



Microfinance with Chinese Characteristics

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Summary. — Analyzing household survey data from three microfinance program sites, we provide an early systematic assessment of Chinese microfinance programs, which have grown rapidly since 1994, are based on the Grameen model, and include an unprecedented large-scale government initiative. We examine the empirical propositions that underpin successful microfinance programs—reaching the poor (targeting), financial and operational performance (sustainability), and program benefits (impact). We find that nongovernmental programs perform well in all three areas, but that governmental programs perform poorly. Given the remote location and focus on agricultural projects in China's poor areas, we advocate greater flexibility in loan contract terms, especially repayment schedules. © 2000 Elsevier Science Ltd. All rights reserved.

Key words — microfinance, credit, poverty alleviation, Asia, China

1. INTRODUCTION

In recent years, the microfinance movement has taken China by storm. Following initial experiments by researchers at the Chinese Academy of Social Sciences (CASS) begun in 1994, a host of international and domestic organizations (often in partnership) have introduced a variety of microfinance models to rural China (Table 1). Provincial governments, seeing the positive experience of pilot programs and frustrated by the disappointing performance of China's subsidized poverty loan program, have also turned to microfinance design features, and the national Office of the Leading Group for Economic Development in Poor Areas has given the movement its blessing. Even though microfinance still reaches only a small proportion of China's rural villages, thousands of farmers spread across nearly every poor province in China have benefited from microfinance loans over the past several years. The nongovernmental programs, many featuring group lending contracts, have reported high rates of repayment (all above 90%, many near 100%) and practitioners and clients feel that the loans are making a difference. The movement appears ready to move beyond

initial experiments to strengthening institutional practices as part of a process of steady maturation. With the world's largest rural population, 124 million of which were poor in 1997 based on the World Bank's dollar-per-day poverty standard, China represents an important testing ground and opportunity for the microfinance movement.

Microfinance programs are united in aiming to provide financial services to individuals traditionally excluded from the banking system, especially women. Most microfinance initiatives in China, as well as many programs elsewhere (most notably Grameen Bank in Bangladesh), explicitly target the poor. They overcome conventional obstacles to banking with the poor by paring down traditional branch-banking structures to reduce transac-

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Table 1. *International microfinance projects in China^{a, b}*

	Funding (F), Implementing (I), and Chinese Partner Agencies (P)	Provinces (counties/ pref.)	Time	Loan size (yuan)	Repayment
(1)	AUSAID (F), Qinghai MOFTEC, Ag. Bank of China (I)	Qinghai (Haidong)	8/96-6/03	400-1,000	6 months to 1 year
(2)	Caritas Germany (F), Center for Int'l Agricultural Development (I), MOFTEC, IDAZ (P)	Sichuan (Yilong)	98-00	500-1,000	Every 10 days, repayments begin after 20 days
(3)	Canadian International Development Agency (F), Canadian Coop. Association (I), MOFTEC (P)	Xinjiang (Hetian, Pisan)	96-02	1,000	6-monthly installments
(4)	Developpement International Desjardins (F,I), RCC (I,P)	Hebei (Luanping)	1/98-12/00	1,000	Every 2 weeks, starting from 5th week
(5)	Development Organisation of Rural Sichuan (F,I), Poverty Alleviation Office (P)	Sichuan (Hanyuan)	97-	800-1,000	Two 6-month installments
(6)	Ford Foundation, Grameen Trust, Canada Fund (F), CASS (I)	Hebei, Henan, Shaanxi	4/94-	1,000	Loan period 1 yr., weekly
(7)	Ford Foundation, Asia Foundation, Oxfam HK (F), Rural Women Knowing All and Women's Federation (I)	Five provinces, eight counties	11/96-	500-2,000	Loan period 1 yr., monthly repayments from 3rd month
(8)	German Govt.-GTZ (F,I), Jiangxi Provincial Committee for Mountain River Lake Regional Development (I)	Jiangxi (Ganxian, Chongyi, Nankang)	4/96-2/99	500-2,000	Variable loan periods, one-time repayment
(9)	Int'l Fund for Ag. and Development (F), RCC (I), Ministries of Finance and Agriculture (P)	Sichuan, Anhui, Qinghai, Guizhou	96-04	100-3,000	Repayment period varies from 1 to 6 years
(10)	Int'l. Crane Foundation Trickle-Up Program (F), Caohai Nature Reserve, Guizhou Env. Prot. Bureau (I)	Guizhou (Weining)	6/95-	200-2,000	Repayment in full after three months
(11)	Jianhua Foundation (F,I), county and township governments (P)	Hebei, Inner Mongolia	2/99-	Most 300, 3,000-4,200	8 month loans repaid at end or 22 months, 2 installments
(12)	Oxfam (F,I), Yunnan Poverty Alleviation Office, Guizhou Agriculture Bureau, Guangxi Minority Affairs Committee (P)	Guizhou, Guangxi, Yunnan	92-00	150-1,000	Repayment period varies from 3 months to 3 yrs.
(13)	Salvation Army (F,I), Women's Federation (P,I)	Yunnan (Luxi)	3/98-2/00	800-2,500	Loan period 1 yr., monthly repayment
(14)	UNICEF (F), MOFTEC (P),	12 provinces (24 counties)	96-00	600-800	Loan period 3-14 months, monthly repayment (minimum 10 yuan)
(15)	Heifer Project International (F,I), Provincial Animal Husbandry Bureau (P)	Sichuan (16 counties), four other provinces	85-	200-1,000	Three installments within 3 yrs.
(16)	World Bank (F), Human Resources Development Centre for Western China, Leading Group for Economic Development in Poor Areas (I,P)	Sichuan (Langzhong), Shaanxi (Ankang)	1/97-9/02	1,000	Loan period 1 yr., every 10 days
(17)	World Food Program (F), Women's Federation (I,P), Ministry of Agriculture (P)	Ningxia (Guyuan)	8/95-8/00	1,000	Loan period 1 yr, repayment 10 yuan per month from 3rd month, rest at end of yr.

^a Source: Chinabrief (1999).^b MOFTEC = Ministry of Foreign Trade and Economic Cooperation, RCC = Rural Credit Cooperative.

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