NGO MICRO CREDIT PROJECTS IN YUNNAN AND SICHUAN: FIVE CASE STUDIES

Compiled by **Myriam Bartu** for China Development Brief, November 2006

I: DEVELOPMENT ORGANISATION OF RURAL SICHUAN (DORS)

Project Background

DORS is a UK-registered charity established in 1996. It implements small-scale village based projects in the areas of education, micro credit, infrastructure (electricity, water, roads), social and community forestry, fuel-efficient stoves, animal husbandry and environmental conservation. The charity began its work in Hanyuan (汉源) County in Ya'an Prefecture, and later started new projects in neighbouring Ganluo (甘洛) County in Liangshan (凉山) Yi Minority Autonomous Prefecture.

Location

Hanyuan and Ganluo counties are poor and remote, mountainous area in southern Sichuan, with some villages located at an altitude of up to 2000 metres above sea level. The villages where DORS works are often unconnected to roads. Houses in the villages are sparsely scattered in the mountains meaning that it can sometimes take a whole day to walk from the two extremes of a village. The average per capita income is under the national poverty line of CNY 850 in most villages.

Purpose of microfinance

DORS runs micro credit schemes in villages where is has already carried out other rural development projects and where, therefore, the organisation is already known and understood by the communities. The aim of the micro credit is to increase income levels of households and empower women.

Organisational structure

DORS is run by a team of Chinese and international volunteers. Currently there are six volunteers on site and a founding director who works there a few months a year. The micro credit project is run by one of the volunteers who is also in charge of other projects.

Microfinance Methodology

DORS uses an adapted version of the Grameen model. All loans are made only to women unless there are no women in a household, in which case men can borrow. Loans are made directly from DORS to the borrowers by the staff who travel to the villages to take in applications, disburse loans and then take repayments.

DORS has quite a flexible approach to its lending terms. The staff decide with the women in each village how much can be lent out and what the loan term will be. Usually the loan term is about one year, and repayments must be made in at least two instalments. DORS and the borrowers decided together on a date for repayments, depending on their income stream.

Women are asked to form small groups of about five members to guarantee each other's loans. They select a group leader. Several groups form a centre. The group signs a group contract and DORS disburses loans to them. DORS staff remind borrowers of the repayment 30 days in advance and then come to the village to collect repayments.

Guarantee fee

DORS has recently come up with an innovative way of using a guarantee fee. Each borrower pays a guarantee fee of 50 to 100 RMB depending on the amount borrowed. Half of this guarantee fee is returned if and when the small group fully repays, the other half is returned only when all centre members have repaid. Small group leaders must guarantee loans for their group members and centre leaders need to guarantee the entire centre's loans. As an incentive for the leaders, the loan management fee (interest) is reduced by half for small group leaders if the whole group repays on time in full, and the management fee for the centre leader is waived altogether if the entire centre repays on time in full.

Loan use

Loans must be used for income generating activities. Most are used for animal husbandry, especially pig raising.

Training

When there is a need, DORS also offers training for borrowers to support their income generating activity—eg, training on animal husbandry and disease prevention.

DORS micro credit portfolio	
Total number of loans made in 2005	95
Number of current active borrowers	70
Number of villages served by microcredit	Currently 4, 8 in all
Interest rate	5 % management fee
Guarantee fee	CNY 100 for loans over CNY 1,000, CNY 50 for smaller loans
Maximum loan	CNY 2,500 (1,000 for first time borrowers)
Average loan	About CNY 1,500
Loan term	12 months, at least two repayments

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II: HEIFER INTERNATIONAL (LANCANG, YUNNAN)

Project Background

This international NGO (established in 1944) began doing poverty alleviation by giving female cows to poor farmers. When the animals reproduced, the farmers would have to pass on one of the calves to another farmer as a gift. Today, Heifer supports a range of animal husbandry related projects increasingly with a micro credit component.

Heifer set up its first office in Chengdu in 1984, and now operates in 14 provinces, cities and autonomous regions, in partnership with local Agriculture, Animal Husbandry and Poverty Alleviation authorities and/or local NGOs. Heifer provides funding and management training, and the local partners are responsible for implementing the projects. Project design, planning, monitoring and supervision is done jointly by Heifer and its partners.

The Lancang (澜沧) county project began in 1999. It was the first Heifer project in China to use micro credit for rural poverty alleviation. Today, five out of six of Heifer's project sites in Yunnan and Guizhou use micro credit to disseminate livestock. In the sixth project site, following the wish of the community, Heifer uses their traditional "passing on the gift" method to give animals to villagers, requiring recipients to give one of the offspring on to another household. The "passing on the gift" spirit has remained in micro credit projects in the form of interest reinvested into the project.

Location

Lancang is located in south-western Yunnan and shares a border with Burma. It is a state-designated poor county where the average annual income per person is CNY 544. The project villages are inhabited by Lahu, Hani and Wa ethnic minority people.

Purpose of microfinance

The aim of the Lancang microfinance project is

1. To increase the income of farmers
2. To return the land to the forest and protect the environment
3. To improve the position of women

Organisational structure

Heifer has a project office in Kunming where the regional manager is based. The Lancang project is overseen a by a full-time Heifer Project Officer and four part-time staff seconded from the Lancang Animal Husbandry Bureau (AHB).

Microfinance methodology

Eligibility

To qualify for loans, villagers must:

- Belong to a middle or lower income household

- Be able to raise cows or pigs
- Want to use the loan to increase their income
- Agree to repay

Villagers who want to join the scheme need to register with the village government. The village government agrees with Heifer staff on which households should be allowed to join.

Loans and interest

Heifer places loan funds into a separate account in the name of the County level Animal Husbandry Bureau. AHB staff go to the villages at an agreed date to disburse loans after meeting with the village government. Interest is charged on loans at 6% flat per year in Lancang. In the spirit of "passing on the gift", 30% of interest is used to cover administrative costs while the remainder is used to make more loans.

Repayments

Repayments are made after one year for villagers who buy pigs. For villagers buying cows, 40% of the loan amount needs to be repaid one year after the loan is taken out and the remaining 60% needs to be repaid at the end of two years. The AHB project staff come to the village to collect repayments. Originally repayments were made every six months but to better suit the needs of villagers they are now made once a year.

Guarantees

Usually the village leader and village government guarantee the loans. In some villages the Heifer project establishes a loan committee of 3-5 people who can guarantee loans for borrowers. The AHB is also able to use other methods to pressure villagers to repay such as not implementing government projects in villages that have not repaid.

Training

The Heifer project provides training on animal husbandry and organises visits and exchanges.

Heifer International micro credit portfolio	
Total number of loans made since 1999	3,016
Total number of loans made in 2005	675
Interest rate	6% flat per year
Maximum loan	CNY 5,000
Average loan	over 3,000
Loan term	1-2 years

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III: HABITAT FOR HUMANITY CHINA (YUNNAN PROJECT OFFICE)

Project Background

Habitat for Humanity International (HFHI) is an international NGO (established 1976) dedicated to eliminating poverty by providing people with safe, decent, affordable housing. HFHI came to China in 2002 and started work in Yunnan province. It now has offices serving Guangxi and Guangdong and its China headquarters is in Hong Kong. In Yunnan, projects have been developed in Wenshan, Zhaotong, Chuxiong and Kunming.

Purpose of microfinance

By using loans instead of grants for constructing and renovating houses, the Yunnan Project Office is able to help more people. For villagers, loans allow them to build their houses themselves, increasing their responsibility and ownership of the project.

Methodology: "Save and Build"

Eligibility

In order to take out a loan, villagers need to be:

- In need of a decent house
- Able to repay the loan
- Willing to participate in the project and accept Habitat's regulations, including having saved at least a third or more of the cost of building a new house (In case of renovation or repair, half of the cost needs to be saved)

Group Formation:

- 5-12 villagers who would like to join "Save and Build" need to form a savings/solidarity group and become home partners.
- The group needs to save for a third to half the cost of building or renovating the house (depending on the area).
- Group members and Project Office staff work together to design the house, establish the budget, purchase materials, and supervise construction and quality control. Group members need to contribute three hundred hours of labour, referred to as "sweat equity".

Loans and Training:

•Habitat loans pay for materials, transportation and skilled labor only. The Habitat project officers go to buy materials with the villagers. The project officers go to the site regularly to meet with the small group.

•The Yunnan Project Office provides training on subjects such as finance, technology and material purchasing.

•Villagers must repay the cost contributed to the house by Habitat (the loan). The repayment goes to the Revolving Fund used`to build more houses. The loan is usually around CNY 6,000.

Repayments and interest

- Once the house has been completed, repayments are made once a year. For new house constructions, repayments need to be made within 5 years and for renovations within 18 months.
- There is no interest on the loan; however home partners need to repay an extra 10% for administrative costs and inflation rate adjustment. Some of this money goes back into the community (for example to buy tools, pay for transport and village activities). The rest goes toward preserving the value of the loan amount for future home partners (Revolving Fund)

Volunteers

The Yunnan Project Office invites volunteers to help with the manual labor needed to construct the houses. Volunteers are from nearby cities and towns, from other provinces or even from abroad. They stay in the villages for up to one-week building houses with the villagers.

Habitat for Humanity micro credit portfolio	
Total number of loans made in 2005	c. 100
Number of active clients	231
Number of villages targeted	10
Interest rate	10% administrative fee per house
Maximum loan	CNY 10,000
Average loan amount	c. CNY 6,000
Loan term	5 years

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IV: THE NATURE CONSERVANCY "GREEN VILLAGE CREDIT" PROJECT

Project Background

Green Village Credit is run by The Nature Conservancy (TNC, established 1950) and is a part of a UN Environment Programme (UNEP) China Rural Energy Enterprises Development initiative. The project offers two types of loans: 1) consumer credit loans for the installation of renewable energy devices such as biogas integrated with greenhouses, solar heaters and fuel-efficient stoves, and 2) loans for income generating activities. The purpose of the income generation loans is primarily to enable the villagers to repay the renewable energy system loan with their increased income and, where possible, to help them use the renewable energy device for their income generating activity.

TNC has implemented an alternative energy program in Yunnan since 2000, providing financial and technical support to cover part of the installation of renewable energy devices. The Green Village Credit project started in 2004 using loans rather than grants to spread renewable energy technologies. The entire project is planned to last for two years and eight months. Currently, loans have been dispersed in five project sites in northwest Yunnan: Haixi, Xidang, Liguang, Xinzhu and Xinren villages.

Organisational Structure

Green Village Credit is coordinated by TNC's Alternative Energy Program (AEP) Coordinator who is based in Kunming. The project is mainly run by a Project Manager and his assistant (both based in Kunming) and a Project Officer (based in Lijiang). AEP coordinators and administrative staff in Lijiang, Deqin, and Shangri-La field offices also input on the project.

Project Purpose

Green Village Credit (GVC) is primarily an environmental protection project that uses loans to disseminate renewable energy devices.

Microfinance Methodology

GVC subcontracts the delivery and collection of loans to Rural Credit Cooperatives. Loan money is placed in the RCCs but belongs to GVC and all risk is borne by GVC. GVC pays a service fee to the RCCs for them to cooperate with the project in making and collecting loans.

Association model

In most project sites, GVC establishes an association at the administrative village level to help run the micro credit operations in the village. GVC provides subsidies to the association to cover running costs and compensate the management committee for their time. The management committee is elected by villagers (by show of hands) and is separate from the village committees.

Operations usually follow this sequence:

1. GVC hold a one-day training session for interested villagers at the administrative village to explain the project.

2. GVC helps villagers set up an association and takes in applications from villagers (membership is usually free unless the leaders decide to take a fee). The association registers with the Civil Affairs Bureau, and an inauguration ceremony is held where villagers elect 5-7 council members to run the association, including a president, a vice president, a secretary, a cashier and an accountant. GVC and the management committee agree on a charter, borrowing conditions, and rules on how to manage loans and association subsidies.
3. Villagers fill in application forms to take out loans, stating what renewable energy system they would like to install and what income-generating plan they have. They form small groups to approve each other's loans, and choose a group leader.
4. Loan applications are then passed on to the association management committee and GVC staff for approval.
5. RCC staff come to the administrative village to give out income generating loans to approved households. Renewable energy loans are given to the association.
6. The association arranges for the renewable energy devices to be installed by local suppliers with assistance from GCV staff. A big poster is put up in the administrative village listing the amount spent by the association on the renewable energy system for each member household.
7. Six months after the loans are disbursed first repayments are due. GCV staff hold a meeting with group leaders and the association management committee to prepare everyone for repayment day. On the appointed day, RCC staff go to the village to collect repayments. The interest paid on the loans is given to the village association.

Government Cooperation model

In Xinren village GVC has disbursed loans without setting up an association. Instead, GVC cooperated closely with the Social Development Bureau of the Diqing Economic Development Zone government who provided and administered the income generation loans. This way GVC only provides technical assistance and loans for renewable energy devices.

Eligibility

In order to take out a loan, villagers must:

- Join the village association
- Agree to implement a renewable energy system
- Have made plans and preparations for an income generating activity
- Be trustworthy and hardworking
- Be part of a solidarity group that mutually guarantee loans
- Be willing to pay a loan guarantee fee (5% of loan amount)
- Be capable of paying back on time

Guarantee methods

Mainly loans are made on the basis of mutual guarantee and personal credit rating as assessed by the small group of borrowers and the association's

management committee. In some cases the association has made agreements with the borrowers to take their house and households' assets as collateral; this is done to pressure villagers to repay and it is unlikely that the association would seize houses.

Training

GVC has provided training to association members on various aspects of income generation such as pig raising, preventing disease in animals, tourism services, agriculture and forestry.

Loan terms

Most loans are under CNY 10,000 although some borrow up to CNY 15,000. The amount depends on the cost of the renewable energy device. Interest is charged at a flat rate of 4.8% per year, and borrowers also need to pay a loan guarantee fee of 5%, which is returned to them if and when everyone in their group has fully repaid.

Future of the project

So far the project is planned as a short-term intervention with no commitment to continue making loans. However, the staff and villagers are aware that once repayments are taken in, there will still be money in the loan fund, which potentially can be lent out again. One possibility would be for the village associations to administer a loan fund themselves. Another option that the GVC team is looking into is for the RCCs to make their own loans to people installing renewable energy devices and wanting loans to generate income. This way GVC would not pay a service fee to the RCC, but the interest rate on the loans could go to the RCC.

The Nature Conservancy "Green Village Credit" portfolio	
Total number of loans made	286
Renewable energy loan capital lent out	CNY 497,660
Income generation loans lent out:	CNY 1,109,200
Average ratio of renewable energy loans to income generation loans	1:2.2
Interest rate	4.8%
Maximum loan:	CNY 15,000
Average loan amount	CNY 5,618
Loan term	18 months

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V: Association for Rural Development in Yilong (ARDY)

Project Background

ARDY was established in 1995 in the course of a UNDP funded poverty alleviation project. In 1999 it registered as a local NGO and is now a locally run organization mainly providing microfinance services to six townships and towns in Yilong (仪陇) county, in the north-west of Sichuan Province. ARDY has gone through many changes and is still continuously evolving and adapting its work methods. It began as a Grameen Bank replication and has since developed its own county-specific work methods with individual loans made through branch offices and village level associations.

Organisational structure

Executive Director, Ms Gao Xiangjun, who is seconded from the county government, leads a team of twenty staff members, nine of whom have been working with the Association since it started 11 years ago. All ARDY staff, including Ms. Gao, are from Yilong.

Staff incentives and internal controls

Having experienced problems with fraud in its early years, ARDY now has strict internal controls in place. Every repayment needs to be recorded four times by the branch (on the client's card, on clients overall records, on the record of daily payments and on the banking records). Daily repayments and loans disbursed must be reported to the county association office by the end of the day where they are input into the MIS system (using SMAP). Repayments must be paid into the Rural Credit Cooperative at the end of the day.

All branch staff are required to deposit money with ARDY as a guarantee. The amount required is CNY 20,000 from the President, CNY 8,000 from the Operations Officer and CNY 12,000 from the Cashier. They earn interest on this money depending on the performance of the branch; if the branch looses money so do they. They are able to take back their savings with interest or deductions (depending on the quality of the branch's portfolio) when they leave their jobs. This policy is thought to have a positive impact on staff motivation and performance.

Branch Offices Model

ARDY conducts its microfinance operations through six branch offices. Five of these branches are located in townships and make loans for animal husbandry, agriculture and off-farm businesses, while the sixth is located in a town and provides business loans.

Eligibility

All residents living in the township branch's district who are aged between 18-65, married and who are engaged in business or agricultural production are eligible to borrow. Loans are based on personal credit rating. No group guarantee is used and collateral is required only for loans over CNY 5,000.

Loans

Clients can choose from a loan term of 3 months, 6 months or 12 months. Repayments must be made every 10 days, 2 weeks or one month. Interest is charged at 8% flat on all loans. Clients come to the branch to apply for loans and make their repayments.

Borrowing process

1. Clients come to the branch to apply for a loan. They have to bring their identity card and fill out a simple, one-page loan application form.
2. ARDY staff then pay a visit to the business or home of the client (sometimes both), to get a better understanding of their situation. For loans over CNY 5,000 they also check on the availability of physical collateral.
3. The credit committee (Branch President, Operations Officer and Cashier) approves loans and decides a maximum borrowing level for each household.
4. Clients are contacted and come to the branch to complete formalities and pick up the loan. This is done in small groups with whoever has come to borrow on that day; groups should meet on repayment days and support each other, however they are not responsible for each other's loans.
5. Clients come to the branch at regular intervals to make repayments.
6. Clients who repay on time are able to take out another loan after 3 months (6 months for first time borrowers), and can keep borrowing up to the maximum amount calculated as the household's limit.

Urban loans

ARDY's sixth branch, which opened in January 2006, is located in the town of Fuxing and serves an urban population doing business. This branch also takes savings. Clients are encouraged to become members by "buying shares" before they borrow. These shares cost CNY 1,000 and interest is paid on them depending on the performance of the branch.

Loan amounts are the same as in the other branch offices, but the majority of clients borrow larger loans, with an average of about CNY 8,000. The maximum loan amount for non-members is CNY 5,000, while members can borrow up to six times their savings ("shareholding") amount, and a maximum of CNY 10,000Y for the first loan.

Sustainability

All ARDY branches are now financially sustainable, and ARDY itself is aiming to become sustainable this year.

ARDY loan portfolio	
Total number of loans made in 2005	1,717
Reach	Branches in 6 townships and towns
Interest rate	8% per annum
Maximum loan:	CNY 10,000 for first time borrowers
Average loan amount	c. CNY 5,000 in townships, CNY 8,000 in towns
Loan term	3, 6 or 12 months

Village Associations

In July 2005, ARDY began to form village associations as a means of disbursing loans through community-run organisations. ARDY began these new developments in line with changes in government policy promoting the formation of farmers associations and the collection of savings. Fourteen such associations have been set up so far and ARDY plans to continue to set up new ones.

Setting up the Associations

ARDY began by talking to community leaders about plans for village associations. Where the leaders approved the idea, they then spoke to individual households and took in applications. Villagers need to buy at least one share (maximum two shares) of CNY 500 in order to join. The government provides match funding of CNY 500 per member household. Villagers decided together which households are too poor to afford shares and for these households the government contributed the entire CNY 1,000. These shares make up the community's loan fund, which villagers can then borrow from.

Villagers are invited to join the opening ceremony where members elect a president, a cashier and an operations officer. These three officers are rewarded for their work with a monthly stipend of about CNY 150, which will come from the interest on loans (initially ARDY is funding the stipend). Leaders must first attend ARDY trainings on bookkeeping and management.

Operations

The village associations operate the loan funds following a similar way to the ARDY branches. The main difference is that the fund is run by the elected leaders, and loan applications and approvals need to be made at regular meetings in front of all members. Each association can create its own rules and regulations, but currently the associations are meeting about every ten days to take loan applications, approve and disburse loans and take repayments. Current loan conditions appear to be following those set by the ARDY branches. Villagers are able to borrow without saving, and they can also save without borrowing.

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