China Rural Finance Initiative - Forever Lending and Community Service - Microfinance Practice in Specialized Farmers Cooperative

China
Zhan Gao
Organization type:
nonprofit/ngo/citizen sector

Budget:
$100,000 - $250,000

Project Summary

Concise Summary: Help us pitch this solution! Provide an explanation within 3-4 short sentences.

Nowadays, many of the rural areas in China witness such a paradox: there exists a great need for lending from farmers to earn their bread while the state-owned financial institutions set up a high threshold to borrow money. When the poor lack access to financial services, they have to depend on informal moneylenders, who usually charge very high interest rates. The borrowers can easily be caught in a debt trap, falling in a vicious circle and thus cannot get rid of poverty.

In China, ambiguous regulations about private finance have been a huge obstacle to microfinance. To address the problems, we are here to initiate an innovative, operational and replicable microfinance model specially designed for rural China, aiming at providing convenient and helpful financial service to rural women.

About Project

Problem: What problem is this project trying to address?

As the world’s most populous nation, China is now home to 200 million people living in poverty. This figure represents 17% of the entire world’s poor population. Therefore, China cannot be ignored in the quest to solve global poverty. However, the existing social organization in China poses steep challenges. Tight government regulations stand in the way for microfinance to flourish. Moreover, microfinance was born entirely from a principle of capitalism: namely that wealth is grown, not distributed. This is at odds with China’s purported socialism. China has achieved massive development in her economic and social aspects since economic reform started in 1978. However, China’s financial sector is relatively underdeveloped and inefficient compared to other sectors of her burgeoning economy. It is dominated by four state commercial banks, has very high bank deposits and is plagued by misallocation of bank lending. However, China has made substantial progress in recent times through reforming her financial system. Some important reforms include the restoration of a commercial banking system, development of non bank financing, progress in rural financing, special lending priorities to SMEs, microlending and the rise of NGO-MFIs. Chinese government considers Microfinance a powerful measure for the alleviation of poverty yet there are strict policies on Microfinance activities in terms of legal status, interest rate and institutional deposits. Unfavourable provisions are also not conducive to the development of the market such as terms on the initiator qualification, shareholding structure, fund sources, and financing proportion of MFIs etc. Moreover, there is no clear policy definition for NGO MFIs. Recently though, the government has announced that there will be no cap on interest rates imposed by MFIs (compared to the previous cap of up to four times the benchmark interest rate). The microfinance programs that use non-government funds for operation currently stay at the stage of permitted “trials”, without any generally applicable documents or regulations on detailed administrative methods. The present policy environment and management level of operational programs also fail to address the issue which will allow financial institutions and international aid agencies to invest more funds in microfinance. For the time being, China has no ideal credit environment or sound credit reporting system either.

Solution: What is the proposed solution? Please be specific!

Our initiative is innovative because of the following reasons. 1. Key issues in developing remote areas are targeted - poverty alleviation and women empowerment. Our project is capable of stabilizing the whole society by virtue of creating jobs, improving living standard and providing rural women with opportunities of self-employment. 2. Professional training is given and systematic operation is implemented. In our model, the cooperative receives sustainable training, supervision and evaluation and thus can achieve the goal of localization and regularization in management. The cooperative can also develop financial products according to local conditions. 3. Peer to Peer (P2P) platform is adopted. In the model of P2P lending, borrowers receive bank-competitive interest rates and lenders can yield returns on invested funds. Under the disadvantaged financial regulations in China, this model settles the problem of illegal fundraising and is more competitive and safer than usury. 4. Advanced and sufficient technology of microfinance institution information management is introduced. The benefits include speedy information access, increased data accuracy, reduced potential for fraud, increased human capital, and overall reduction of costs and increased productivity. 5. A public information exchange platform is built in the form of community magazine to promote communication and cooperation, an innovative approach combining narration and visual art to nurture the community reunion. It serves as a newsletter of women members lives and a promotion tool of microfinance.

Example: Walk us through a specific example(s) of how this solution makes a difference; include its primary activities.

Our project practises a microfinance model in established farmer specialized cooperatives in rural China. An experimental site was launched in Lukou village, Jiangsu province, northern China, providing microfinance services to rural women in the village under the name of a cooperative...
financial organization with legitimized identity since 2002. This model basically includes the following four parts of activities: Firstly, we provide professional staff training which helps optimize the operation and management of the cooperative. Staffs in this cooperative are recruited within the same community, providing more employment opportunities to villagers with capable ability. Secondly, we provide microfinance services within the cooperative, lending money to rural women based on a 5-person group with a weekly repayment scheme. Our loans do not require collaterals but depend on underlying trust, social capital and morality within the groups. Therefore, it is the easiest, fastest and safest way for rural women to get money to start their own business. Thirdly, we make use of existing Peer to Peer (P2P) platform to connect lenders with creditworthy borrowers (rural women) and reduce credit risk. We work together with our key channel partner Daibang (www.daibang.com) which collects lenders who are willing to provide extra funds and the cooperative recommends trustworthy members to apply for loans based on strict principles.Fourthly, we publish bimonthly community magazines as an effective marketing strategy. The magazines will contain the cooperative’s latest news, the members’ business stories, other useful information for the community, etc. The distribution of magazines is to enhance communication within the cooperative and among its members as well as to promote the cooperative and introduce its financial services to a larger area. In sum, to better the current microfinance project, we would like to put forward this new program which pursues further investigation in this field and improve the credit scheme based on the special institutional conditions in rural China.

Innovation

What stage is your project in?
Operating for more than 5 years

Share the story of the founder and what inspired the founder to start this project
Gao had been a college teacher, before he set up his own company and later switched to be a journalist. Yet he determined to return to the small village where he was brought up to run for the village head, in the hope that he could make a difference.

In the process of promoting self-organization in the village, Gao was faced with great obstacles and hindrance. That local government guarded against peasants’ organisation forced Gao to rethink the direction and strategy of revolution at a grassroots level.

In 2002, Gao launched the microcredit project, and utilized leverage to establish a “small bank” in the rural community. Gao’s aim was to materialize mutual fund cooperation and to create a sound credit environment. The small bank soon became a huge success, with its capital increasing from the initial 20000 RMB to 2000,000 RMB. Many rural women who had never taken out a loan before increased their production scale and generated more revenue thanks to the “small bank”.

His hard work and achievement gained international attention. In November 2007, he paid a visit to University Service for China Studies in the Chinese University of Hong Kong on invitation, and gave a luncheon speech on “experiments on improving the rural people’s livelihood—a story of Yao Wan”. From August to September 2008, Gao and was invited by the International Service for Human Rights to attend conferences held by the United Nation. In September 2009, Gao was invited by the International Visitor Leadership Program to pay a 21-day visit to the rural communities in the U.S.
Since 2002, we have been conducting a rural cooperative financial scheme in Northern Jiangsu Province by establishing and operating a credit cooperative in Lukou Village. Since September 1, 2010, the organization has been legally registered in the local the Commercial and Industrial departments.

Up till now, the organization has a circulating fund of 1,500,000 RMB with an annual profit of 80,000 RMB, and the number of clients has reached more than 100. The cooperative has become an important financial resource for local women to start and keep their small businesses, and its profit has been used to support the construction of infrastructure and the improvement of community service within the village. For example, the cooperative has been supporting 197 street lights in the village, performing local dramas four times every year and providing free health inspection for 1,100 villagers annually.

How many people have been impacted by your project?
101-1,000

How many people could be impacted by your project in the next three years?
1,001-10,000

How will your project evolve over the next three years?

At this stage, the project is operating within the Lukou cooperative community. With more well-trained staff and technique support, we are able to replicate the model into different villages. New customers can be villagers in the same province or in other regions of China; besides, with considerate modification, this model can also be applied to urban migrants coming from rural areas, who also desperately need financial services but cannot get satisfying support within current financial market.

Within the next three years, we are planning to firstly strengthen the current project at our experimental site by training staffs with more advanced finance knowledge.

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**Sustainability**

What barriers might hinder the success of your project and how do you plan to overcome them?

China’s microcredit organizations face a series of problems, including securing follow up funds, controlling risk, loan monitoring and regulation. Unlike large-scale rural financial institutions, with the influence of factors like small-scale registered capital and lower-level deposits, Village Township Banks (VTB) and RMCCs have difficulties in mobilizing savings so that insufficient sources of funding become initial problems in the pilot phase. New policies have expanded their sources of funding, allowing non-banking financial institutions to borrow from banking financial institutions, but the borrowed amount is not permitted to exceed beyond 50% of their net capital.

Although China has an emerging market of MFIs, a complete framework and system has not yet been formed to regulate and supervise those MFIs. There exist the issues of over-regulation as well as lack of supervision, furthermore, lack of flexibility and differentiation is also one problem of regulation and supervision. Regulatory issues increasingly become a major challenge for the future sustainable development of MFIs in China.

Our project takes the forms of farmers’ cooperatives to mobilize savings, and use the newly-emerged p2p lending platforms to mobilize funding outside community to avoid violating the existing policy. Besides, at our experimental site, we have developed a rather friendly relationship with local government and got their full support. As long as our project is beneficial to the development local economy and society, legal status will not become a problem under the institutional arrangements of China.

Since our project has been profiting since 2004, the fund raising problem will be easy to settle. At current stage, a small amount of investment (around 20,000 U.S. Dollars) is needed for staff training and expansion, and we are confident to repay the cost with the cooperative profit within one year’s operation.

Tell us about your partnerships

The following scholars have been our advisors:

Mao Yushi, a well-known micro-economist who has held positions at Harvard University. He has practised microfinance in Shanxi province, China for over 20 years.

To Yung Sing (Herman), co-founder of The Hong Kong Institute of Microfinance.

Chen Zhiwu, professor of finance in the School of Management, Yale University.

Huang Yasheng, professor of political economy and international management in MIT Sloan School of Management.

Chan Kin Man, Director of Centre for Civil Society Studies, Hong Kong Institute for Asia-Pacific Studies, Chinese University of Hong Kong.

In academic institutions, our partnerships include Sun Yat-sin University and Center for Civil Society Studies, Hong Kong Institute for Asia-Pacific Studies, Chinese University of Hong Kong. Both institutions provide us with support in knowledge and advice about finance and institutional arrangements.

Another important partner will be Daibang, a business corporation serving as a p2p lending platform which attracts individual donations and loans for rural borrowers. With the collaboration of Daibang, we are able to draw more abundant resource.

Explain your selections

Funding of the cooperative comes from various resources. First of all, cooperative members can also be individual lenders, which encourage mutual help within the community; secondly, through the p2p lending program supported by Daibang, individuals in other regions can also select borrowers to invest their money, which becomes another source of our funding. Thirdly, we are actively applying for government and NGO foundations for subsidies or low-interest loans to support our recent expenditures related to service expansion and staff-training. Currently, at our experimental site, the profit of Lukou cooperative can cover daily operational expense.

How do you plan to strengthen your project in the next three years?

Our plan to develop and promote the cooperative model of microfinance is as follows:

1. 2011.6-9: Staff training for service expansion.
2. 2011.6-2012.6, bimonthly community magazine (6 in total per year)
   a. Collecting business plans & stories;
   b. Reporting the information and development of the cooperative.
   c. Providing microfinance, education, health, cultural columns.
d. Inviting media & academic institutions to visit and interview.

3: 2011.6-2012.6, Peer to Peer lending model construction.
Working together with our key channel partner, to allow lenders in other areas to lend to poor women in the cooperative
4: 2011.6-2012.6 various community activities. The cooperative will organize various community activities, including: business information exchange forums; lectures by microfinance scholars; local opera performance; free physical examinations, etc.
5: 2012.6, process evaluation & improvement.
We will adopt an insight investigation to evaluate the performance of both staff and the cooperative. The investigators will visit and interview 50 random households and businesses in the villages covered by our project. After the investigation, formulate an assessment report and then carry out improving training & correcting mistakes in work.
We will hold promotional meetings in other villages to distribute brochures & community magazines, provide a detailed explanation of the cooperative’s vision, mission, operational methodology, and answer questions about the cooperative’s loan product and financial services.

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**Challenges**

**Which barriers to employment does your innovation address?**
Please select up to three in order of relevancy to your project.

**PRIMARY**
- Lack of visibility and investment

**SECONDARY**
- Lack of access to information and networks

**TERTIARY**
- Restricted access to new markets

**Please describe how your innovation specifically tackles the barriers listed above.**

Rural women can break the vicious circle of poverty by various ways, for example, raising cows, hens, sheep or other animals, doing handicrafts, opening small stores and so on. These simple and small businesses will enable them to get rid of poverty and achieve a better status both within their family and in society.

Our project can firstly provide those women with the money they need, helping them to get a fresh start without collaterals. Secondly, the group-based lending scheme also encourage borrowers to communicate with each other, exchange business ideas and help each other when anyone encounters financial problem. Besides, profits of this cooperative is used to provide community services and infrastructure construction, which in turn strengthen the local social capital.

**Are you trying to scale your organization or initiative?**
If yes, please check up to three potential pathways in order of relevancy to you.

**PRIMARY**

**SECONDARY**
- Enhanced existing impact through addition of complementary services

**TERTIARY**
- Influenced other organizations and institutions through the spread of best practices

**Please describe which of your growth activities are current or planned for the immediate future.**

First of all, we would strengthen our current operation at the experimental Lukou cooperative. Secondly, we will publish a bi-weekly community magazine, reporting the information and development of these cooperative, recording stories of villagers who get help from our service, and also providing knowledge about microfinance. In the next stage, we will hold promotional meetings in other villages to distribute brochures & community magazines, provide a detailed explanation of the cooperative’s vision, mission, operational methodology, and answer questions about the cooperative’s loan product and financial services. After one more year’s operation, our projects will enter the new markets with a broader customer base by replicating itself rapidly into other rural communities in China.

**Do you collaborate with any of the following: (Check all that apply)**

- Government, NGOs/Nonprofits
- For profit companies
- Academia/universities

**If yes, how have these collaborations helped your innovation to succeed?**

With the support of local government, we are able to start and maintain this experimental form of financial institution. With the support and supervision from academic institutions such as Sun Yat-sen University and the Chinese University of Hong Kong, we are able to keep revising and localizing our practice during the past few years to find a best microfinance model under the special political and economic conditions of rural China. With the future investment of p2p lending platforms such as Daibang, we are able to attract more funding out of the community, enlarging our cash flows and making it possible to expand our services to a larger market and design better training programs for our staffs.

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