

The Entry of the Chinese Rural Credit Cooperative into Microfinance Market — A Case Study in Chengdu-City Sichuan-Province —

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Abstract

From the early 1990s, international donors and NGOs have attempted to operate microfinance schemes in some impoverished areas in China, but the service size was so small that only a few of the rural poor people were benefited. In 2000, in order to narrow the widening urban-rural income gap, the People's Bank of China (the Central Bank) formulated a new policy to support the Chinese Rural Credit Cooperative (RCC), which is a formal financial institution with numerous branches at grassroots-level in rural areas, to deliver microfinance services. As of March 31, 2004, 92.6% of the RCCs had introduced the microfinance programs, and the balance of microcredit loans amounted to 202 billion yuan sharing 10.68% of their total amount of outstanding loans. Particularly, in the rural areas of the western region, microfinance project contributes greatly to income expansion, poverty reduction and local economic development.

The purpose of this paper is to obtain a clear picture of the microfinance movement being undertaken by the RCC, including the contents of the outreach, special operational skills for risk management and cost reduction, systematic sustainability and impacts on the lives of rural households. Arguments are based on a case study in Chengdu-City Sichuan-Province western China, focusing specifically on talks and discussions with the staff of local RCCs, some farm households and employers of small-scale rural enterprises. It also examines the role of government and preconditions for a successful microfinance project.

Key Words: microfinance market, outreach, special operational skills, systematic sustainability, impacts

Introduction

The word "microfinance" did not exist before the 1970s. It was first expressed by Prof. Muhammad Yunus, founder of the Grameen Bank and now has become a buzz-word among the development practitioners. It refers to the provision of a broad range of relatively small-size financial services such as deposits, loans (often use the words "microcredit" or "microloans"), payment services, money transfers and insurances to poor and low-income households and their microenterprises. Microfinance often implies microcredit in a narrow sense since microcredit is the major topic of microfinance. The objective of

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microfinance is encouraging the poor to save, have better access to credit and insurance and hence helping them manage risk, build assets, increase income, and enjoy a better life. Because of high risks and costs involved in small transactions, and the poor's inability to provide marketable collateral for loans, some innovative facilities must be specially designed in order to promote microfinance services on a sustainable basis.

There are many different types of micro-finance programs in rural China. The purpose of this paper is to argue the newest type which is being promoted by the Chinese Rural Credit Co-operative (RCC), having just been launched on a national scale since 2000.

The RCC is a formal financial institution with a vast network at the grass-roots level in rural China.¹⁾ There are 33, 020 RCCs at township-level with more than 60,000 affiliated savings and credit branches. 2,460 county-level RCC Unions, 58 city-level RCC Unions and 11 province-level RCC Unions have also been established for coordination.²⁾ As of March 31, 2004, the amount of personal deposits in the RCC shares 15.1% of that in all national banks and the outstanding loan portfolio accounts for 11.3% of the national total, and also, 86.0% of the agricultural loans is provided by the RCC.³⁾ In some areas of the relatively poor western region, commercial banks such as the Agricultural Bank of China (ABC) and the Industrial and Commercial Bank of China had to retreat their branches in deficit from rural areas because of their operational failure, leaving the RCC as the only formal financial intermediate for rural people.⁴⁾

This paper consists of three sections. The first section gives a general view of various micro-finance programs in rural areas, specially referring to the background and objectives of the RCC's entrance into the microfinance market as well as the guidelines issued by the People's Bank of China (PBC, the Central Bank) for supporting the RCC to spread microfinance services. The second section is a case study in Chengdu-City Sichuan-Province, western region of China. The fieldwork was conducted in March 2004 with visits to Chengdu-City RCC Union, its three jurisdictional RCCs (We call them A-RCC, B-RCC, C-RCC in this paper), some local farmers' homes and rural microenterprises. The outreach, special operational skills, systematic sustainability and impacts on the local economy concerning their microfinance movements are illustrated. In the third section, some problems and solutions for a successful microfinance program are presented on basis of the fieldwork, talks and discussions with the RCC staff, local farmers and enterprisers.

1. Overview of the microfinance market in rural China

1.1 Microfinance market until 2000

Compared to the poor performance of savings mobilization in many developing countries, China is successful. The RCC has been playing the most essential role in mobilizing small rural savings even in poor areas (Gao, Ishida [2]). However, the proportion of small credit delivered to farm households and agricultural sector had been declining because the RCC often preferred larger size loans to rural manufacturing industry (Gao, Ishida [3]). Some survey reports showed that farm households borrowed 80% of money from the informal channel (Breakdown of the informal channel: relatives and friends at little interest rate 70%, moneylenders at higher interest rate 10%, and others 20%), and also, half amount of money they wanted to borrow was not finally obtained. Complicated procedures for a loan application and the lack of collateral were the main obstacles that had kept a large number of small farmers out of the formal credit market (Deng, Xu [1]).

The State Council Leading Group for Poverty Alleviation has been using provision of subsidized

microloans for the poor as a key means to reduce poverty since its establishment in 1986. These cheap funds faced two serious issues. One is that a substantial part of loans did not reach poor households as designed, but were diverted for other uses. The other is an unacceptably low repayment rate, creating a heavy burden on both the ABC for operation and the state fiscal budget (Wu [5]).

In order to improve the access of poor farmers to financial services in a more effective way, some international donors (UNDP, FAO, WTO, IFAD, etc.) and NGOs (Poverty Aid Society, Fund of Poor Cooperative, etc.) initiated a succession of microfinance programs from the early 1990s. Many of them adopted the methodologies such as group lending and compulsory savings learned from the Grameen Bank Model and some successful foreign experiences.⁵⁾ Their common characteristics were as follows: ①Project-based and the schemes continued only during the life span of the project. ②Depended on funds from donors for their operation. ③Only extended to some state-designated poor areas in the central and western regions. ④Semi-official microfinance institutions were established, but their routine operations were intervened by the local government in some degree, most of the staff were concurrently employees of government agencies. ⑤The service size was very small, only serving at most ten townships and about 5,000 clients each. The average lending size was between 500 yuan and 800 yuan in 2000. ⑥Charged an interest rate a little higher than the basic rate stipulated by the PBC. Although these programs benefited some the poorest of the poor, none had reached financial self-sufficiency because of the high administrative costs compared to the small operational scale and loan defaults caused by the lack of professional management and farmers' misunderstanding of microcredit as a free gift with no need to pay back (Wu [5], Du [6]).

1.2 Microfinance market after 2000

Urban-rural income gap has become a more and more serious problem in the Chinese economy. According to the statistical data of 2002, the per capita annual income of urban residents was 3.1 times as much as that of rural residents on the national average (7,703 yuan versus 2,475 yuan). In the western region, the gap was up to 3.6 times (6,675 yuan versus 1,855 yuan).

As one of measures to narrow this gap, the PBC introduced the new concept of microfinance into the RCC's operation for widening the rural clientele coverage to access financial services, particularly, microcredit services.

Two innovative microfinance products were designed. One is Credit Microfinance for Farm Households (CM), which is prescribed that if a farm households is proved to be creditworthy, he/she can gain a Credit Card for Farm Household issued by the RCC. The holder of this card can get a loan quickly below a certain ceiling without any loan collateral or mortgage. The ceiling is set by each RCC based on the local economic situations. The other is Group Joint-responsibility Microfinance for Farm households (GM), which means 5~10 farm households can form a group under free negotiation. When a member of group wants to borrow money from the RCC, the others will be his/her joint-guarantors. In this case, no loan collateral or mortgage is necessarily submitted. Generally, GM provides a larger lending size than CM.

Guidelines on these two new products were enacted by the PBC, written in *Interim Procedures on Credit Microfinance for Farm Households* (PBC, August 1999 [7]) and *Guiding Opinions on the Group Joint-responsibility Microfinance for Farm Households* (PBC, March 2000 [8]). It is emphasized that ① The RCC must give priority in granting microloans to farm households, especially the capital needs for agricultural production and agribusinesses. ② Comparatively preferential interest rates are applied to microloans. ③The RCC

must take responsibility for profits or losses of microfinance and make full use of market mechanism in microfinance management.

Furthermore, the PBC issued *Guiding Opinions on Credit Microfinance for Farm Households* (PBC, November 2001 [9]), giving some supplementary explanations about CM. They are: ① Microloans are not only provided for the purposes of agricultural production and agribusinesses, but also for livelihood including children's education, house building, medical treatment, etc. ② Microcredit is provided without collateral,

Table 1 The Scale of Microfinance Promotion by the RCC

	National (March 31, 2004)	Sichuan-Province (in western region) (December 31, 2003)	Jiangsu-Province (in eastern region) (December 31, 2003)
Share of RCCs having adopted CM and GM	92.6%	98.6%	80.2%
Total outstanding loan portfolio (billion yuan) ③	1888.5	80.4	125.2
CM ①	136.5	10.9	5.4
GM ②	65.2	2.3	4.7
Ratio of microcredit in the total (①+②)÷③	10.7%	16.4%	8.2%

Sources : The national data are from the website of *Chinese Finance Net* : <http://www.zgjr.com>.

The data of Sichuan and Jiangsu provinces are from the respective *The RCC Annual Report (2003)* .

Table 2 Questionnaire results on the capital demand and capital sources for financing

Items	Answers
1. Number of survey farm households	1,174,189
those who have capital demand (person, %) ①	704,552 (60.0%)
2. Number of farm households classified by the size of the capital demand	
~1000 yuan	109,271 (15.5%)
1000~5000 yuan	442,944 (62.9%)
5000~20000 yuan	113,792 (16.2%)
20000 yuan~	38,545 (5.5%)
3. Amount of capital demand	
total (10,000 yuan) ②	449,884
average size (yuan) ②÷①	6,385
4. Amount of capital obtained from various sources (10,000 yuan)	
self-financing	103,167 (25.9%)
RCCs	234,572 (58.8%)
other banks	22,961 (5.8%)
relatives and friends	21,899 (5.5%)
others	16,206 (4.1%)
total ③	398,795 (100%)
5. Ratio of the capital finally obtained to the capital demand ③÷②	88.6%

Note : Survey area includes Sichuan, Yunnan and Guizhou provinces, in the western region of China.

Source : *Questionnaire Report* of Chengdu Cross-province Branch of PBC.

therefore it is important to secure the creditworthiness of borrowers. Farm household with a good borrowing record can be appraised as "Credit Farm Household". If a village has the low percentage of overdue loans below 20%, it can be chosen as "Credit Village". More favorable loan conditions such as lower interest rate and higher loan ceiling will be provided to these households and villages with good reputation.

Strongly promoted by the PBC, the RCC has extended CM and GM services rapidly, taking the advantage of its national wide network. Table 1 shows that 92.6% of the national RCCs have adopted the microfinance program, and the balance of microcredit loans reached to 202 billion yuan (CM was 136.5 billion yuan and GM was 65.2 billion yuan), sharing 10.7% of their total amount of outstanding loans as of March 31, 2004. The scale has far exceeded foreign-aid and NGOs-led microfinance programs. Compared to the eastern region, RCCs in the western region have more microfinance outreach and microcredit portfolio while GM ratio is lower, reflecting that poor farm households have more demand for smaller size loans.

Table 2 shows the results of a questionnaire conducted in February 2003 after RCCs having adopted the microfinance program. It shows that ①60% of farm households in the western region have capital demand which is generally small. ②Farm households finally obtained 88.6% of money they needed from various sources. ③RCCs have become a main source of funds for farm households. In short, farm households access formal microfinance services much more easily than before.

2. Case study results

2.1 Outline of the study area

With the help of Chengdu-City RCC Union, we visited A-RCC, B-RCC and C-RCC in Chengdu-City. Major economic indicators of the three districts which three RCCs are respectively serving for are shown in Table 3. We find that ①A-District (including 1 township) is the closest to the urban area, and has the lowest ratio of the agricultural outputs to the total rural outputs. Per capita annual net income is the highest among the three. It is famous for the horticultural industry. Many farm households are engaged in production, transportation and selling of flowers and plants. In recent years, with the expansion of flower and plant market, their income has increased rapidly. ②B-District (including 4 townships) is in the middle class of Chengdu-City rural areas. It is favored by larger areas of the arable land. Helped from outside investments and technologies, mushroom industry is booming. About 40% of farm households choose mushroom as their autumn-winter farm product. ③C-District (including 2 townships) is located in the disadvantaged hilly and mountainous area with low population density. Poor rural infrastructure is a hindrance to its development. Many farmers work away from home even in the busiest season for farming, because they neither have enough arable land nor sufficient jobs provided by the local tiny and underdeveloped enterprises. Oranges, rapeseeds and eggs are the main agricultural products.

2.2 Situation of three RCCs

In B-District and C-District, the RCC is the only option of formal financial institution for local farm households. In A-District, the ABC also have a branch except A-RCC and farmers often utilize other urban commercial banks which have the advantage in accounting services over RCCs.

Comparing the three survey RCCs, we find that (Table 4) ①B-RCC has the largest scale among the three, with 4 branches and 28 full-time employees. ②A-RCC has the lowest share of personal deposits

Table 3 Major economic indicators of the three study districts (2003)

	A-District	B-District	C-District
1. Distance to the urban center of S-City (km)	20	45	72
2. Number of townships (unit)	1	4	2
villages	10	44	12
teams	74	347	70
3. Number of farm households (unit)	2,626	16,236	1,924
average family size (person/household)	4.2	3.8	4.5
4. Population density (person / km ²)	823	474	219
5. Per capita area of cultivated land (mu)	1.18	1.57	1.09
6. Ratio of the agricultural outputs to the total rural outputs (%)	25.3%	29.1%	42.4%
7. Per capita annual net income of farm households (yuan) ①	3,410	3,002	2,115
family business income ②	2,010	1,600	1,050
wage income	1,320	1,100	900
ratio ②/① (%)	58.9%	53.3%	49.6%
increase rate over the year 2000 (%)	29.4%	31.0%	10.2%

Note : 1mu \approx 667m².

Source : Field survey results.

Table 4 Major indicators of three RCCs (2003)

	A-RCC	B-RCC	C-RCC
1. Number of branches (unit)	1	4	1
savings branches	0	2	1
2. Number of full-time employees (person)	10	28	9
3. Total deposits balance (10,000 yuan)	1,576	7,329	673
personal deposits (10,000 yuan; %)	1,110 (70.4%)	5,423 (74.0%)	545 (81.0%)
average household deposits (yuan/household)	4,227	3,340	2,833
4. Total outstanding loans (10,000 yuan)	1,151	5,961	538
loans to farm households (10,000 yuan ; %)	354 (29.5%)	2,071 (34.7%)	215 (40.0%)
5. Ratio of loan to deposit (%)	73.0%	81.3%	79.9%
6. Ratio of the amount of loan defaults (%)	24.2%	26.8%	40.2%
increase rate over the previous year	-6.9%	-7.2%	-3.5%

Source : *Annual Reprt 2003* of the three RCCs.

balance in total. Because higher interest rate must be paid to the personal deposit than to the business deposit, banks often think of the personal deposit as a high cost liability.⁶⁾ ③The amount of outstanding loans to farm households shares 29.5%, 34.7% and 40.0% of the total sum respectively. The share is the lowest in A-RCC because more loans are delivered to rural enterprises growing fast these years. ④Loan to deposit ratios of in B-RCC and C-RCC are over 75%. The high ratio of B-RCC is caused by sharply increased loans to the booming mushroom industry. While in C-RCC's case, it is not caused by overloans but the decrease of the amount of deposits. Farmers who work outside often remit their wages through post

offices and conveniently deposit these remittance in the post office, diverting a large part of their savings from the local RCC. ⑤ Three RCCs are all suffering from the high proportion of bad loans and about 80% of these bad loans are hopeless to be collected. On the other hand, additional bad loans are decreasing in recent years. Shares of the amount of bad loans decreased to 6.9%, 7.2% and 3.5% from the previous year respectively. It is said that the upward trend of economy has much contributed to the improvement of RCCs' assets quality.

It is worth noting that loan delinquency is a big problem of the whole RCC system and the situation of RCCs in the western region is more serious.⁷⁾ Bad loans are mostly historical remains caused by ① the poor financial discipline, ② little reserves for bad loans, ③ local governments' intervention in the credit delivery, ④ the still prevalent misuse of the financial sector to supply subsidies to low-efficient or even bankrupt township/village-owned enterprises, etc. during the special process of transition from a centrally-planned to a market-oriented economy. With the privatization and the formation of a market-based financial system, some progress have been made (Yu, [10]).

Large amount of bad loans which are non-earning assets caused great difficulty in profit-making and also affected the assets liquidity. In three RCCs, only A-RCC was in the black last year and can afford to offset a part of its bad loans.

2.3 Procedure and Outreach of Microfinance

2.3.1 CM service

From the beginning of 2000, three RCCs have begun to extend the CM and GM services under the instructions of S-City RCC Union. The concrete procedure of CM is as follows: ① Advertise the new financial product to farmers by radio, TV and newspaper, calling farm households who want to utilize the service to apply for it. ② Make "Economic Notebook" for every household after his/her application. The contents of notebook include family structure, labor force, annual income of recent three years, sources of income, real estate, deposits, expenditure, capital demand, etc. Many staff from the local governments also take part in this process. Decide credit rating and ceiling (3 grades or 4 grades) for each household on the basis of the records written in the notebook. In general, loan ceiling is set below the annual household income. ③ Issue "Credit Card for Farm Household" to each household with the grade number and loan ceiling printed in it. ④ Lend CM loans to farm households. When a farm households wants to borrow money, he/she can take his/her ID card, seal and Credit Card to the counter which is specially set up for microfinance to ask for a loan. Loan will be obtained in five minutes without further examination if the balance of borrowed money is below the pre-decided ceiling.

No farm household is excluded from CM service as long as he/she applies for it. Even the poorest can get a card although it is often in the lowest grade.

Large numbers of farm households have accessed CM services (Table 5). Particularly, in the comparatively poor C-District, 90% of farm households have got Credit Card, and 41% of them have already utilized CM service during 2001-03. CM outstanding loan portfolio shares a considerable percentage in the sum of loans to farm households, and it reached 47.4% by the case of C-RCC.

2.3.2 GM service

GM service can be provided when a farm household wants to borrow a larger amount of money than CM service can cover. After having been informed about the GM financial product, 5~10 farm households in

Table 5 Some records of Microfinance in three RCCs (2003)

	A-RCC	B-RCC	C-RCC
CM			
1. CM outstanding loan portfolio (10,000 yuan)	111	715	102
share in the total loans (%)	9.6%	12.0%	19.0%
share in the loans to farm household (%)	31.4%	34.5%	47.4%
2. Credit Card for Farm Households			
number of issued card/total number of farm households (%)	80.2%	85.0%	90.1%
3. Ceilings of CM loans by grade (yuan, %)			
Grade 1	15,000 (15.1%)	15,000 (0.1%)	10,000 (2.2%)
Grade 2	10,000 (61.4%)	10,000 (3.2%)	6,000 (75.5%)
Grade 3	5,000 (23.5%)	5,000 (68.5%)	2,000 (22.3%)
Grade 4		3,000 (28.2%)	
4. Utilization of CM services			
utilization number/total number of farm households (%)	24.0%	31.3%	41.2%
average CM loan size (yuan)	8,000	5,000	3,000
GM			
1. GM outstanding loan portfolio (10,000 yuan)	54.5	201	14.7
share in the total loans (%)	4.7%	3.4%	2.7%
share in the loans to farm household (%)	15.4%	9.7%	6.8%
2. Ceilings of GM loans (10,000yuan)	3~5	2~4	1~3
3. Number of groups (unit)	20	86	8
★Balance of re-loans from the PBC/outstanding Microfinance loans (%)	37.5%	71.0%	87.4%
★The number of 'Credit Village' (unit)	2	4	1
The number of 'Credit Farm Household' (unit)	900	5,000	300

Source : *Annual Report 2003* of the three RCCs.

the same district can voluntarily form a group and reach an agreement confirming they are mutual guarantors for every debtor of the group, and elect a leader as an agent on their behalf. Then they apply for registration in local RCC and the RCC decides a credit ceiling which is commonly below the group members' total annual income. Every group member can get a loan immediately if the total amount of their outstanding loans do not exceed the ceiling. Besides, when a member borrows money from RCC, he/she must deposit 6% of the amount to the RCC as the security fund. The security fund will be accumulated with the increase of borrowing frequency and it can not be freely withdrawn.

From Table 5, we find that the outreach of GM service is not as good as CM service. This is because many farm households are unwilling to be guarantors for others. Only those who fully trust each other can finally be a group. For example, in A-District, some farm households are working together in production and selling of flowers and plants and being members of the same horticultural association, they have more

confidence to form a group for capital cooperation.

Table 5 shows that richer district has higher proportion of GM loans, reflecting that farm households demand larger size loans in rich area.

2.4 Characteristics of Microfinance

Some special features of microfinance are observed in the survey areas.

First, when granting a microloan, RCCs pay more attention to the credit ceiling rather than the aim of borrowing. They know that a farm household is the synthetic unit of agricultural production, consumption and non-agricultural business, and it is difficult to control the loan use because of the fungibility of the money.

Second, local governments are bearing a large part of responsibilities and costs for extending microfinance services. They cooperate with RCCs for advertisement, collection of information on farm households' economic situation and issuance of Credit Card.

Third, the PBC provides timely re-loans at lower interest rate for RCCs to deliver microcredit. If RCCs have not enough circulating capital, they can apply to the PBC. However, the balance of re-loans for microcredit can not exceed the outstanding microcredit portfolio. Because of the low capital liquidity, RCCs depend much on these re-loans. Among the three surveyed RCCs, C-RCC which has failed in mobilizing more savings is mostly reliance on re-loans (Table 5).

Fourth, microloans are provided at the preferential interest rates. In practice, three RCCs quote interest rates on microloans within 90~115% of the basic rate, while common loans can be quoted within 100~200%.⁸⁾ In other words, RCCs have little flexibility to decide interest rates on microloans by their respective risks and costs.

2.5 Special operational skills for microfinance

Three RCCs have introduced some new ideas into the routine operations for providing as many microfinance services as possible, simultaneously reducing administrative costs and risks which are generally involved in the small and scattered credit.

First, they stress the financial discipline when they grant microloans. Every borrower is told that the loan is not a charity, it must be repaid with interest before the due date; if the loan is overdue, a penalty interest which is 40% higher than for normal loans has to be paid. Credit Card will be cancelled if loan repayment is delayed over 12 months without any rational reason, and the card holder will lose the chance for another CM credit. With regard to GM loans, as long as the loan of any member is overdue and not repaid, all other group members will not get fresh loans from RCCs. In B-RCC's case, a notice flier about the financial discipline and penalty rate is handed to each farmer who comes to ask for a microloan.

Second, in order to grasp the creditworthiness of farm households correctly, their savings accounts in RCCs are often checked. Higher credit ceilings may be given to those who have good records on deposits. According to some RCC staff members, if a farm household had a stable increase in deposits, that means he/she had the value of thrift or ability of earning money, so they felt more secure lending to them. Third, credit ceilings are reset every two years. The ceilings are adjusted higher to those who have no loan defaulting records, and vice versa.

Fourth, as a means of encouraging loan repayment, "credit villages" and "credit farm households" are

elected every year by three RCCs (Table 5), and their names are published in the local newspaper. On the contrary, A-RCC also makes the names of those who have delayed their loans over 1 year to the public in its posters.

Fifth, in the C-District with low population density, in order to cut down the administrative costs, C-RCC formed a moving team to provide savings and microcredit services for local farm households instead of installing a sub-branch. The team often appears in bazaars having a large assembly and work on-the-spot.

2.6 Sustainability of microfinance

In theory, loan repayment rate and net profits are the major indicators to evaluate the sustainability.

Table 6 shows the repayment results of CM and GM in three RCCs. Compared to GM, the repayment rate of CM is much lower and about two-thirds of CM overdue loans have been delayed over 6 months. In C-District, the delinquency rate of CM have exceeded 30%. In A-District and B-District, the situation is better because local farmers have more stable incomes.

It is said that the arrears are mainly caused by the failure in investment reflecting the uncertainties of agriculture, or unexpected big expenditure for medical treatment. Some farm households have no choice but delay their repayment because they temporarily lack cash liquidity, not repudiating the debts. The high repayment rate of GM loans reflects that peer monitoring mechanism involved in the group lending functions effectively.

Compared to the common loans, the situation of microloans repayment is still better (see Table 4). RCC staff are sure that most defaulters will finally repay if there are healthy laborers in the farm households, unlike the loans to enterprises which cannot be collected if the enterprises go bankrupt.

Because RCCs also deliver common loans besides microloans, it is difficult to evaluate the net profits only for microfinance. In practice, there are two reasons influencing RCCs to make more profits from the microloans: ① It costs more for administration and loan monitoring than common loans. For example, with

Table 6 Repayment of microcredit in three RCCs (2003)

	A-RCC	B-RCC	C-RCC
CM			
1. Loan repayment rate (%)	79.3	84.0	69.0
2. Loan delinquency rate (%)	20.7	16.0	31.0
overdue	6.0	7.0	8.9
overdue over 6 months	12.4	8.9	19.1
overdue over 2 years	2.2	0.1	3.0
GM			
1. Loan repayment rate (%)	95.0	94.8	93.3
2. Loan delinquency rate (%)	5.0	5.2	6.7
overdue	2.0	3.3	4.4
overdue over 6 months	2.9	1.9	2.2
overdue over 2 years	0.1	0.0	0.1

Source : *Annual Report 2003* of the three RCCs.

the sharp increase of the number of microloan cases, RCC staff are much busier than before and they have to be paid more for their overtime work. In addition, when loan defaults occur, it often costs much urging the defaulters to repay. Particularly, in the remote mountainous areas where there is no telephone service, RCC staff have to go to their houses, incurring more expenditures for traffic fees. ②RCCs quote preferential interest rates on microloans. It is said that considering the policy objective for increasing the income of poor rural people, low interest is charged in order to let farmers have more margin in their investments, although some farmers are able to pay higher interest.

There is a trade-off relationship between policy contribution and financial sustainability. Without the central bank re-loans as a funding source and coordination of local governments, RCCs can not provide the microfinance services independently.

2.7 Impacts of microfinance

From the interviews with some local farmers, we know that the microfinance program is quite welcome for its quick services, simple procedures and favorable interest rates.

In A-District, GM service is mostly used by farmers engaged in flower and plant industry. Many of them are in debts to A-RCC all the time for raising their circulating capital. They prefer GM to common credit because it is not necessary to provide loan collateral documents which are always troublesome and cost much time and money to prepare beforehand.

In B-District, a mushroom agribusiness chain has formed since 2000 after an overseas Chinese invested 100 million yuan to establish a huge cannery for exporting mushroom cans to the European countries and America. The cannery purchases large quantities of mushroom from local farmers and primary-processing workshops by contracts and gives a reliable outlet for mushroom selling. Seizing this opportunity, many farmers enlarged their mushroom production and processing with the timely financial assistance of CM or GM loans from B-RCC, and finally they made a lot of profits and their incomes are much more stable than before.

In C-District, farmers even did not know they could borrow money from C-RCC before the extension of microfinance services, and were idle without any dream for future. Microcredit became a trigger for them to start small businesses such as vegetables, fruits, inns, restaurants, service stations for motorcycles or poultry. Many farmers have gotten out of poverty after the utilization of microcredit.

There are many success stories. It is no doubt that CM and GM services have provided critical investment opportunities for the low-income rural people who have been traditionally shut out of the formal financial markets.

Furthermore, the microfinance program also has contributed to the formation of a favorable credit circumstance. When farmers know that if they do not pay a loan back with interest, it becomes impossible to borrow another from RCCs, they care more about their credit records than before. Gradually, their consciousness of being a creditworthy person has been improved.

3. Discussions

Initiating such a microfinance program is not a voluntary action but a compulsory one for RCCs. The PBC has been playing a prominent role in the microfinance promotion. Instead of establishing a new and special microfinance institution, the PBC made the most of the existing financial infrastructure of the RCC

and succeeded in extending microfinance services all over the country in a fastest way.

There are some positive effects observed in the RCC's microfinance program: ①The outreach is outstanding. Large numbers of farm households are benefited and they became better off now than before. No farm household was rejected from the microfinance market, even the poorest of poor without any assets.

②Although the microfinance has a character similar to policy finance, it is operated by incorporating market mechanism. Financial discipline is especially stressed and a type of "the carrot or the stick" system is designed into the delivery of microcredit to farm households. Moreover, RCCs have already made many efforts to reduce the administrative costs and improve the operational efficiency of microfinance.

Some problems concerning the sustainability are worth being examined as follows:

First, the preferential interest rate applied to microcredit is a question in controversy. From the viewpoint of a genuine banker, low interest rate not only results in low profitability of the RCC but also creates a bias toward acceptance of investment projects with low returns and thus suppresses the creativeness of farm households. Therefore RCCs must quote more flexible interest rate. On the other hand, many RCC staff insist that low interest rate is justifiable for the following two reasons: ①Although the interest rate on microcredit is lower than that on common loans, it is much higher compared to that on some subsidized loans which is often zero or negative in the real term. Microcredit with the comparatively low interest rate can still circulate smoothly within the system if innovative methods are designed to reduce costs and risks.

②During the transition period, increasing participation in domestic and international markets leaves farmers open to greater risks from competition and price fluctuations, higher interest rate is sometimes not easy for low-income farm households to pay and it is unfair to charge high interest when already knowing per capital annual income of farm households is only about 30% that of urban households. ③Because the RCC is a co-operative, it must give consideration to both RCCs' interests and farmers' interests, profit maximization is not the final goal. The authors are in favor of the latter. At present, the preferential interest rate is not a decisive obstacle to the sustainability of the microfinance program

Second, the large proportion of the accumulate bad loans is a big burden for RCCs. Because of lacking liquidity, RCCs have to depend on re-loans from the PBC. It is said that if these bad loans are removed, the RCC will be able to operate microfinance independently using the only mobilized savings as a funding source. The RCC has a strong expectation that the PBC gives priority to settle its bad loans problem.

Third, although RCCs have adopted some measures to improve the repayment of microcredit, the delinquency rate is still high and the arrears are mainly caused by the unstable economic activities of farm households. Some complementary policies (such as increasing investments in rural infrastructure and human development) should be directed to make farm households have more stable incomes.

Fourth, the local governments are burdened by large set-up costs for the microfinance program, but their direct intervention in microcredit delivery must be minimized. It is expected that the local governments take the leading roles in improving the formation of farmers' own associations and agro-business chains so as to increase the bargaining power and reduce investment risks. If farmers gain enough returns from their investment, repayment of their debts in RCCs will be more easier.

The RCC provides a unique model to extend microfinance services. Because the program has just been initiated, we can not reach a conclusion whether it is a success or not. However, more efforts must be made to let farm households access sustainable financial services.

Notes

- 1) With regard to the history, organizational structure, routine operations and recent reforms of the RCC, see some related papers (Reference [1], [2], [3], [4]).
- 2) The data are from the source of Almanac of China's Finance and Banking 2003.
- 3) The data are from the source of the website of Zhongguo Jinrong Wang: <http://www.zgjr.com>.
- 4) The western region includes 12 provinces, they are Neimonggu, Guangxi, Chongqing, Sichuan, Guizhou, Yunan, Xizang, Shanxi, Gansu, Qinghai, Ningxia, Xingjiang. Compared to the eastern region (the coastal areas) and the central region, the western region is the poorest.
- 5) With regard to the Grameen Bank, see its homepage: <http://www.grameen-info.org>.
- 6) Compared to the commercial banks with the share between 50% and 70%, RCCs generally have higher share from 65% to 85%.
- 7) As of the end of 2001, the rate of bad loans amounted to 44% and 91% of these bad loans overdue over 6 months. 58% of RCCs had negative Net Owned Equities. (Net Owned Equities = Annual profits + Shares + Reserves for bad loans - Bad loan portfolio overdue over 2 years \times 100% - Bad loan portfolio overdue over 6 months \times 40% - Bad loan portfolio overdue \times 10% - Pawn assets \times 50% - Investment assets \times 10%. Annual profits may be a minus datum because of accumulated annual losses.) 46% of RCCs were in the red in 2000-01 fiscal year, while this indicator reached to 72% of RCCs in western region (Yu, [10]).
- 8) According to the PBC's restriction, banks can quote interest rates on loans case-by-case but must quote within a certain range of the basic rate. From January 1, 2004, commercial banks can quote within 90% ~ 170% of the basic rate while the RCC has more authority to quote within 90% ~ 200%. At present, the basic rate of one-year loans is 5.31%.

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中国農村信用合作社のマイクロ・ファイナンス市場への参入 — 四川省成都市の事例を中心に —

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1990年以來、国連開発計画機構、中国貧困扶助弁公室、NGO等は貧困撲滅を目的に、中国の農村部でマイクロ・ファイナンス事業の展開を試みたが、いずれも、小規模で、指定された貧困県のみで実施され、多くの農家は恩恵を受けなかった。2000年、広がる都市農村の所得格差を是正するための一つの解決策として、中国人民銀行（中国の中央銀行）の強力な推進により、フォーマルな金融機関で、農村部の津々浦々に店舗を持つ中国信用合作社は、全国範囲でマイクロ・ファイナンス事業をスタートした。事業開始からわずか3年だが、かなりの規模を達成した。特に、発展の遅れた西部地域において、農家の収入増加と地域発展に大きなチャンスを与えている。

本論文は、中国の西部地域に位置する四川省成都市の農村信用合作連合社、3つの末端信用合作社、地元の農家と農村中小企業の現地調査に基づき、マイクロ・ファイナンス事業の運営の仕組みと特徴、経営の持続可能性、事業のインパクトを明らかにするとともに、政府の果たすべき役割と事業成功の前提条件について検討を行う。

〔付記〕本稿は、2003年10月～2004年9月日本学術振興会外国人特別研究員採用（ID No.: P03186）による研究成果の一部である。