

## **Chinese Microfinance Networks and Cooperation Patterns**

By Bai Chengyu, Division Director of CICETE

Email: [baichengyu@cicete.org](mailto:baichengyu@cicete.org)

*The copyright of this paper belongs to the WMFG and the author. This paper cannot be published or duplicated without the permission of the WMFG and the author.*

### **Executive Summary**

This paper is focused on the meso-level issues of the microfinance industry in China. It attempts to identify all kinds of networks and cooperation patterns currently in practice and suggests some new cooperation patterns for the development of an inclusive microfinance sector in China. Besides the industry-wide network, the paper discusses two kinds of microfinance networks that are not industry wide - NGO MFI networks and networks of commercial banks and companies. The paper explores the transition of the cooperation patterns, from traditional projects to commercial undertakings. In the new cooperation patterns suggested by the paper all stakeholders participate in the effort to build a truly inclusive financial sector.

## List of abbreviations

ABC	Agricultural Bank of China
ACFTU	All-China Federation of Trade Unions
ACWF	All-China Women's Federation
ADB	Asian Development Bank
BWTP	Banking with the Poor
CAM	China Association of Microfinance
CASS	China Academy of Social Sciences
CBRC	China Banking Regulatory Commission
CDB	China Development Bank
CFPA	China Foundation for Poverty Alleviation
CGAP	Consultative Group to Assist the Poor
CICETE	China International Center for Economic & Technical Exchanges
FDC	Foundation for Development Cooperation
FPC	Funding the Poor Cooperative
GTZ	Gesellschaft für Technische Zusammenarbeit (German technical cooperation)
IFC	International Finance Corporation
IPC	International Project Consult
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
MCC	Micro Credit Company
MFI	Microfinance Institution
MIS	Management Information System
MOCA	Ministry of Civil Affairs
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
MOST	Ministry of Science and Technology
NGO	Non-Governmental Organization
PBOC	People's Bank of China (Central Bank)
RDI	Rural Development Institute
SCO	Supporting and Coordinating Office
SEEP	Network
SMAP	Sustainable Microfinance for Alleviating Poverty
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund

## **1 Networks**

### **1.1 Definition and Categories of Networks**

The networks listed in this paper are those that meet the following criteria:

- A network is a group of organizations that are legally independent, not the branches of one organization.
- These organizations share a common vision, purpose and interests.
- They demonstrate evidence of a unified management system, based on an agreement or memorandum of understanding (MOU).

The networks will be introduced in this paper by the following categories:

- Networks at the industry level
- Networks of NGO Microfinance Institutions (MFIs)
- Networks of commercial banks or companies

## **2 China Association of Microfinance (CAM) - the Network at the Industry Level**

### **2.1 History**

In 2003, representatives from more than 100 domestic MFIs (mostly NGO-MFIs) attended the China Microfinance Summit, sponsored by Ford Foundation and Citi Foundation. The participants appealed for the establishment of an association of microfinance organizations in China. After the Summit, the Rural Development Institute (RDI) of the China Academy of Social Sciences (CASS, the first institution devoted to the introduction of microfinance in China), together with the China International Center for Economic & Technical Exchanges (CICETE, the manager of the largest Microfinance program in China), the Women Development Department of the All-China Women's Federation (ACWF) and the China Foundation for Poverty Alleviation (CFPA) decided to jointly initiate and create the China Association of Microfinance.

According to Chinese regulations regarding the management of NGOs, any association should be subordinate to a government department. The Ministry of Commerce (MOFCOM) gave its support for the project and agreed to be the responsible government department and to uphold the creation of the association. Later on, CICETE, the Rural Development Institute of CASS and the Women Development Department of ACWF organized the preparation committee for the association, and submitted the application to the Ministry of Civil Affairs (MOCA) via the Ministry of Commerce.

In 2004, Citi Foundation committed to a five-year project, in partnership with CASS, to support the establishment of CAM.

In November 2005, CAM was created at the China Microfinance Development Conference in Beijing, with more than 100 MFIs unanimously passing the resolution to create the association and its new constitution. They also elected the administrative and standing committees and appointed the association's Secretary-General. Representatives from the People's Bank of China (PBOC) (the central bank) and the Ministry of Commerce attended the conference to show their support. After the conference, the CAM secretariat's first official action involved accepting the offer to use the facilities of CICETE and CASS. The main part of the secretariat is now based in CICETE's buildings.

CAM currently has a total of 110 members. With the exception of two commercial banks and two microcredit companies, all of the association's members are NGOs. It should be noted that CFPA decided to withdraw from the CAM project.

## **2.2 Partners**

- Citi Foundation is CAM's principal donor.
- UNDP and other international organizations have seats in the Advisory Committee representing donors and technical assistance providers.
- Grameen Trust acts as a strategic cooperator and donor.
- PBOC, CBRC (China Banking Regulatory Commission), the Ministry of Commerce, and other government line agencies function as regulators and policy makers.
- Ford Foundation, Grameen Foundation USA, Planet Finance and other international NGOs represent donors and technical assistance providers.
- SEEP Network is a technical assistance provider.
- CASS and CICETE provide administrative support and subsidies.

## **2.3 Purpose of Network/Cooperation**

- Policy coordination and lobbying
- Self-regulation
- Technical assistance and training
- Communication and support
- Fundraising services

## **2.4 Performance**

### **Policy Coordination:**

- Invited by PBOC and CBRC, CAM is directly involved in the process of rural financial system reform. CAM has also been requested to join the 'National Consultative Committee on Inclusive Financial Sectors' led by PBOC.
- Prof. Du Xiaoshan, the director of CAM's Administrative Committee, and Mr. Bai Chengyu, the Secretary General of CAM, have submitted several letters and documents on policy issues to the State Council and government leaders on behalf of CAM's members. In some cases, the instructions and commands given by government leaders have been conveyed to regulators for their consideration.
- Successfully invited Nobel Peace Prize Laureate-Professor Muhammad Yunus to join the Grameen Trust Microfinance Workshop in China in October 2006, significantly reinforcing the awareness of the Chinese general public and the central government of microfinance operations, as well as promoting the issue of new regulations.
- Co-organized the Asia Microfinance Forum in Beijing in March 2006 together with Foundation for Development Cooperation (FDC) and Banking With the Poor (BWTP).
- Since 2005, CAM has organized the Citi Micro-Entrepreneurship Award for three consecutive years, playing a significant role in creating publicity and awareness of microfinance operations.
- Conducted research activities and submitted reports and policy advice to the relevant regulatory authorities for their reference with regard to policy making.

### **Self-regulation:**

- Created rules for self-regulation among its members.
- Developed a financial manual, created a unified financial indicator system for MFIs, and required all members to follow this manual and system. The financial management manual has been used by PBOC in its 'Guidance for Microcredit Company Management' document.

### **Technical Assistance and Training:**

- Provided guidance regarding management skills to MFIs.
- Helped some MFIs to design their transformation schemes for the purpose of commercialization.
- Cooperated closely with the Citi-China Microfinance Training Center, which organizes at least twenty training courses every year.

### **Communication and Advocacy:**

- Compiled bi-monthly microfinance newsletters which are then sent to all relevant government agencies and regulatory departments, MFIs and international organizations.
- Opened its own website providing news, an online library, forum, and messaging system. The website is currently the professional microfinance website with the highest click rate in China.
- Produced annual reports each year since the association's creation.
- Published three research reports (only in Chinese).
- Organized several peer learning visits among members.

### **Fundraising Services:**

- CAM has forged links between investment institutions and MFIs. Citi, Standard Chartered, International Finance Corporation (IFC), BlueOrchard, ACCION International, Planet Finance, Hope International, Plan International, SEEP and a number of other international organizations have formed cooperative relationships with CAM. Other organizations and institutions simply stay in contact with CAM.
- Offered consultancy services to investors. Such offers have been met with numerous requests from international and domestic visitors.

## **2.5 Challenges**

- **Legal status:** CAM has not yet been legally registered due to the fact that the majority of its members remain non-legal financial institutions.
- **Ownership:** Members are not obliged to pay membership fees due to the fact that CAM has not yet been registered.
- **Governance:** Although CAM has its own administrative committee, in reality CASS and CICETE are the association's real governing bodies.
- **Sources of funds:** CAM is dependent upon a grant from Citi Foundation.
- **Capacity:** Constrained by the above problems, CAM cannot provide all of the services requested by its members. In addition, the association's contributions to the microfinance industry as a whole are also limited.

## **3 Networks of NGO MFIs**

### **3.1 Funding the Poor Cooperative (FPC) of CASS**

#### **3.1.1 History**

CASS's Rural Development Initiative (RDI) was the first agency to demonstrate the potential of microfinance (Grameen model) as a financial service for the poor in China. The agency's projects proved that, that as in other parts of the developing world, microcredit can be an effective tool for poverty alleviation in China.

The first Funding the Poor Cooperative (FPC) branch was set-up in Yixian County of Hebei Province in 2003 as a research project. Currently there are a total of five FPC branches, two of which are located in Hebei Province, two in Henan Province and one in Sichuan Province. Each branch is registered as an independent NGO at the county level.

In 2005, FPC's headquarters were separated from the RDI and registered as a foundation in Beijing.

Since 2006, Shenzhen Zhonganxinye Credit Company has provided technical assistance to FPC branches in Henan and Hebei provinces and conducted a feasibility study for further investment.

In 2001, the China Microfinance Training Center was established with funding and technical assistance from the Consultative Group to Assist the Poor (CGAP). After receiving funds from Citi Foundation in 2004, it was renamed as the 'Citi-China Microfinance Training Center' .

#### **3.1.2 Partners**

- Grameen Trust provided funding and technical assistance for the establishment of branches from the very beginning of the project.
- Ford Foundation offered funding for research and advocacy.
- CGAP provided funding and technical assistance for the China Microfinance Training Center.
- Citi Foundation provided a wholesale loan fund through Grameen Trust, and now provides funding for the Citi-China Microfinance Training Center.
- Mr. Yang Lin's Taiwan based enterprise has invested in the FPC in order to allow the repayment of the loans from Grameen Trust.
- Shenzhen Zhonganxinye Credit Company provides technical assistance to FPC branches in Hebei and Henan provinces, and produced a feasibility study for investment.
- CICETE provides expertise and resources to the training center.
- Local government provides policy support and managerial staff.
- CASS functions as project initiator and manager.



### 3.1.3 Purpose of the Network

- Research and demonstration of Grameen Bank microcredit model in China.
- Support for microfinance development in China.
- Dissemination of successful results and knowledge of microfinance development.

### 3.1.4 Performance

- The project achieved its target of demonstrating microcredit as a tool for poverty alleviation and helped to promote the development of microfinance in China.
- The project has total loan assets of approximately 20 million RMB Yuan.
- Whilst no branches have realized financial self-sufficiency, at least two branches have achieved operational self-sufficiency.
- The FPC foundation's headquarters still rely on donations and subsidies from CASS.

### 3.1.5 Challenges

- **Legal and regulatory:** As NGOs, FPC and its branches have no legal status as credit operators.
- **Ownership:** Ownership of the loan fund is uncertain. Mr. Yanglin still has the right to withdraw his investment at any time.
- **Governance:** FPC branches have a centralized governance structure under the leadership of the Rural Development Initiative.
- **Sources of funds:** FPC branches have no legal status to obtain funds from financial institutions or to obtain commercial investment as long as they remain NGOs. Moreover, social investment is limited in scale and the FPC is prohibited from working with public savings.
- **Management capacity:** FPC branches are not yet ready to increase the scale of their operations.
- **Staff:** The project's managerial staff are neither professional nor stable.

## 3.2 *CICETE/ UNDP Microfinance Program*

### 3.2.1 History

The CICETE/ UNDP microfinance program has passed through three key stages of development:

- **First stage (demonstration):** From 1994 to 2000, CICETE/ UNDP implemented a comprehensive poverty alleviation pilot program. Microcredit operations were one of the components of the overall trial. By 2000, a total of forty-eight rural MFIs throughout seventeen provinces and one urban MFI in a large city had been successively built. All of these MFIs are NGOs registered at the local level. The



program strongly promoted microcredit as a tool for poverty alleviation throughout the country. A Supporting and Coordinating Office (SCO) was set up within CICETE in 1998 to act as the headquarters for the microcredit program.

- **Second stage (sustainable development):** In 2001, CICETE/UNDP implemented a second microcredit development program and named it 'Sustainable Microfinance for Alleviating Poverty' (SMAP). Four pilot MFIs were selected from the forty-eight rural 'demonstration' MFIs. During this period, the SCO and SMAP jointly developed, with technical assistance from international consultants, a set of management manuals and a computerized Management Information System for the four pilot MFIs. In addition, all of the other MFIs were still being managed by the SCO at this time. Cooperation with the PBOC with regard to policy research and the publishing of a research document formed the second component of the SMAP project. The research activity was also an educational process and helped PBOC to become a strong promoter of microfinance development in China.
- **Third stage (commercialization and integration into inclusive financial sectors):** After the completion of SMAP in 2005, CICETE/UNDP started to design the third stage of microfinance development in China. The new project has been approved by UNDP, and was recently named the "Establishment of Inclusive Financial Sectors in China" project. The project has two components: a) to continue to cooperate with PBOC at the policy level on the founding of a national Advisory Committee on Inclusive Financial Sectors; b) to cooperate with China Development Bank (CDB) to set up an investment fund for commercialized MFIs.

At the same time, CICETE has made a strategic decision to transform the existing NGO MFIs into commercialized MFIs by:

- clarifying the ownership of the loan fund
- investing in an SRI company for microfinance
- transforming NGOs into Micro Credit Companies (MCCs) through investment by other companies

CICETE is also considering the creation of a national microfinance bank in the future in cooperation with other investors, MFIs and networks.

In 2007, CICETE transformed two existing local NGOs into commercialized MFIs in Gansu and Hunan provinces. At the request of the local government, CICETE has decided to invest in a Micro Credit Company at the previous project site in Hainan Province.

### **3.2.2 Partners**

- UNDP is the main donor and cooperation partner.
- Citi Foundation has provided on-lending funds to some MFIs through the Grameen Trust.

- PBOC offers assistance and cooperation with regard to policy research and advocacy.
- The Ministry of Science and Technology (MOST) offers assistance and cooperation with regard to project management and cost sharing for UNDP projects.
- CASS provides consultancy expertise with regard to project management.
- The Agricultural Bank of China (ABC) has offered subsidized loans to two MFIs.
- The Women's Federation assists with local level MFI management.
- The Government Office for Poverty Alleviation assists with local level MFI management.
- The Trade Union assists with a guarantee fund for microfinance in urban areas.
- Grameen Trust has provided donations and technical assistance and has also invested in a Micro Credit Company in Sichuan Province.
- Planet Finance acts as a technical assistance provider.
- KFW has provided 10,000 RMB yuan in soft loans plus 5 million RMB yuan in grants to the Chifeng Women's Development Association, one of CICETE's best performing MFIs. The project belongs to a government cooperation project through the Ministry of Finance (MOF).
- Local government provides administrative support and managerial staff.
- CICETE is a project executing agency, microfinance operation supervisor and potential future investor.

### **3.2.3 Purpose of the Network**

- Demonstration and promotion of microfinance.
- Policy lobbying and advocacy.
- Sustainable microfinance operations and development for people without access to financial services.

### **3.2.4 Performance**

- The program has achieved its target of promoting microfinance development in China.
- The forty-eight MFIs have approximately 50,000 clients and a total loan portfolio of 50 million Yuan. The majority of clients have improved their standard of living thanks to the microcredit services.
- Although approximately five MFIs have realized operational self-sufficiency, none of them are financially self-sufficient.
- CICETE has set up a professional task force (SCO) for microfinance management.
- CICETE has also developed a unified management system including a computerized Management Information System.

### **3.2.5 Challenges**

- **Legal and regulatory:** MFIs have no legal status to offer credit services.
- **Ownership:** Must be clarified and redefined.
- **Governance:** The program's headquarters has no effective control over MFIs due to the decentralized governance structure.
- **Sources of funds:** The program cannot receive commercial investment whilst retaining its NGO status. Furthermore, social investment is limited in scale and the program is prohibited from working with public savings.
- **Management capacity:** Although the program's headquarters has professional staff, it is under resourced. In addition, the majority of the MFIs' managerial employees are neither qualified nor stable.
- **SCO (headquarters):** Currently relies on subsidies from UNDP and CICETE.

## **3.3 Microfinance Project of China Foundation for Poverty Alleviation (CFPA)**

### **3.3.1 History**

The project was started by the Western Human Resource Center as one component of the World Bank's poverty alleviation loan program in 1996 with the creation of two MFIs in Sichuan and Shanxi provinces.

In 2000, the microfinance project and its management team were merged into the 'China Foundation for Poverty Alleviation' (CFPA). At present, the Foundation manages a total of ten MFIs, including the two original MFIs that were established by CFPA.

In 2005, CFPA adjusted its strategy for microfinance development by shifting its focus from project management to institutionalization. CFPA's target was to forge a professional and sustainable MFI in China. Since then, CFPA has reformed the governance structure by converting local MFIs into branch offices. Thus far, a total of six MFIs have been transformed.

CFPA is now considering the separation of the microfinance business from the foundation in order to form an independent institution.

### **3.3.2 Partners**

- The Leading Group Office for Poverty Alleviation functions as a policy umbrella.
- Mercy Corps is a donor and technical assistance provider.
- The Hong Kong Kadoorie Foundation is a donor.
- Private sector companies (Shell, Bayer, Microsoft, Corning) act as donors and technical assistance providers.
- China Development Bank (CDB) has provided 100 million RMB Yuan of on-lending funds.

- Standard Chartered has offered 20 million RMB Yuan of on-lending funds.
- Planet Finance is a technical assistance provider.
- The Grameen Trust acts as a donor and technical assistance provider.

### **3.3.3 Purpose of the Network**

- Provide financial services to the poor.
- Strengthen the capacity of poor people.
- Sustainable development of microfinance.

### **3.3.4 Performance**

- Seven of the ten MFIs are performing well and have achieved operational and financial self-sufficiency.
- According to the July 2007 progress report, the program has a loan portfolio of 51.9 million RMB Yuan, a total of 26,079 active clients, and a PAR over 30 days of approximately 20%.<sup>1</sup>
- The program's headquarters still relies on donations and subsidies from the foundation.

### **3.3.5 Challenges**

- **Legal and regulatory:** CFPA has no legal status to offer credit services.
- **Ownership:** As a foundation, all of the program's capital has come from public trust funds.
- **Governance:** A centralized, headquarters based, management system has been adopted.
- **Sources of funds:** It is illegal for the program to receive commercial on-lending funds if it remains within the CFPA. Moreover, social investment is limited in scale and the program is prohibited from working with public savings.
- **Management capacity:** The program's headquarters has professional staff but is under resourced. The capacity of branch management staff needs to be improved.

## **3.4 MOFCOM/ UNICEF/ UNFPA Microcredit Program**

### **3.4.1 History**

The United Nations Population Fund (UNFPA) was the first international organization to introduce microcredit operations in China through its projects in the late 1980s. Since the 1990s, the United Nations Children's Fund (UNICEF) has also integrated microcredit components into its Social Development Program for Poor Areas (SPPA) and Local Planning and Action

---

<sup>1</sup> From CFPA official website:  
[http://www.fupin.org.cn/UserFiles/File/Microfinan%20Monthly%20Progress%20Report/Project%20Progress%20Report%20\(Jul.\).xls](http://www.fupin.org.cn/UserFiles/File/Microfinan%20Monthly%20Progress%20Report/Project%20Progress%20Report%20(Jul.).xls)

for Children (LPAC) projects. Thus far, these projects have launched microfinance operations in more than fifty poor counties in China.

In 2003, the evaluation report of the UNICEF project suggested the building of a management center at the national level. The report recommended that management activities regarding the sustainable development of microcredit operations should be performed by a professional agency such as CICETE. However, UNICEF and MOFCOM did not accept this suggestion.

By the end of 2008, UNICEF will have completed all of its microfinance projects in China. The projects are now entering into the evaluation phase and UNICEF will soon make a decision regarding the future management of its existing microfinance operations.

#### **3.4.2 Partners**

- MOFCOM provides administrative support for project management through its local offices.
- Local Government offers administrative support and managerial staff.
- UNFPA and UNICEF function as donors and project monitors.
- CICETE and CASS are technical assistance providers.
- Grameen Trust provides loan funds to one MFI.
- Other donors

#### **3.4.3 Purpose of the Network**

- Capacity building for poor females
- Achieving the national development goals for women and children

#### **3.4.4 Performance**

- The program has realized its social development goals.
- All of UNFPA's microfinance activities ceased after the project was completed with the exception of those in two counties.
- Only 50% of the MFIs created by UNICEF are still in operation and few of them have high quality loan portfolios.

#### **3.4.5 Challenges**

- **Legal and regulatory:** Projects have no legal status to offer credit services.
- **Ownership:** Has been transferred to local governments.
- **Governance:** Currently no microcredit management department within the program's headquarters. Furthermore, the program's decentralized management system has made it difficult to control operations after the closure of a project.
- **Funding resources:** No further resources are available.
- **Management capacity:** Capacity of branch managerial staff needs to be improved.

## **3.5 Women's Federation**

### **3.5.1 History**

Since the 1990s, the All-China Women's Federation (ACWF) has encouraged its local organizations to provide microcredit services. The federation provides several different types of microfinance services. The services typically have one of four possible objectives:

- a) To help MFIs with client mobilization and identification.
- b) To help MFIs to collect loans.
- c) To set up microcredit funds and operate MFIs directly.
- d) To cooperate with other organizations in order to establish an MFI and occupy a seat within the board of directors.

It should be noted that ACWF submitted a proposal to the State Council regarding the creation of a Women's Bank in China, which was refused.

### **3.5.2 Partners**

- Local government provides funds and policy support.
- International organizations such as UNDP, UNICEF and UNFPA, provide donations.
- Local communities make donations.
- Some local women's federations act as project supervisors.
- ACWF functions as a policy supporter and coordinator.

### **3.5.3 Purpose (function) of the network**

- Capacity building for females
- Improving the living conditions of women and their families
- Strengthening the capacity of the women's federation itself

### **3.5.4 Performance**

Some of the projects supervised by the All-China Women's Federation, with the assistance of international organizations, have been quite successful. Examples of such projects are the MFIs in Tianjin City and Chifeng City of Inner-Mongolia. However the other projects are not performing well.

### **3.5.5 Challenges**

The ACWF has similar problems to those experienced by all other NGOs.

## **3.6 Trade Unions**

In the early 1990s, trade unions founded numerous credit unions in urban areas. Some of the credit unions were developed as urban credit cooperatives. However, the government closed all of these credit unions during the financial crisis in 1997.



Since 2000, in order to help laid-off workers of state owned enterprises, some local trade unions set up microcredit loan funds and provided loans to micro-entrepreneurs. The successful experiences were identified and summarized by the 'All-China Federation of Trade Unions' (ACFTU) and replicated by many local trade unions.

In order to strengthen ACFTU's capacity, UNDP assisted ACFTU, CICETE and the Henan provincial government to jointly set up a microcredit guarantee fund in Henan, and to deliver microcredit in three large cities in cooperation with local commercial banks.

ACFTU also discussed the possibility of credit union rehabilitation in urban areas with the WOCCU delegation when they visited China in 2007.

### ***3.7 Hope International***

HOPE China was established in 2000 in Zhangjiakou City, Hebei Province. The program currently employs 30 local staff members who work in 8 offices throughout northern China. HOPE China has disbursed over 11,000 loans since its inception and now serves more than 750 clients.

Owing to the challenging political and legal structures in northern China, growth has been slow with focus instead being put on quality of service rather than rapid and unrestricted expansion.

Loans in China start as low as 500 Yuan (\$70) and on-time loan repayment rates currently stand at 97.6%. Some of Hope International's branches became financially self-sufficient in 2003 by charging interest rates of more than 24%.

### ***3.8 Plan International***

Plan International started microfinance activities in Shaanxi Province in 2003 and now operates in five counties, with a total loan fund of approximately 5 million Yuan. NGOs were set-up at the county level in cooperation with the local women's federation.

Plan International aims to provide sustainable microfinance development in favor of the poor. They have invested significant sums on capacity building, including developing a computerized MIS. In collaboration with the '90 Foundation' from the United States, Plan International is transforming one of its MFIs into a Micro Credit Company.



## **4 Networks of Commercial Banks and Companies**

### **4.1 China Development Bank (CDB) and its Microfinance Projects**

#### **4.1.1 History**

As a policy bank, providing financial services to microenterprises is one of the strategic priorities of CDB. In 2000, CDB began to study and analyze the microfinance industry. CDB's previous strategy had been to provide on-lending funds to microfinance projects or MFIs. For example, in 2004, CDB approved an on-lending fund to Tianjin Women's Development Association, the first urban MFI in China set up by a UNDP assistant. However, the Tianjin Women's Development Association has not yet used this fund because the financial cost of doing so is currently too high. This strategy was eventually successfully implemented by signing an on-lending loan agreement with CFPA.

In 2004, CDB began to cooperate with the World Bank and KFW on a Microfinance Development Project. CDB set up a Microfinance Group to implement the project and the World Bank offered US \$1 million in technical assistance funds and a US\$100 million commercial loan to CDB in 2005. KFW provided a US\$50 million commercial loan plus 3 million euros in grants in 2006. German International Project Consult (IPC) is the technical service provider for the project.

In 2005, CDB launched the project in cooperation with three city commercial banks in three provinces. The experiment was very successful and CDB launched three similar projects in cooperation with local commercial banks in 2006. By the end of 2007, twelve local banks were involved in the project and CDB plans to cooperate with more banks in the future.

In order to develop these social investment loan businesses, CDB set up a new department in Shanghai named the "Social Welfare Center". The Microfinance Group and the project were subsequently merged into this center.

In January 2008, UNDP approved a new project with the aim of establishing inclusive financial sectors in China. One component of the project involves the creation of an investment fund for commercial microfinance institutions in cooperation with CDB. CDB has committed at least 100 million Yuan to the fund and the fund management office will be set up within CDB's headquarters.

#### **4.1.2 Partners**

- World Bank and KFW are donors and loan fund providers.
- UNDP is a donor and technical assistance provider.
- IPC functions as a technical service provider.

- Local commercial banks are cooperative partners.
- CFPA and other MFIs are recipient organizations for on-lending funds.
- CDB acts as a wholesale bank and coordinator.

#### **4.1.3 Purpose of the Network**

To develop microfinance operations for microenterprises and people who have no access to financial services.

#### **4.1.4 Performance**

By the end of January 2008, twelve local commercial banks had joined the project and six had disbursed loans. They had a total of 25,000 accumulated loans and a portfolio of 1.7 billion Yuan. The project's average loan size is 66,600 Yuan whilst the default loan rate over 30 days stands at only 0.3%.

#### **4.1.5 Challenges**

- International best practices show that commercial banks should establish separate branches in order to deliver microfinance services. The pilot commercial banks have not separated microfinance operations from their common business. It remains to be seen whether the commercial banks will be converted into professional microfinance organizations or whether special microfinance branches will be set-up instead.
- The success of the pilot project lies in the provision of technical assistance, a substantial part of which has been covered by donors. In order to replicate the pilot project on a larger scale, with more commercial banks being involved at a lower cost, localization approaches need to be developed.

## **4.2 PBOC Micro Credit Company Pilot**

### **4.2.1 History**

In 2005, PBOC launched an experimental project that created commercialized microfinance organizations and allowed the private sector to invest in Micro Credit Companies (MCCs). By the end of that year, two MCCs had been registered in Shanxi Province.

In 2006, the Asian Development Bank (ADB) and GTZ started to cooperate with PBOC in order to provide technical assistance to the MCCs.

In 2007, Microcred, IFC, KFW and American International Group jointly invested in an MCC in Sichuan Province. The MCC was approved by the provincial government with support from PBOC.

Thus far, a total of seven MCCs in five provinces have been officially registered and continue to operate with PBOC's direct support and guidance.

In addition, there are at least another eight MCCs, which operate with the guidance of PBOC, that have been registered in other provinces with the support of the local government.

#### 4.2.2 Partners

- PBOC acts as a policy maker and guidance provider.
- The private sector provides investment.
- Local government acts as a regulator.
- ADB and GTZ are technical service providers.
- MCCs are operators.

#### 4.2.3 Purpose of the Network

- To demonstrate a commercially sustainable microcredit business.
- To demonstrate new kinds of financial institutions.
- To push the reform of Rural Credit Cooperatives by creating competition in financial markets.
- To provide microfinance to people without access to financial services.

#### 4.2.4 Performance

**Table 1: Monitoring Report of seven Pilot MCCs (unit: million yuan)<sup>2</sup>**

MCC Name	Jinyuantai	Rishenglong	Quanli	Huadi	Xinchang	Dayanghuixin	Rongfeng	Total/ leverage
Net assets	20.46	23.41	10	6	22	21	30	132.87
Trust fund	3.01	4.75	0	0	0	0	0	7.76
Loan Portfolio	24.25	26.788	9.166	0.945	3.623	12.57	18.454	95.795
Portfolio of personal loans (%)	17.35 71.5%	24.338 90.9%	8.606 93.9%	0.445 47.1%	3.573 98.6%	9.21 73.3%	17.236 93.4%	80.757 84.3%
Portfolio of enterprise loans (%)	6.90 28.5%	2.45 9.1%	9.35 18.3%	0.5 52.9%	0.05 1.4%	3.36 26.7%	1.219 6.6%	15.039 15.7%
Portfolio of non-collateral loan (%)	1.738 7.2%	0.325 1.2%	6.023 65.7%	0.07 7.5%	0	0.845 6.7%	8.845 47.9%	17.846 18.6%
Portfolio of collateral loans (%)	22.512 92.8%	26.463 98.8%	3.143 34.3%	0.874 92.5%	3.623 100%	11.69 93%	9.609 52.1%	77.92 81.3%
Average annual interest rate	21.39%	17.84%	18.8%	19.28%	22.23%	19.32%	22.15%	20.09%
Rate of past due	0.82%	0	6.24%	4.92%	0	0	0	0.85%

Since MCCs are regulated by local governments, the performance of individual MCCs varies considerably. Although the best performing MCCs realized a profit in the first year without any defaults, the poorest performers are struggling for survival.

<sup>2</sup> Resource: Microcredit News Letter published by PBOC in Apr. 2007

#### **4.2.5 Challenges**

- Policy and regulation: MCCs do not currently have a CBRC issued financial license. Since regulatory functions are provided by local governments, as opposed to PBOC or CBRC, there are no national regulations regarding MCC management.
- Most MCCs are currently operating in the same conventional way as banking institutions i.e. their products are mostly based on collateral, not targeting the poor.
- MCC funding sources are very limited because they can neither work with public savings nor receive on-lending funds from other financial institutions.
- MCC business operations are restricted to the local area of registration.

## **5 Existing Cooperation Patterns**

By reviewing the networks listed above, two types of cooperation patterns can be identified:

- Traditional cooperation patterns, or donor-/ government-led patterns
- Commercial cooperation patterns, or investor-led patterns

### **5.1 Traditional Patterns**

These patterns have been commonly used by microfinance projects for poverty alleviation and employment and consist of two different types: donor-led pattern and government-led pattern.

#### **5.1.1 Donor-led Pattern**

Main Characteristics:

- Stakeholders: donors, government agencies, NGOs, research institutes, policy makers.
- Short-term management arrangement for project duration.
- Focus on social development goals.
- Subsidized by donors.
- Dependent on limited seed money and assistance.
- Delivered by the government project office or NGOs.

#### **5.1.2 Government-Led Pattern**

Main characteristics:

- Stakeholders: government, guarantee funds, commercial banks, NGOs
- Promoted by the government for policy purposes and social development goals.
- Short-term management arrangement.
- Subsidized and guaranteed by the government.
- Funds received from fiscal budget.
- Delivered by commercial banks or NGOs (Women's Federation and Trade Union etc.)

## 5.2 Commercial Patterns

### 5.2.1 Upgrading pattern

This pattern is shared by NGO MFIs and networks that have a desire to be commercialized and become sustainable microfinance institutions. Under this pattern, the main cooperation partners are as follows:

- **NGO MFIs:** have experience in delivering financial services to the lowest segments of the market and have many mature clients. They do not have legal status and funding sources.
- **Policy makers and regulators:** could create more favorable regulations for the upgrading process of NGOs. Such changes would result in the increased availability of financial services to the lower-end of the market.
- **Investors:** can help NGOs to upgrade through investment of funds and changes in the governing structure of the institution. Investors should be able to quickly obtain returns on their investments considering NGOs' successful operations in the past.
- **Donors:** can provide both funds and technical assistance in order to help projects become sustainable.

### 5.2.2 Down-scaling pattern

This pattern has been used by policy banks to develop microfinance services for the lower segment markets. The following partners are involved:

- **Investors:** international financial institutions and national policy banks that are committed to microfinance development.
- **Commercial banks:** have recognized the potential profitability of microfinance operations but do not have any experience in the field.

### 5.2.3 Green field pattern

This pattern is used by policy makers to promote financial market reform and the development of microfinance operations for people without access to financial services. The partners working to this pattern mainly comprise:

- Financial market policy makers.
- Private investors who are keen to enter the financial market.
- Local government who can mobilize investment by creating MCCs.

**Table 2: Existing Cooperation Patterns**

Stakeholders	Traditional patterns		Commercial patterns		
	Donor-led	Govt-led	Up- grading	Down- scaling	Green- field
Government	x	x	x		x
Donors	x		x		x
NGOs	x	x	x		
Commercial banks		x		x	
Investors			x		x
Regulators		x	x	x	x
Researchers	x		x		

### 5.3 Cooperation Patterns under the Inclusive Financial Sectors Framework

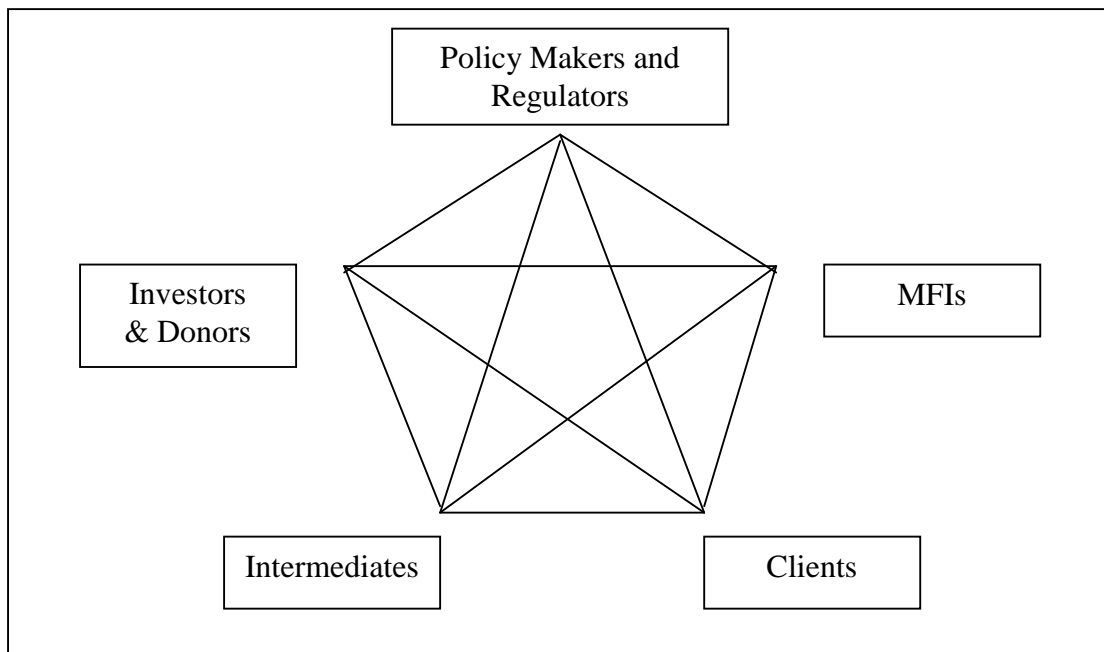
The traditional or existing cooperation patterns separate the microfinance sector from the overall financial system. They also constrain the growth of microfinance outreach and the sustainability of microfinance development in China. The new concept of inclusive financial sectors will help microfinance operations to become integrated into the overall financial system by broadening cooperation patterns and sharing the advantages among all stakeholders.

#### 5.3.2 The stakeholders

The stakeholders in the framework of inclusive financial sectors are:

- Policy makers and regulators (PBOC, CBRC etc.)
- Investors:
  - Policy banks
  - Commercial banks
  - Commercial investors
  - APEX fund
  - Social investors
  - Donors
- MFIs:
  - Commercial Banks
  - Commercial MFIs
  - NGOs
- Intermediates:
  - Associations
  - Research institutes
  - Rating and evaluation agencies
- Clients

**Figure 1: Stakeholders in Inclusive Financial Sectors**



### 5.3.3 New cooperation patterns for inclusive financial sectors

The following cooperation patterns are part of the framework of inclusive financial sectors:

- **National Advisory Committee for Inclusive Financial Sectors:** will invite all stakeholders to participate in the dialogue and develop a common vision.
- **Wholesale Fund (APEX):** will build up investments to a large scale and provide them to MFIs more effectively.
- **Commercial banks + NGOs pattern:** Although, commercial banks have funds, legal status, professional risk management systems and access to credit bureaus, they do not have experience within the microfinance industry or microfinance delivery arms. NGO MFIs have such experience and delivery arms but lack legal status, funds etc. Commercial banks can downscale their services to lower market segments by entrusting NGOs to act as retailers and loan delivery and collection agents.
- **A strong association at industry level** can contribute to microfinance development by:
  - providing demand-driven services to all partners
  - facilitating regulators to create certain kinds of non-prudential self-regulated systems
  - developing industrial benchmarks together with rating agencies.
  - improving the transparency of the industry.
  - protecting the right of clients.



### **5.3.4 The Role of Donors**

#### **The role of donors in the past and at present**

- Introduced the microfinance concept into China.
- Proved microfinance as an effective tool for poverty alleviation by demonstration and experiment.
- Established a group of pilot MFIs and microfinance networks through funding and technical assistance.
- Promoted the reform and improvement of the regulatory and legal framework for microfinance development.
- Introduced the new concept of commercialization and inclusive financial sectors.

#### **The roles of donors in the future**

- Facilitate the formation of an inclusive financial sector platform.
- Facilitate further improvement of the regulatory and legal framework and environment.
- Provide technical assistance for the upgrading of NGO MFIs.
- Facilitate the establishment of APEX or wholesale funds.
- Provide technical assistance for human resource development.
- Provide technical assistance to improve the capacity of the industry network.
- Provide technical assistance on microfinance management innovation.