microcredit project can be expanded and whether microcredit can become the leading product of and main income source for commercial banks.

Annex

Table 2a Comparison of Microcredit Providers – Clients and Products

	Type of Institution	Since	Regions	Target Clients	Traditional Collateral	Average Loan Size	Annual Interest Rate*	Savings	Remittances
1.	NGO MFIs	1993	Country-wide	Mid/ low income and poor clients	No	Several thousand	3-18%	No	No
2.	ABC	1997	Country-wide	Mid/low income and poor clients	No	Several thousand	2-3%	No	No
3.	RCCs	2000	Country-wide	All kinds of farm households	No, but yes for large loans	Several thousand – ten thousand	0.9-2.3 times basic rate	Yes	Yes
4.	Urban Commercial Banks	2002	Urban Areas	Laid-off workers	Guarantee companies	Several thousand – several tens of thousands	Basic rate but subsidized by government	Yes	Yes
5.	MCCs	2005	5 provinces	Farmers and micro-enterprises	Yes	Several thousand – hundred thousand	Around 20%	No	No
6.	Village Banks	2006	6 provinces	Farmers and micro-enterprises	Yes	Several thousand – hundred thousand	0.9-2.3 times basic rate	Yes	No
7.	RMCCs	2006	6 provinces	Member farmers and enterprises	No	Several thousand	0.9-2.3 times basic rate	Yes	No
8.	Lending companies	2006	6 provinces	Farmers and micro-enterprises	Yes	Several thousand – hundred thousand	0.9-2.3 times basic rate	No	No
9.	Poverty Alleviation Loans	2004	Country-wide	Mid/ low income and poor clients	No	Several thousand	Less than basic rate	Yes	Yes
10.	Postal Savings Banks	2007	Country-wide	All kinds of farm households	Yes	Several thousand – hundred thousand	0.9-2.3 times basic rate	Yes	Yes
11.	Microcredit Pilot Project of Commercial Banks	2005	More than 10 regions	Micro-enterprises and dis-advantaged people	No	Several tens of thousands	Around 20%	Yes	Yes

Note: The information in this summary table was extracted from relevant documents and sources.

** Calculated on a declining balance.*

Table 2b Comparison of Microcredit Providers – Performance

	Type of Institution	Number of Active Clients	Gender of Clients	Value of Loans Disbursed in Yuan	Portfolio Quality	Ability to Achieve Sustainability
1.	NGO MFIs	150 thousand	No gender limitation or mainly female clients	Billion	Uneven	A few can
2.	ABC	No information	Mainly male clients	Several tens of billions	Poor in general	Cannot
3.	RCCs	70 million	Mainly male clients	Several hundred billion	Uneven	Uneven
4.	Urban Commercial Banks	Several hundred thousand	Mainly male clients	Nearly ten billion	Uneven	Relying on subsidy
5.	MCCs	Several thousand	Mainly male clients	Several hundred millions	Good	Yes
6.	Village Banks	Several thousand	Mainly male clients	Over one hundred million	Good	Good tendency
7.	RMCCs	Several thousand	Mainly male clients	Several millions	Good in general	No
8.	Lending companies	Several thousand	Mainly male clients	Several millions	No information	No information
9.	Poverty Alleviation Loans	Several ten thousand	Mainly male clients	No figure	Mostly good	Relying on subsidy
10.	Postal Savings Banks	Several thousand	Mainly male clients	A hundred million	Good in general	Good tendency
11.	Microcredit Pilot Project of Commercial Banks	No information	Mainly male clients	Billion	Good	Yes

Table 3 The Overall Financial Situation of Non-financial Microfinance Institutions (1999-2002)

Item	Year			
	1999	2000	2001	2002
Average Value of Annual Profit in Yuan	-14,644.36	-28,809.19	-28,927.65	-9,745.56
Proportion of Projects in Loss (%)	50	55	57	50
Average Rate of Annual Operational Self-Sufficiency (%)	0.7935	0.7447	0.8296	0.7524

Data Source: Cao Zijuan (2005), selected from Wang Shuguang etc., "Rural Finance", Peking University Press, 2008.

Table 4 The Statistics of Farmers Microcredit Loans of RCCs in Guizhou Province

(Unit: 10,000 Yuan)

Item \ Year	1999	2000	2001	2002	2003
Farmers loan balance at the end of year	221	327.5	371.2	599.7	705.7
Annual growth rate of farmers loan balance at the end of year (%)	—	48.3	13.3	61	17.7
Farmers microcredit loans balance at the end of year	50	70.7	138	244.9	279
Annual growth rate of farmers microcredit loan balance at the end of year (%)	—	54.5	80	77.4	13.9
Ratio of farmers microcredit loans balance at the end of year to farmers loan balance at the end of year (%)	22.5	23.4	37.2	40.8	39.5
Total savings at the end of year	274	340.6	467.5	644.7	769.4
Annual growth rate of total savings at the end of year (%)	—	24.1	37.3	37	19.3
Ratio of farmers loans to savings (%)	80.5	96.2	79.4	93	91.7
The on-lending loan balance of PBOC	13	45.6	88.7	158	176
Annual growth rate of the on-lending loan balance of PBOC (%)	—	-248.2	94.5	78.1	11.8
Ratio of non-performing loan balance (%)	59	61	65.9	37.6	34.4
Net assets	-14	-11.5	-27.9	-10.8	6.8
Annual net profit	-96589	19708	-33166	46433	-120671

Data Source: Cheng Enjiang (2004), selected from the same as Table 3.

Table 5 The Statistics of Institutional Type and Microfinance Methodology (2002)

Institutional Type	Group Loan	Individual Loan	Village Banking
Governmental Microfinance (n=31)	10	21	0
Quasi-Governmental Microfinance (n=23)	7	14	2
International Sponsored Microfinance (n=49)	35	13	1
Informal Microfinance (n=3)	3	0	0
Total (n=106)	55	48	3
Proportion (n=100%)	51.89%	45.28%	2.83%

Data Source: Cao Zijuan (2005), selected from the same as Table 3.

Table 6 Financial Performance of Chifeng MFIs

	2000	2001	2002	2003	2004	April of 2005
Active Clients			3268	3764	3541	3631
Ending Balance (ten thousand Yuan)	137.28	192.06	294.96	366.69	439.94	549.70
Number of Clients per Credit Officer	150	256	272	234	244	—
Unit Fund Cost for Lending	0.21	0.049	0.05	0.05	0.05	—
ROA	5.9%	8.96%	9.72%	9.55%	9.78%	—
OSS	49%	91%	102.08%	101%	102.7%	—
Delinquency Ratio	0.00%	0.00%	0.00%	0.16%	0.52%	0.41%
PAR Ratio	0.00%	0.00%	0.00%	0.74%	0.52%	0.41%

Data Source: Booklet of Chifeng MFI, selected from the same as Table 3.

Table 7 Interest Rates of Non-financial Microfinance Institutions

Item	Average Value of Nominal Interest Rate	Average Value of Effective Interest Rate
Governmental Microfinance	2.53%	4.52%
Quasi-Governmental Microfinance	3.80%	4.16%
International Sponsored Microfinance	7.17%	12.95%
Informal Microfinance	8.00%	16.00%

Data Source: Cao Zijuan (2005), selected from the same as Table 3.

Table 8 Basic Situation of Seven MCCs of PBOC September 30th 2007 (Unit: 10,000 Yuan)

Pilot Region	Pilot company	Net capital	Entrusted funds	Loans	Total loans	Classified by targeted clients						Classified by methodology				Minimum loan rates	Maximum loan rates	Average loan rates	Bad loan rates	Profits		
						Individual loans				Corporate loans		Non-collateral loans		Collateral loans								
						Individual loans	Percentage	Farmers loans		Loan	Percentage	Loan	Percentage	Loan	Percentage						Loan	Percentage
								Loan	Percentage													
Pingyao, Shanxi	1	2049	501	2716.5	3426.6	1816.5	66.90%	1816.5	66.90%	900	33.10%	315.5	11.60%	2401.1	88.40%	15.66%	23.26%	20.65%	0.74%	323.2		
	2	2284	885	3524.2	4528.3	3074.2	87.20%	3074.2	87.20%	450	12.80%	23.8	0.70%	3500.4	99.30%	16.20%	21.60%	18.55%	0.00%	330		
	Total	4333	1386	6240.74	7954.9	4890.74	78.40%	4890.74	78.40%	1350	21.60%	339.25	5.40%	5901.49	94.60%	15.66%	23.26%	19.80%	0.32%	653.2		
Guangyuan, Sichuan	3	1000	0	990.9	1009.7	697.9	70.40%	508.4	51.30%	239	29.60%	639.1	64.50%	351.8178	35.50%	14.40%	25.92%	24.13%	7.75%	49.9105		
Jiangkou, Guizhou	4	600	0	110.3	108.8	60.3	54.70%	49.3	44.70%	50	45.30%	5.6	5.10%	104.7	94.90%	17.40%	27.63%	18.10%	1.72%	-3.2842		
Hucounty, Shaanxi	5	2200	0	468	754	468	100.00%	18	3.80%	0	0.00%	0	0.00%	468	100.00%	22.32%	24.48%	22.32%	0.00%	33.5		
	6	2100	0	1499.7	373	1038.7	69.30%	1038.7	69.30%	461	30.70%	84	5.60%	1415.7	94.40%	23.40%	24.84%	23.40%	0.00%	45.8		
	Total	4300	0	1967.716	1127	1056.716	76.60%	1056.716	53.70%	461	23.40%	84	4.30%	1883.716	95.70%	22.32%	24.84%	22.86%	0.00%	79.3		
E'erdusi, Inner Mongolia	7	5000	0	5922.7	6438.9	5829.3	98.40%	1567.3	26.50%	93.4	1.60%	1828	30.90%	4094.7	69.10%	14.40%	27.36%	23.37%	0.00%	348.6922		
Total		15233	1386	15232.32	16639.3	12984.95	85.20%	8072.47	53.00%	2247.37	14.80%	28959.29	19.00%	12336.39	81.00%	14.40%	27.63%	21.50%	0.65%	1127.8185		

Note: 1. Total loans are counted from the beginning of this year to the day of statistics report. 2. The loan rate is annual interest rate.

Data Source: PBOC's MF research group, Microfinance Newsletter, No.3, 2007.

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Abbreviations

CBRC China Banking Regulatory Commission
PBOC People's Bank of China
RCC Rural Credit Cooperatives
RMCC Rural Mutual Credit Cooperatives
CASS China Academy of Social Sciences
ABC Agricultural Bank of China
ADBC Agricultural Development Bank of China
NPL Non-performing loan
MCC Microcredit Company
CDB China Development Bank
WB World Bank