



China's policies, practices and prospects of poverty reduction through finance

Disclaimer:

The views expressed in this document are those of the author, and do not necessarily reflect the views and policies of the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this document, and accept no responsibility for any consequence of their use. By making any designation or reference to a particular territory or geographical area, or by using the term "country" in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.

By Du Xiaoshan

Researcher of Rural Development Institute, CASS

President of China Association of Microfinance

Background

The microfinance in China should meet three demands for poverty alleviation through development projects.

First, the demand of poor people for carrying out production and operation activities, pursuing education and medical services.

Second, the demand of poor areas for developing industries, promoting employment and economy, and lifting more people out of poverty.

Third, the demand of poor areas in seeking capital to build infrastructure. For example, transportation, energy, irrigation works, telecommunication, education and healthcare. Also, the poor areas should address the long-term sustainable development issues by providing equal basic material supply and public services.

These three aspects need huge amount of capital input. The source is financial support. The infrastructure in rural China are outdated. They also face with low productivity and shortage of investment opportunities, which leads to continuous draining of financial resources in rural areas.

Outline

First, major policies of poverty reduction through finance

Second, practices of poverty reduction through finance

Third, prospects and reflections on poverty reduction through
finance in China

First, major policies of poverty reduction through finance

1. Poverty alleviation through microcredit loan. Since 2004, the Central Government and State Council have paid attention to the development of microcredit loan in their No. 1 document.

In 2000, PBOC, the central bank of China has launched *Guidelines on Rural Credit Association Rural Household Joint Guarantee Loan*, in which the rural credit associations are required to provide joint guarantee loan to rural household according to GB model.

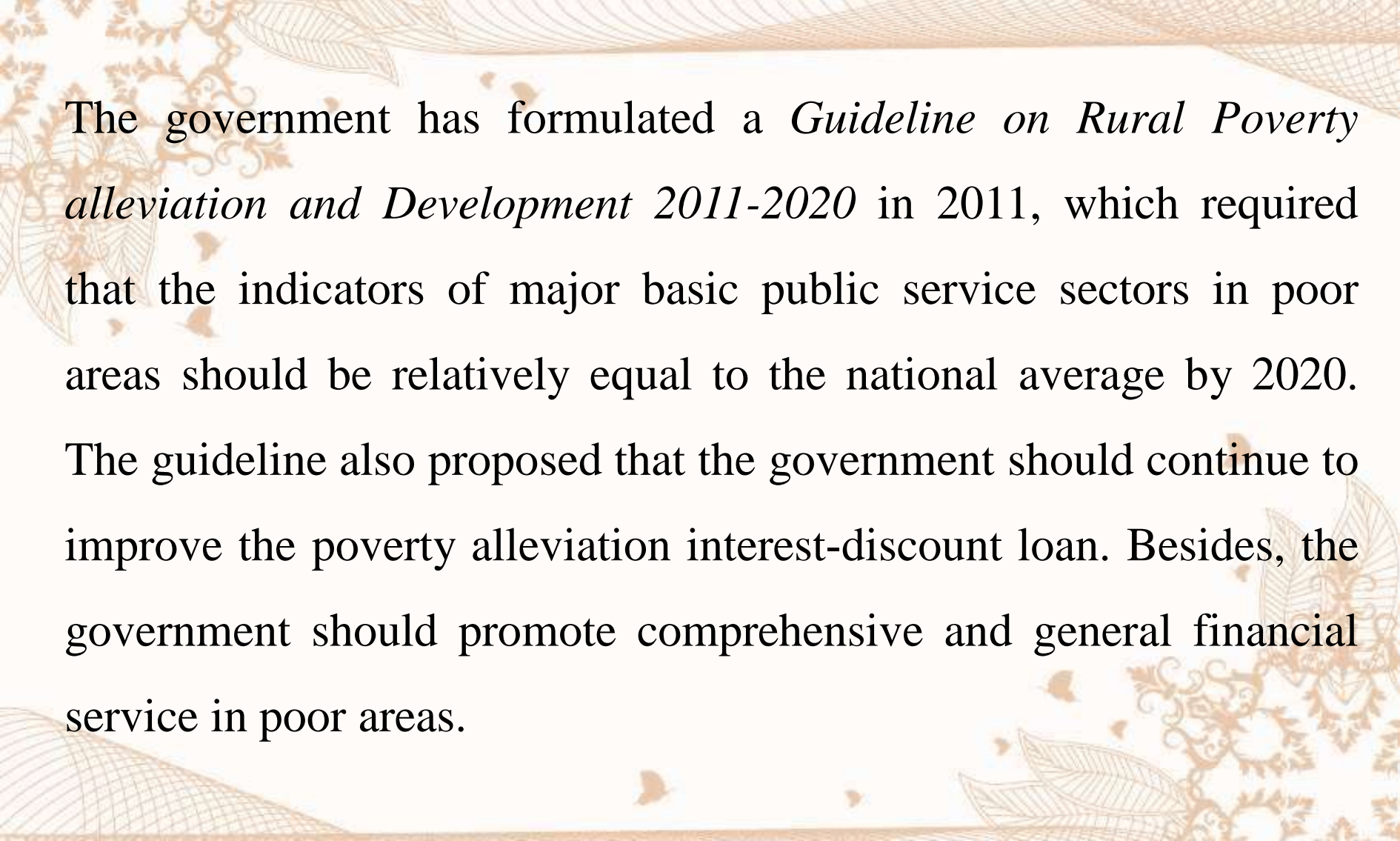
In December 2001, PBOC unveiled *Guidelines on Rural Credit Association's Microcredit Loan for Rural Households*, in which the rural credit associations are required to improve the loan credit system of rural households. The associations need to issue microcredit loans according to the principles of one-time evaluation, real time loan, remaining balance control and flexible use of turnovers.

In May 2006, with the experiences accumulated, the State Council Leading Group Office of Poverty Alleviation and Development and the Ministry of Finance issued the *Notice on Establishing Mutual Aid Fund among Poor Villages*. They decided to try the pilot projects in 14 provinces and autonomous regions with certain number of financial poverty alleviation fund. This fund is used to set up mutual aid fund in poor villages. Meanwhile, households in such villages can become shareholders of this fund with their own money, which will expand the pool of capital. Households can also borrow money from the fund to carry out production activities.

In December 2014, the State Council Leading Group Office of Poverty Alleviation and Development and other four departments and ministries launched *Guidelines on Innovative Development of Microcredit Loan*, with which the nationwide poverty alleviation information network will be connected with the loan management system of banks. Therefore, the poor households will have their own credit record. This will give more re-loan and re-discount to poor areas, guide financial institutions to develop microcredit loan products and mechanisms tailored to poor households, grant more loan to poor households with credit records and support the promotion of insurance of microcredit loan for poverty alleviation.

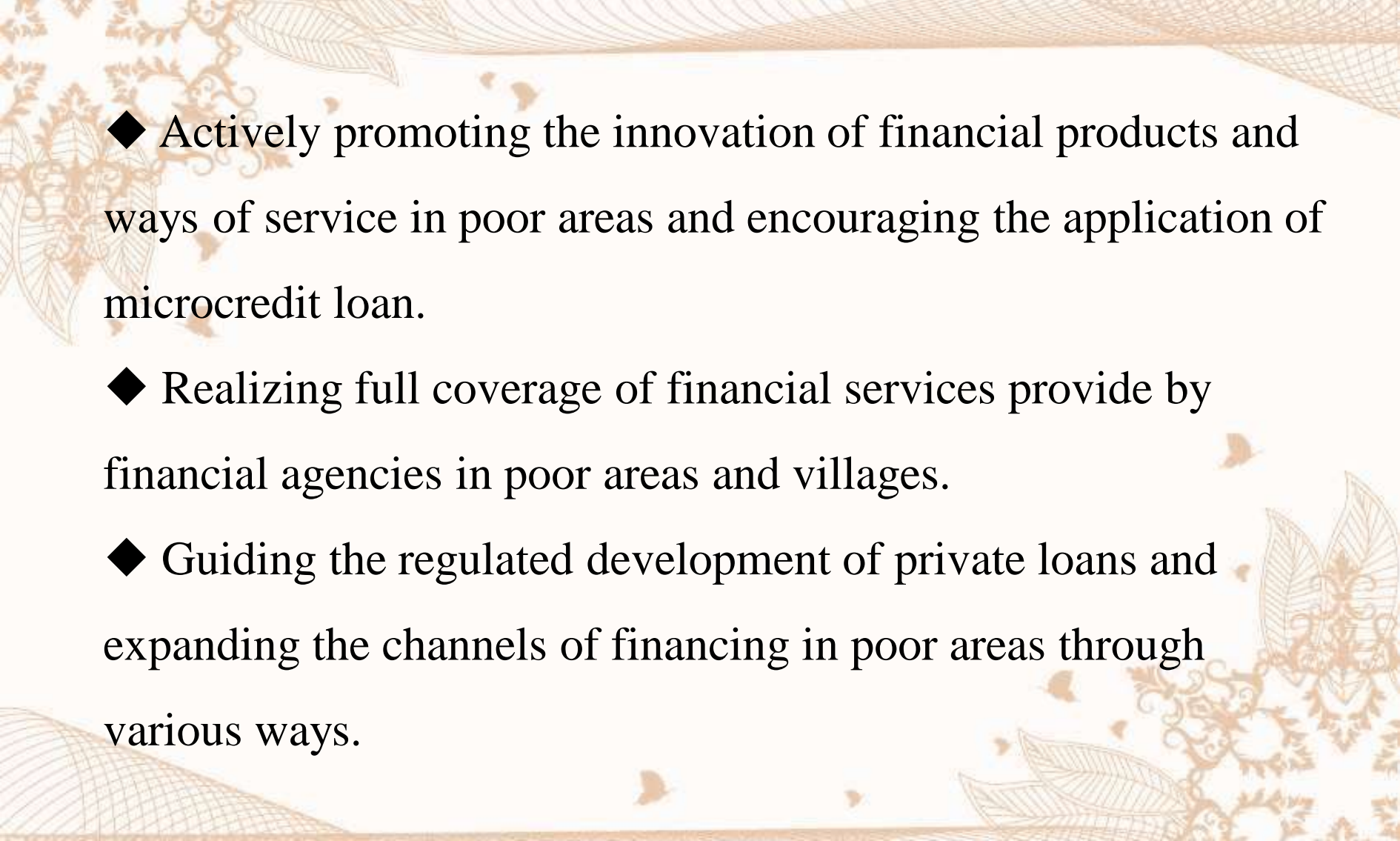
Second, general targeted poverty alleviation financial policies

In 2015, the State Council required to win the tough fight of poverty alleviation. We should make sure that the poor people in rural areas are lifted out of poverty measured by the standard of 2,300 yuan per capita in 2010, the poor counties get rid of poverty and the regional poverty be properly addressed.



The government has formulated a *Guideline on Rural Poverty alleviation and Development 2011-2020* in 2011, which required that the indicators of major basic public service sectors in poor areas should be relatively equal to the national average by 2020.

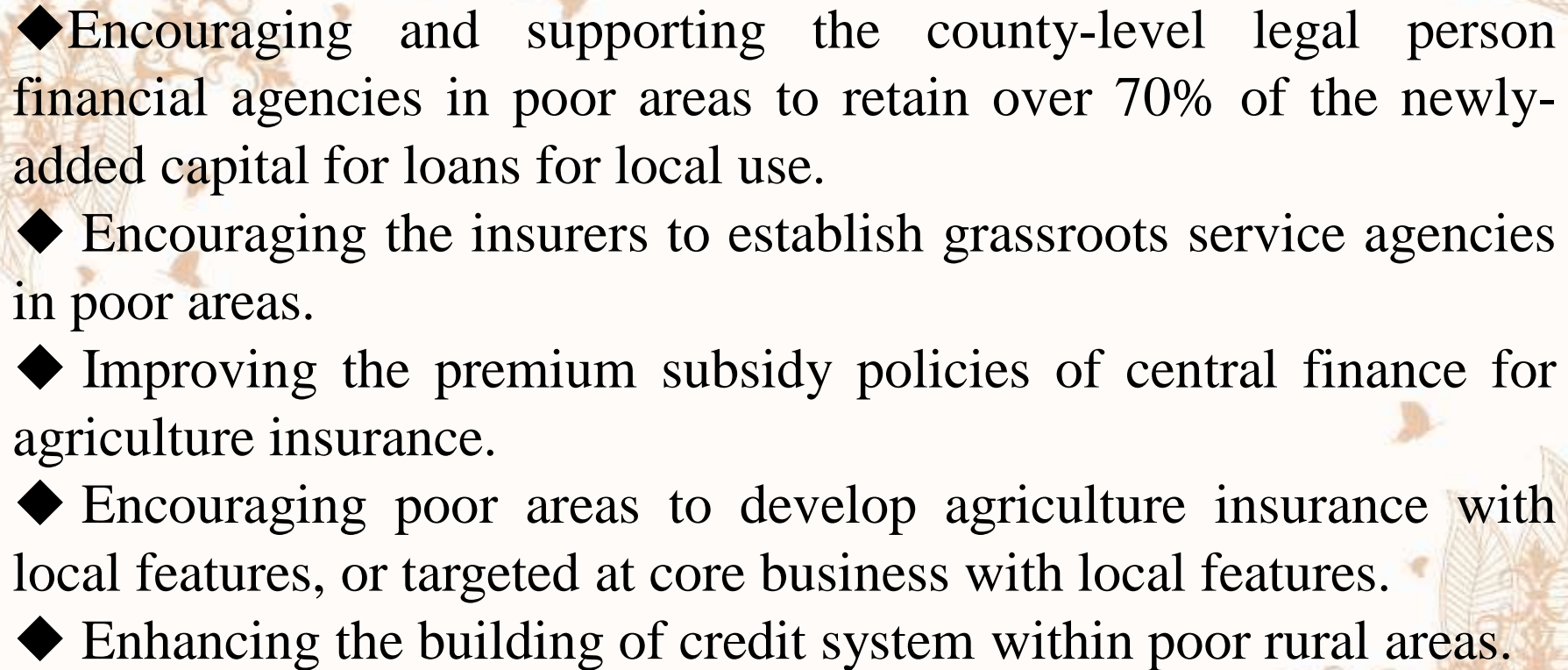
The guideline also proposed that the government should continue to improve the poverty alleviation interest-discount loan. Besides, the government should promote comprehensive and general financial service in poor areas.



◆ Actively promoting the innovation of financial products and ways of service in poor areas and encouraging the application of microcredit loan.

◆ Realizing full coverage of financial services provide by financial agencies in poor areas and villages.

◆ Guiding the regulated development of private loans and expanding the channels of financing in poor areas through various ways.

- 
- ◆ Encouraging and supporting the county-level legal person financial agencies in poor areas to retain over 70% of the newly-added capital for loans for local use.
 - ◆ Encouraging the insurers to establish grassroots service agencies in poor areas.
 - ◆ Improving the premium subsidy policies of central finance for agriculture insurance.
 - ◆ Encouraging poor areas to develop agriculture insurance with local features, or targeted at core business with local features.
 - ◆ Enhancing the building of credit system within poor rural areas.

In 2014, PBOC and other six departments and ministries jointly launched the *Guidelines on Financial Services for Poverty Alleviation and Development*, which proposed that relevant bodies should provide comprehensive financial services for poor areas. By 2020, the poor areas that can develop business in a sustainable way should enjoy comprehensive coverage of financial agencies in towns and financial services in villages. A multi-level and sustainable rural payment service system and improved rural credit system should be built. The level of financial services provided in rural areas should be relatively equal to national average. The all-round inclusive finance system that covers all walks of life and the disadvantaged in poor areas should be built up.

In November 2015, the State Council issued *Decisions on Fighting the Tough Battle on Poverty Alleviation*, making the poverty alleviation through finance a major pillar supporting the success of the tough battle.

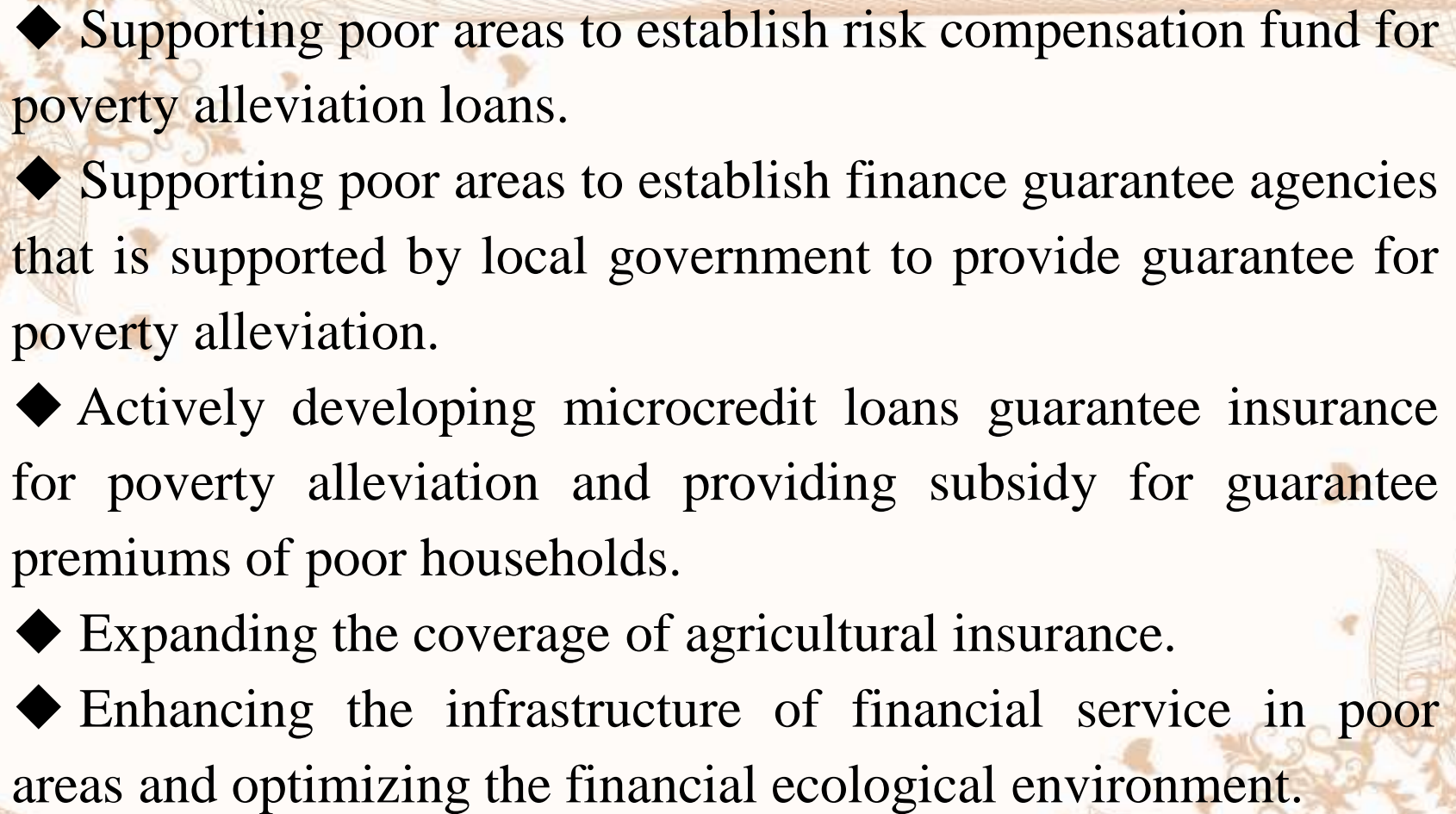
- ◆ Encouraging and Guiding the business, policy, development and cooperation-oriented financial agencies to give more support to poverty alleviation and development.
- ◆ Utilizing multiple monetary and policy tools to provide long-term, low-cost capital for poverty alleviation and development to financial agencies.

◆ Establishing re-loan for poverty alleviation, adopting interests lower than agriculture discount loan, and supporting the development of business with local features and employment and business creation among poor people.

◆ Providing finance for people who migrate to get rid of poverty.

◆ Supporting Rural Credit Associations, village banks and other financial institutions to provide zero-guarantee microcredit loan to poor households. The finance will provide subsidies according to base interest rate.

◆ Supporting poor areas to foster and develop mutual aid organization of rural capital and conduct pilot credit projects in rural credit associations.

- 
- ◆ Supporting poor areas to establish risk compensation fund for poverty alleviation loans.
 - ◆ Supporting poor areas to establish finance guarantee agencies that is supported by local government to provide guarantee for poverty alleviation.
 - ◆ Actively developing microcredit loans guarantee insurance for poverty alleviation and providing subsidy for guarantee premiums of poor households.
 - ◆ Expanding the coverage of agricultural insurance.
 - ◆ Enhancing the infrastructure of financial service in poor areas and optimizing the financial ecological environment.

in March 2016, the PBOC and other six departments and ministries issued the *Guidelines on Promoting Poverty Alleviation with Finance*, which emphasized that we should follow the basic strategies of targeted poverty reduction and alleviation. We should also combine the targeted support and comprehensive efforts, pay attention to the collaboration of financial and poverty alleviation policies, combine the innovation, development and risk prevention. We should make the inclusive finance as the foundation and ensure that the financial services in poor areas will cover the villages, households and individuals.

Examples of local government's efforts for poverty alleviation

The poverty alleviation offices and other six government bodies in Gansu Province launched implementation measures on targeted poverty alleviation with microcredit loans. Since 2015, the 970, 000 households and 4.17 million individuals with poverty records will be the major targets of poverty alleviation. The government will establish loan risk compensation fund, improve loan interest subsidy policies, promote microcredit loan insurance and develop mutual aid fund for poor people and villages. By the end of 2017, all poor households capable of labor, willing to loan from banks and capable of paying back will have access to free-guarantee, less than 50,000 microcredit loan that mature within three years. This will address the difficulty of poor people in obtaining low-cost loans.



Third, pursuing inclusive financial policies of equal opportunity and common development.

In November 2013, the Third Plenum of the 18th CPC Central Committee proposed the goal of developing inclusive finance.

In December 2015, the State Council issued the *Plan for Promoting the Development of Inclusive Finance 2016-2020*. This plan pointed out that we should develop inclusive finance, follow the principle of equal opportunity and sustainable business, and provide rational and effective financial service to all walks of life with affordable costs. Among them, the micro and small business, farmers, low-income urban dwellers, poor people, the disabled, the aged people and other special groups should be the major target of inclusive finance. This will promote social equality and harmony and promote the building of moderately prosperous society.

Fourth, the financial, tax and monetary credit loans to implement poverty alleviation through finance and promote the development of agriculture, villages and farmers.

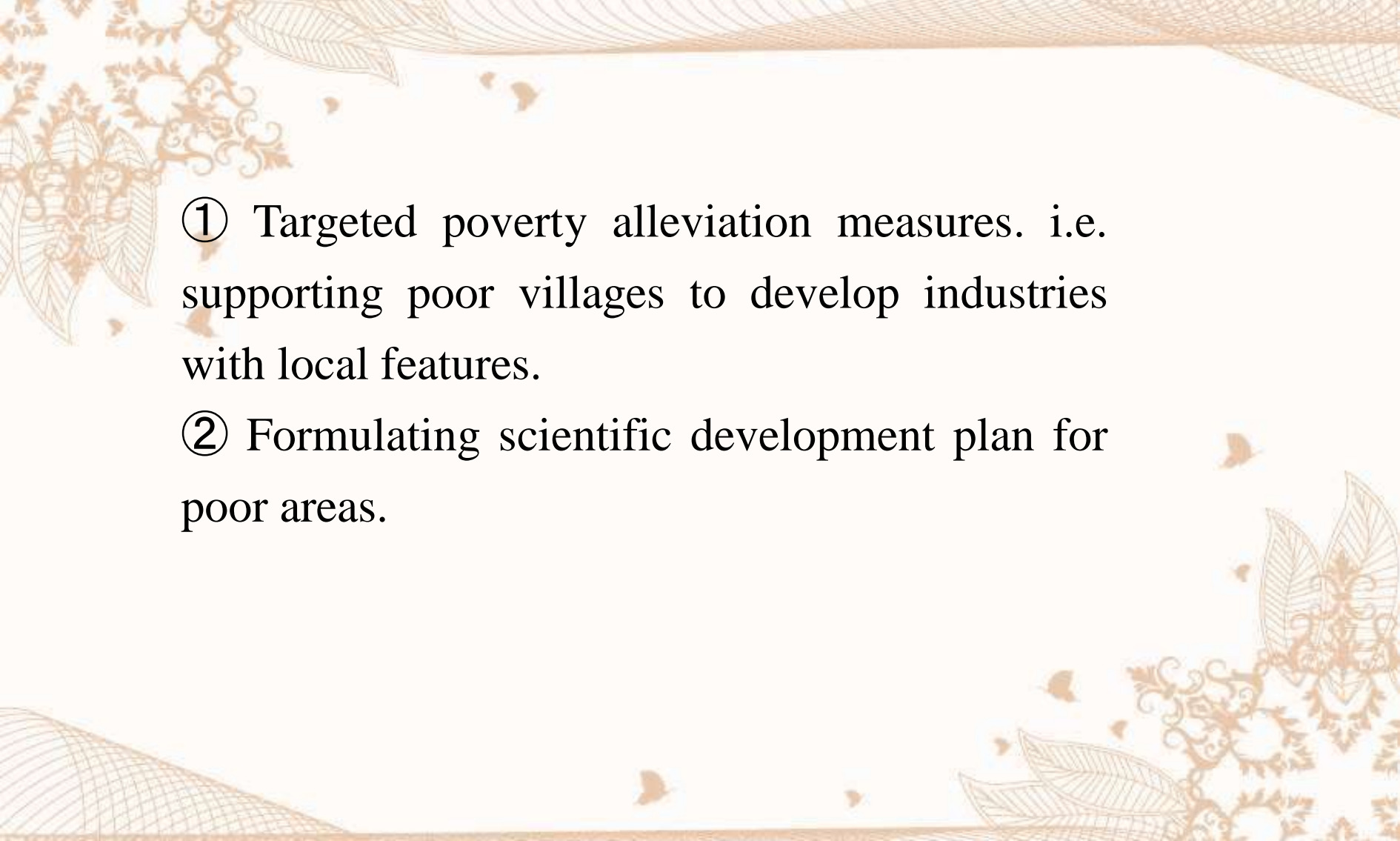
① The financial and tax policies. Chinese government has formulated fiscal, tax, monetary and supervisory policies to guide the financial institutions to add financial services to villages. In fiscal and tax policies, we have directed subsidies to encourage financial institutions to address the weakness and even vacuum of basic financial services in villages. Besides, we give awards to county-level financial institutions if they increase agriculture, village and farmer-related loans, which encourages these institutions to grant more loans in this regard. Apart from that, we have premiums subsidy for agriculture insurance. We also have preferential tax policies.

② Monetary and credit loan policies. We encourage and guide rural financial institutions to allocate more newly-added or revitalized credit resources to agriculture, village and farmer-related sectors. The PBOC adopted differentiated required reserves, agriculture-supporting re-loan and re-discount policies. In 2015, the Chinese government established poverty alleviation re-loan and adopted more preferential interest rate than agriculture-supporting re-loan to support the development of industries with local features and the employment and business creation for poor people in poor areas.

Second, practices of poverty alleviation through finance

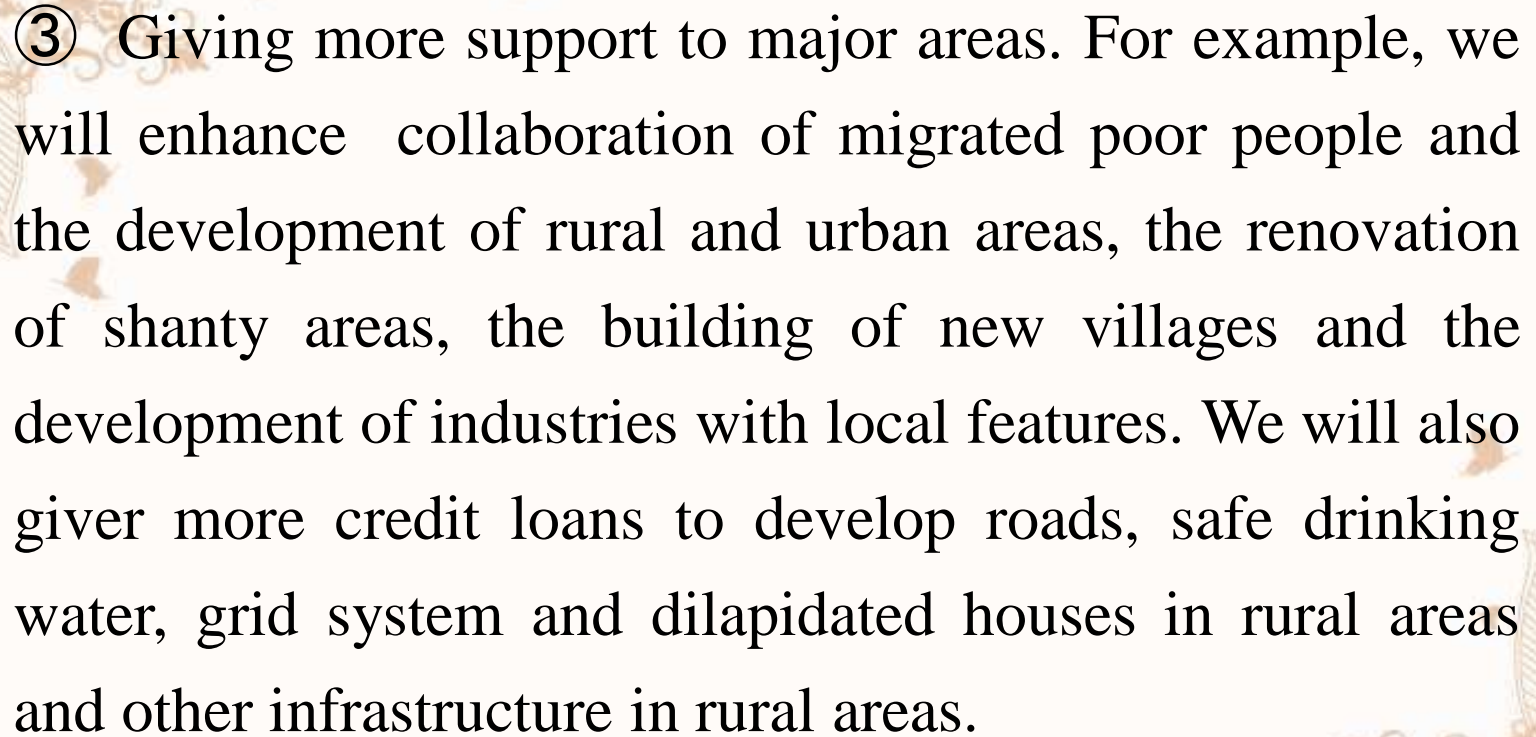
① Development and policy-oriented financial agencies.

The development-oriented financial institution in China is called China Development Bank and the policy-oriented bank is Agricultural Development Bank. According to its features, the China Development Bank are doing poverty alleviation from three aspects.



① Targeted poverty alleviation measures. i.e. supporting poor villages to develop industries with local features.

② Formulating scientific development plan for poor areas.



③ Giving more support to major areas. For example, we will enhance collaboration of migrated poor people and the development of rural and urban areas, the renovation of shanty areas, the building of new villages and the development of industries with local features. We will also give more credit loans to develop roads, safe drinking water, grid system and dilapidated houses in rural areas and other infrastructure in rural areas.

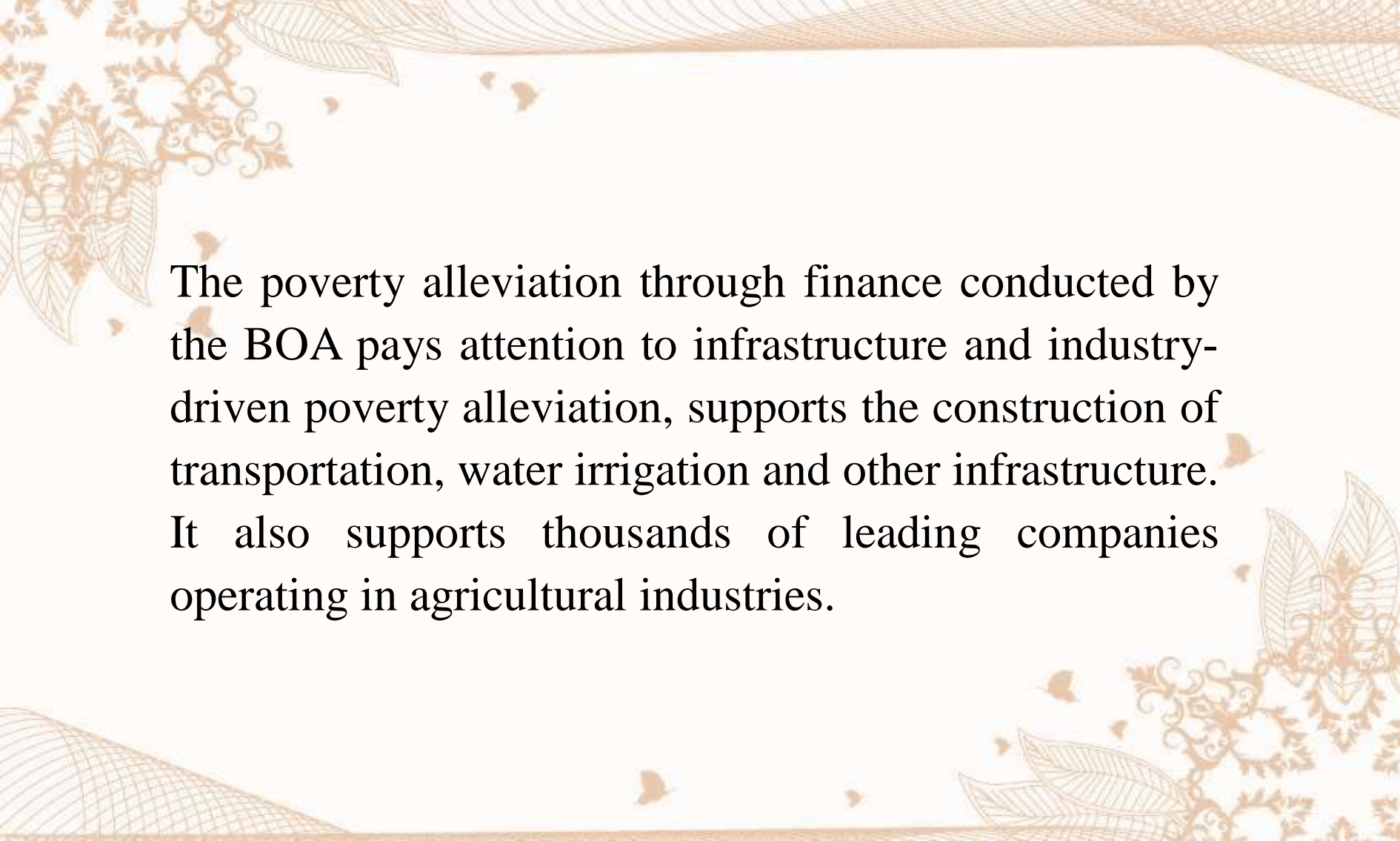
The China Development Bank also developed education poverty alleviation loans. In April 2016, the China Development Bank founded financial department of poverty alleviation to conduct business in this regard.

Meanwhile, the Agricultural Development Bank has granted credit loans to 537 state-level poor counties. By the end of 2015, it has examined and approved 412 projects of migrated poor people, which totaled 270 billion yuan and with an interest rate lowered by 15.7%. The average length of maturity is 21 years. This benefited 5.18 million of migrated poor people, and 62.7% of them have credit record.

Second, Commercial banks. Bank of Agriculture, Postal Savings Bank and village banks.

i.e. Bank of Agriculture.

Since 2011, the BOA has formulated policies and regulations of poverty alleviation. It has established a leading panel to address financial services in group poor areas in its headquarter. It also signed cooperation agreement upon poverty alleviation through finance with the State Council Leading Group Office of Poverty Alleviation. They have formulated a plan to provide comprehensive financial service and targeted financial service to major industries.

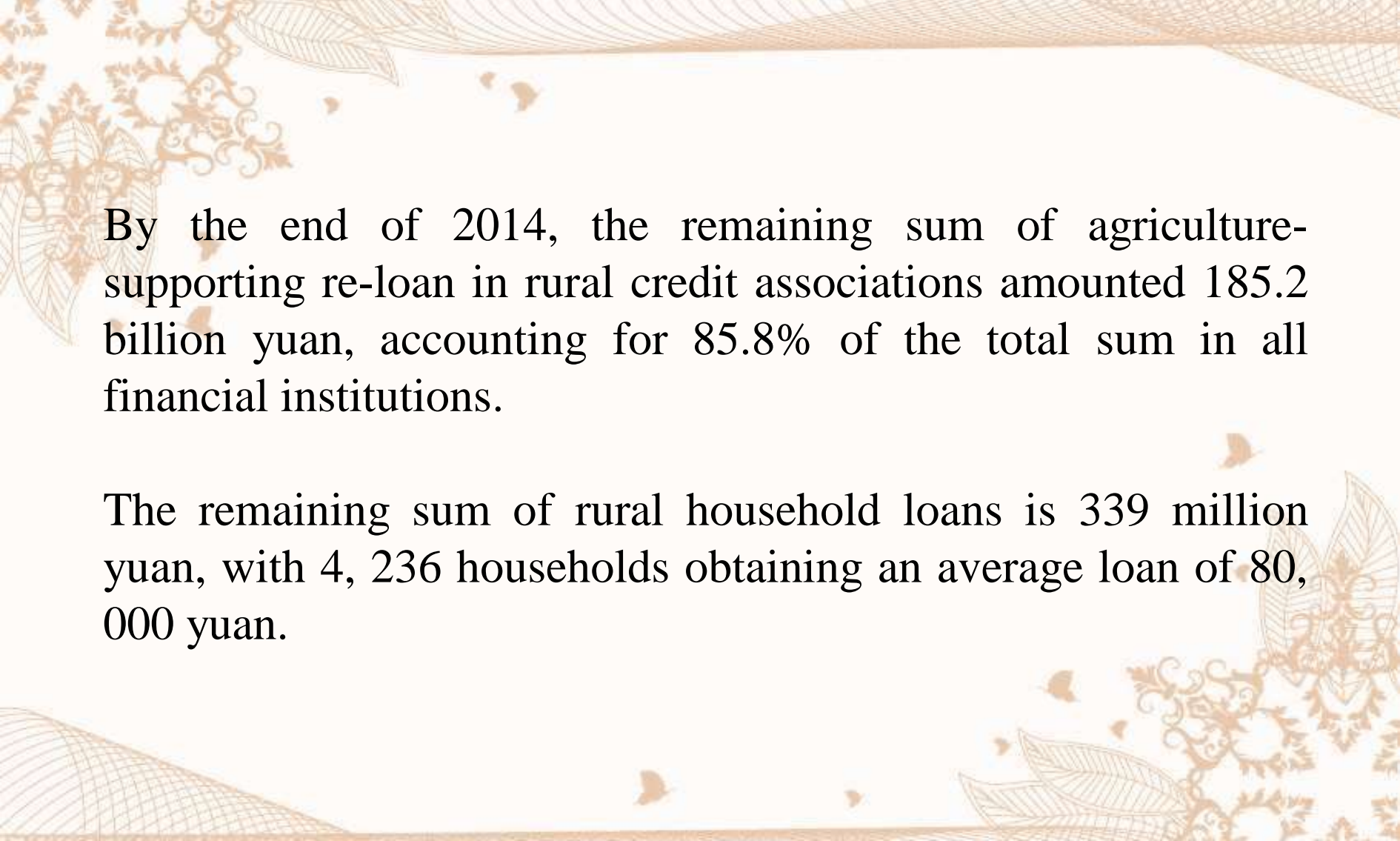


The poverty alleviation through finance conducted by the BOA pays attention to infrastructure and industry-driven poverty alleviation, supports the construction of transportation, water irrigation and other infrastructure. It also supports thousands of leading companies operating in agricultural industries.

Besides, it has granted 37.6 billion yuan of credit loans to farmers and herdsmen in Tibet Autonomous Region, covering over 90% of farmers and herdsmen there. In Guizhou, it granted loans for ecological migration projects. In Gansu Province, it granted 15.29 billion yuan in the model of governmental policy guarantee companies plus rural households. This supported 226,000 households. In Inner Mongolia, it granted 6.31 billion yuan of loans to support 112,000 households and 94 companies in the model of government risk compensation subsidy plus rural households.

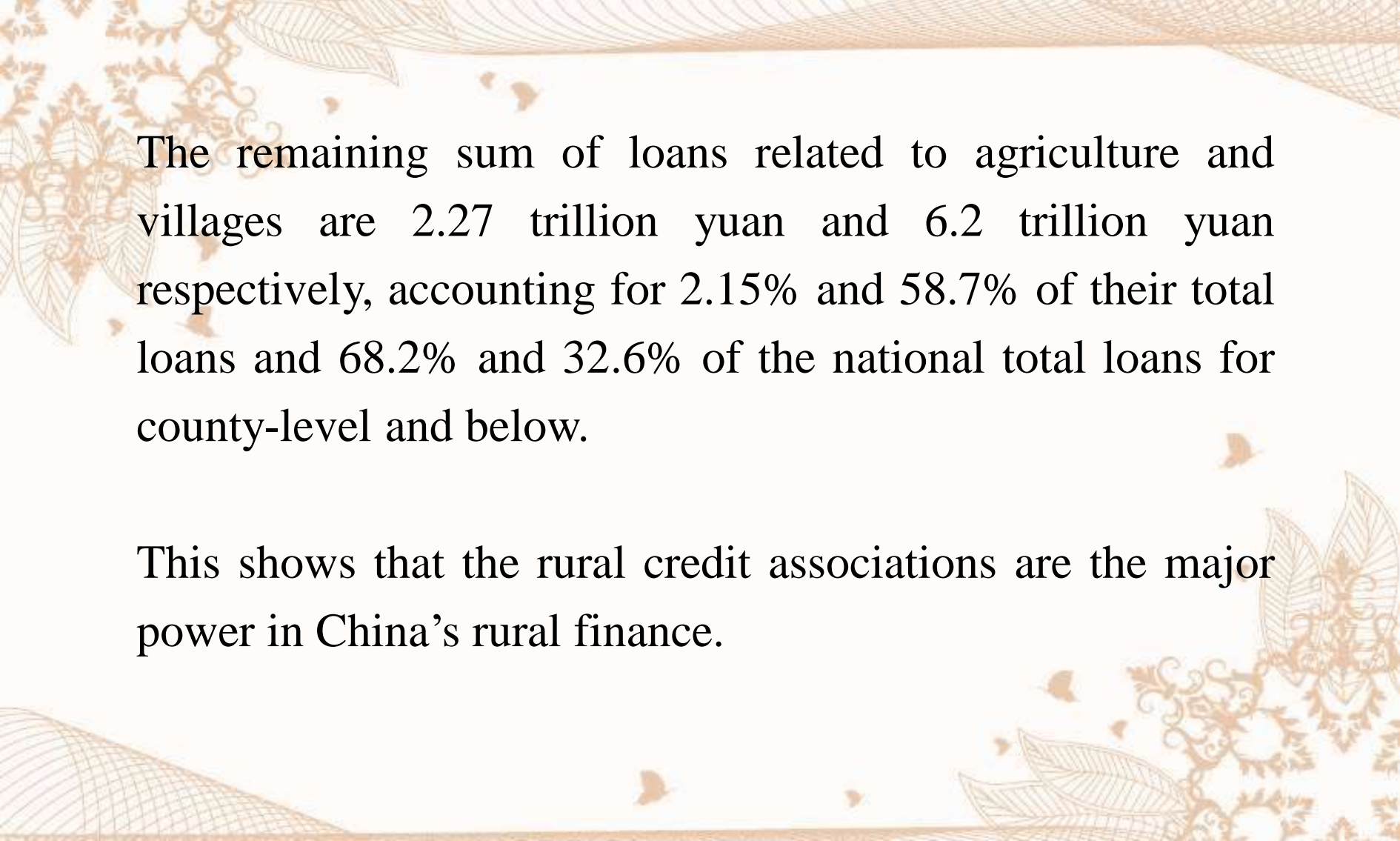
③ the Rural Credit Association system.

The rural credit associations, including rural commercial banks and rural cooperative banks, are open mainly to rural financial market. Therefore, apart from poverty alleviation subsidized loans, they also provide agriculture-related loans to alleviate poverty.



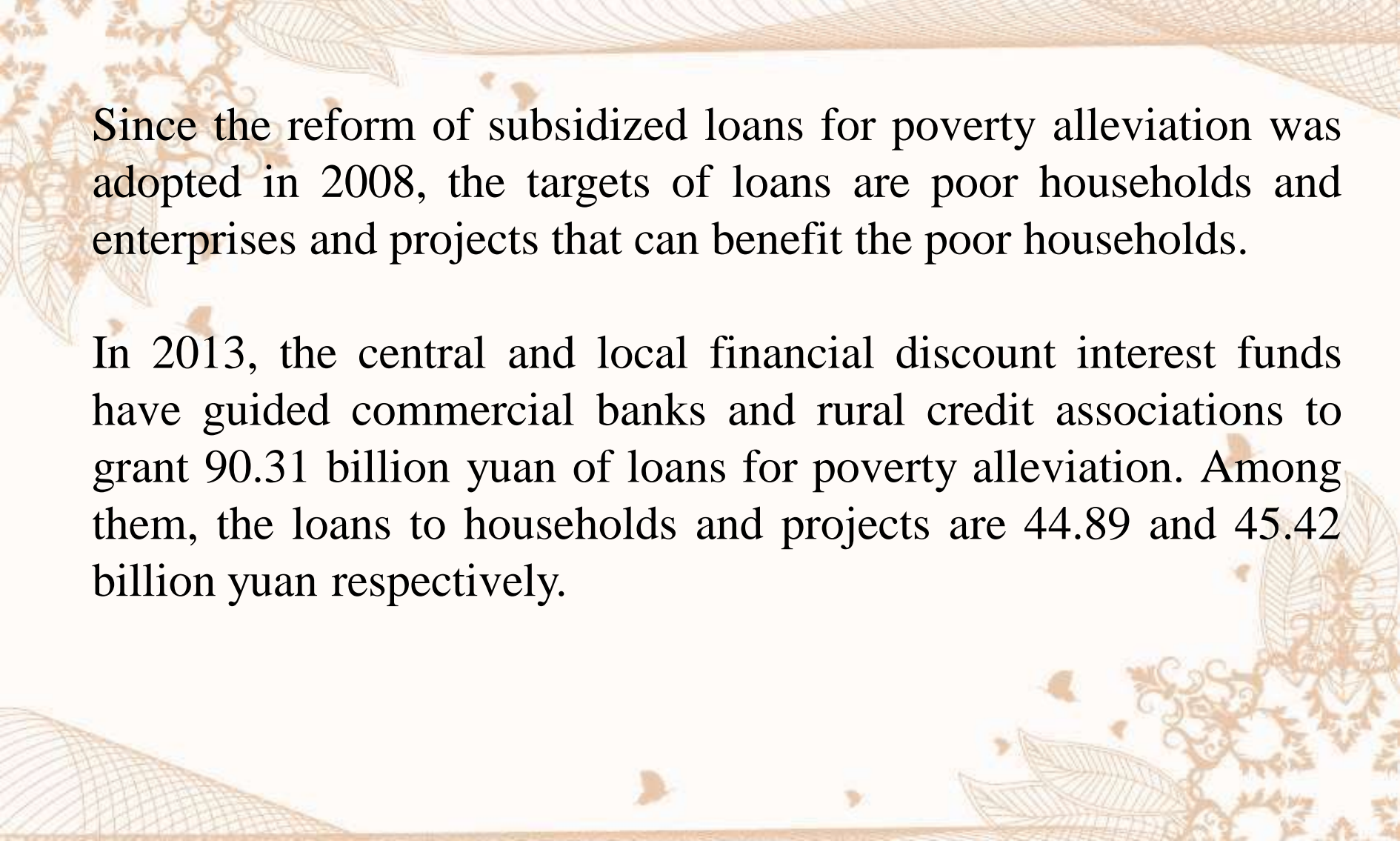
By the end of 2014, the remaining sum of agriculture-supporting re-loan in rural credit associations amounted 185.2 billion yuan, accounting for 85.8% of the total sum in all financial institutions.

The remaining sum of rural household loans is 339 million yuan, with 4, 236 households obtaining an average loan of 80, 000 yuan.



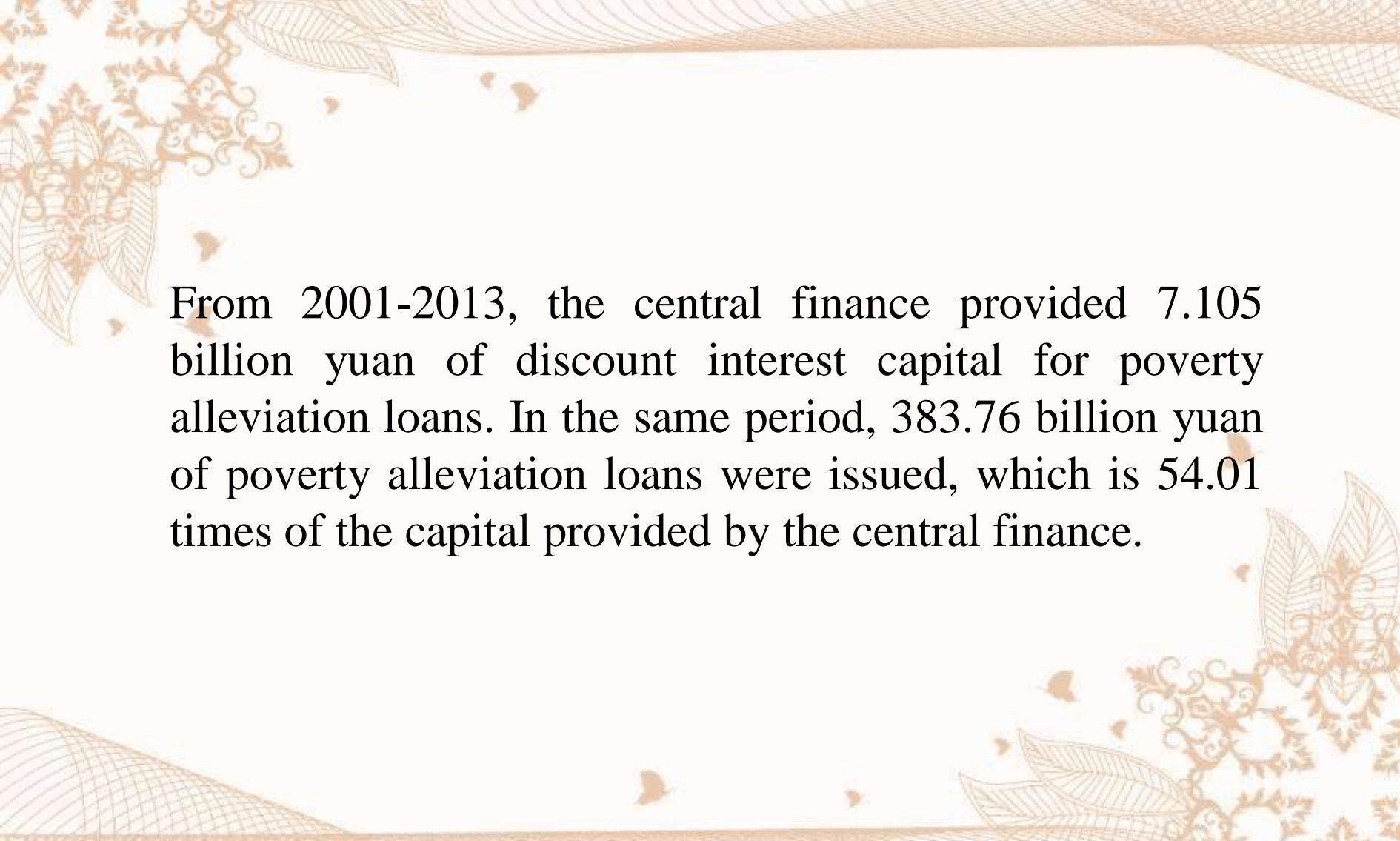
The remaining sum of loans related to agriculture and villages are 2.27 trillion yuan and 6.2 trillion yuan respectively, accounting for 2.15% and 58.7% of their total loans and 68.2% and 32.6% of the national total loans for county-level and below.

This shows that the rural credit associations are the major power in China's rural finance.



Since the reform of subsidized loans for poverty alleviation was adopted in 2008, the targets of loans are poor households and enterprises and projects that can benefit the poor households.

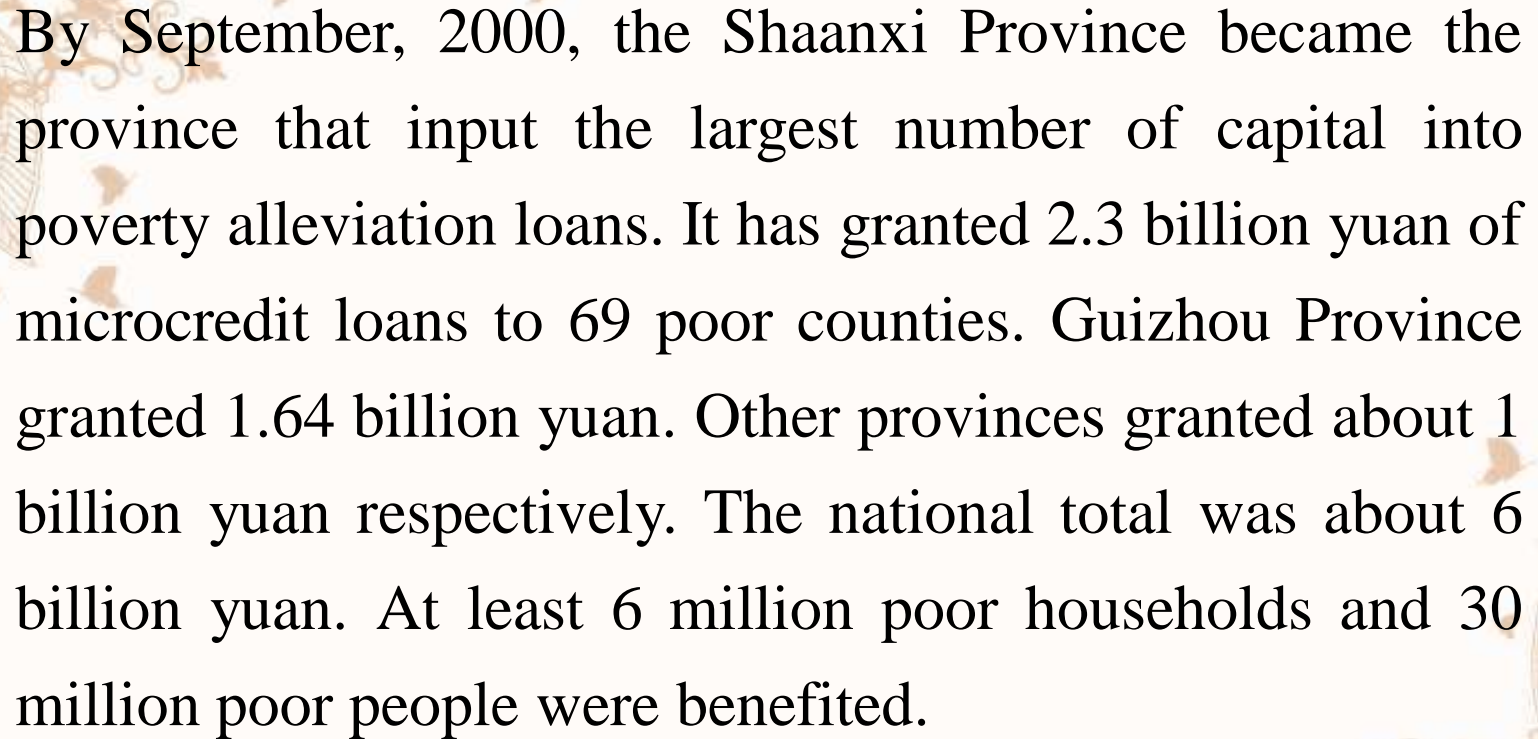
In 2013, the central and local financial discount interest funds have guided commercial banks and rural credit associations to grant 90.31 billion yuan of loans for poverty alleviation. Among them, the loans to households and projects are 44.89 and 45.42 billion yuan respectively.



From 2001-2013, the central finance provided 7.105 billion yuan of discount interest capital for poverty alleviation loans. In the same period, 383.76 billion yuan of poverty alleviation loans were issued, which is 54.01 times of the capital provided by the central finance.

④ The government-led microcredit loan for poverty alleviation in the 1990s.

In the second half of 1997, the government-led microcredit loans developed fast in some regions, covering all western provinces and most central provinces and regions. The national coverage rate of loans for poor households increased from 44.4% in 1997 to 82.75% in 1999, which almost doubled within two years.



By September, 2000, the Shaanxi Province became the province that input the largest number of capital into poverty alleviation loans. It has granted 2.3 billion yuan of microcredit loans to 69 poor counties. Guizhou Province granted 1.64 billion yuan. Other provinces granted about 1 billion yuan respectively. The national total was about 6 billion yuan. At least 6 million poor households and 30 million poor people were benefited.

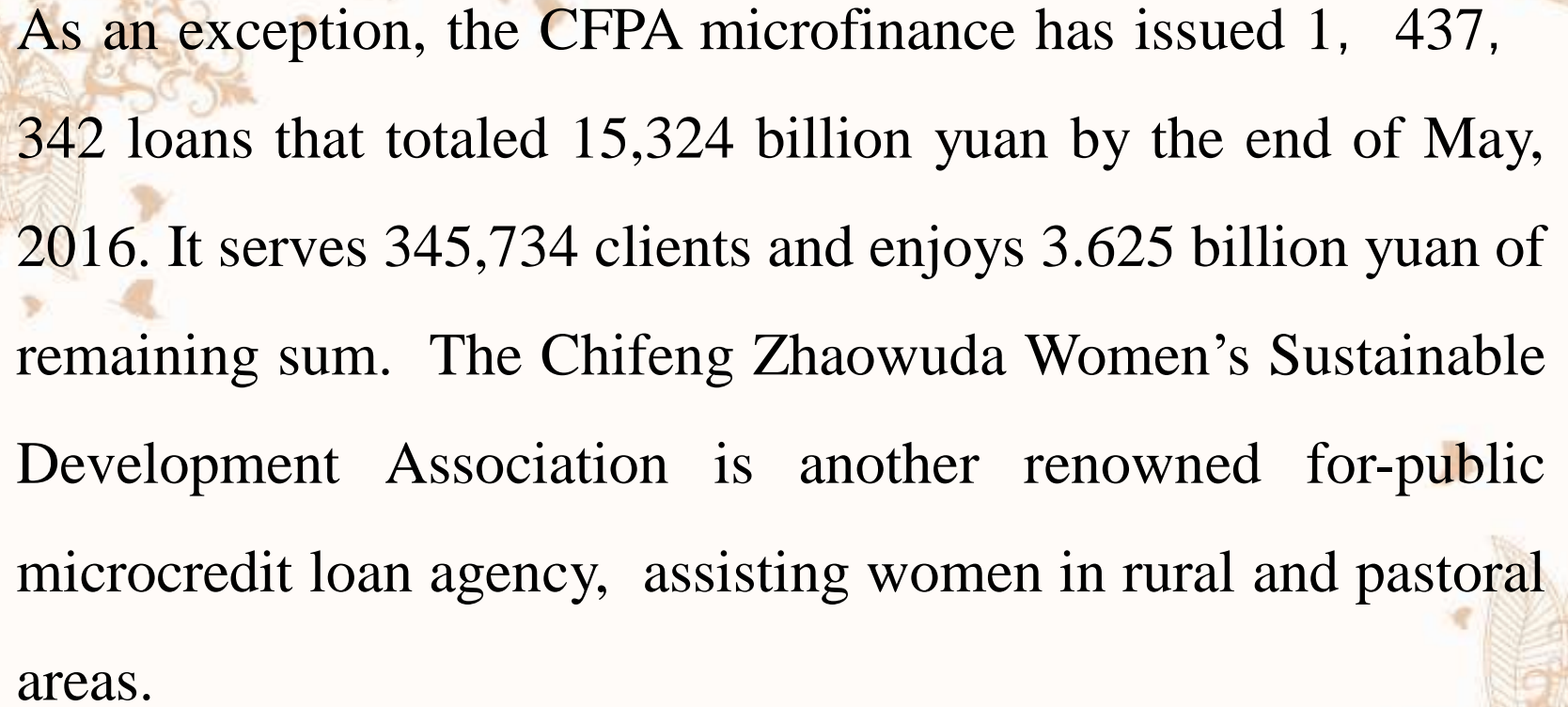
⑤ Pilot projects of mutual aid fund among poor villages

According to rough statistics of the State Council Leading Group Office of Poverty Alleviation, 28 provinces, regions and municipalities, 1,407 counties, 19,397 villages (128,000 in total) in China have conducted projects of mutual aid fund among poor villages by the end of 2013 (hitherto referred to as mutual aid fund). The fund amounted 4.517 billion yuan, with 1.154 billion yuan from the central financial fund for poverty alleviation, 2.279 billion yuan from provincial specific financial fund for poverty alleviation and 1.15 billion yuan of mutual aid fund from rural households and 1.15 billion yuan from other channels.

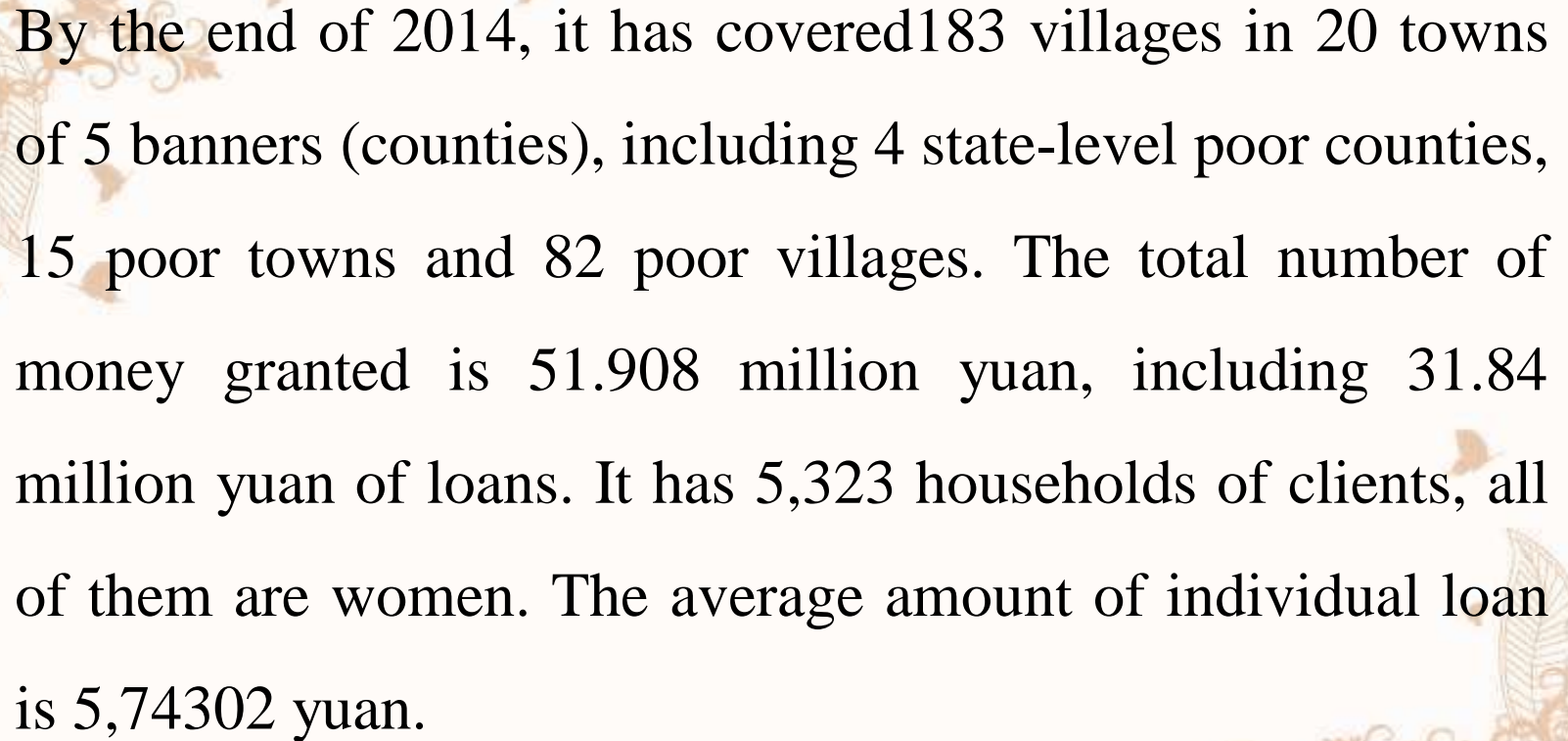
About 1.9146 million of households joined the mutual aid associations, covering 30.72% of the pilot villages. About 988,800 poor households joined the mutual aid associations, accounting for 41.2% of total poor households. The poor households obtained 4.819 billion yuan of loans, accounting for 54.31% of loans granted. About 2.0408 million people obtained loans, including 1.1624 million of poor people. This accounts for 56.85%. Income of the total capital utilized is 535 million yuan, the total money repaid is 6.905 billion yuan, the number of overdue loans is 217 million yuan, which are 37,651 cases. The overdue rate is 2.45%. The total sum lost is 25.22 million yuan.

⑥ Microcredit loans from non-governmental organizations (NGO)

Microcredit loans from NGOs are major part of China's microcredit loans for poverty alleviation. By the end of 2006, the public microcredit loan was at its height, governing 1 billion yuan of capital. But in general, the number of NGO microcredit loan agencies has been reduced from more than 100 to 56.



As an exception, the CFPA microfinance has issued 1, 437, 342 loans that totaled 15,324 billion yuan by the end of May, 2016. It serves 345,734 clients and enjoys 3.625 billion yuan of remaining sum. The Chifeng Zhaowuda Women's Sustainable Development Association is another renowned for-public microcredit loan agency, assisting women in rural and pastoral areas.

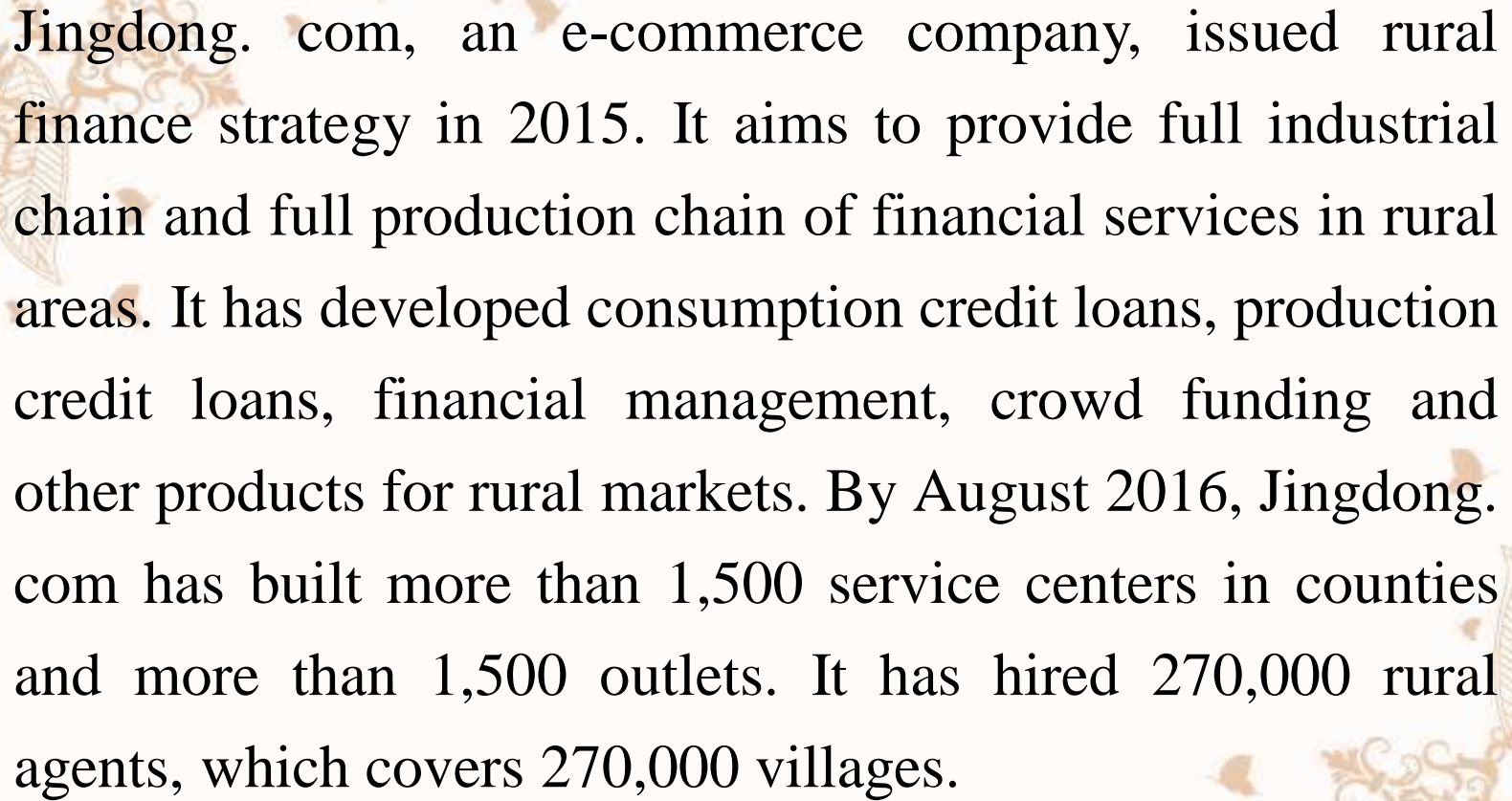


By the end of 2014, it has covered 183 villages in 20 towns of 5 banners (counties), including 4 state-level poor counties, 15 poor towns and 82 poor villages. The total number of money granted is 51.908 million yuan, including 31.84 million yuan of loans. It has 5,323 households of clients, all of them are women. The average amount of individual loan is 5,74302 yuan.

⑦ Internet finance in rural areas.

Internet finance is a new form of policy tools to alleviate poverty in rural China. It is on the rise currently. In 2009, the CreditEase founded a platform called Yinongdai, which obtains low-cost capital from urban areas and provides the money to for-public microcredit loans institutions. These institutions will support the poor people through loans. By the end of July, 2016, it has granted loans worth nearly 200 million yuan to 19,630 poor people. This helps the reverse flow of capital from urban to poor rural areas.

Apart from Yinongdai, the CreditEase also conducted Nongshangdai (rural business loan) and finance lease in rural areas. In 2015, the Ant Financial, a Internet finance company of Alibaba.com established a platform of payment, insurance and loan in rural areas. Its agriculture, rural and farmer-related users reached 150 million, 120 million and 22 million respectively. In 2016, the Ant Financial founded department of rural finance, which focuses on the payment, insurance, finance and credit investigation affairs in rural areas.



Jingdong. com, an e-commerce company, issued rural finance strategy in 2015. It aims to provide full industrial chain and full production chain of financial services in rural areas. It has developed consumption credit loans, production credit loans, financial management, crowd funding and other products for rural markets. By August 2016, Jingdong. com has built more than 1,500 service centers in counties and more than 1,500 outlets. It has hired 270,000 rural agents, which covers 270,000 villages.

On one hand, Jingdong finance provides consumption credit services to rural households, with over 500 million yuan of total transaction volume. On the other hand, it provides loans to rural culturists, which totals 345 million yuan. Other e-commerce companies are following suit in expanding rural financial market.

By June 2016, the coverage rate of Internet in rural China reaches 31.7%. With the application of smart phones in rural China, it becomes more convenient for farmers to purchase and sell goods through Internet.

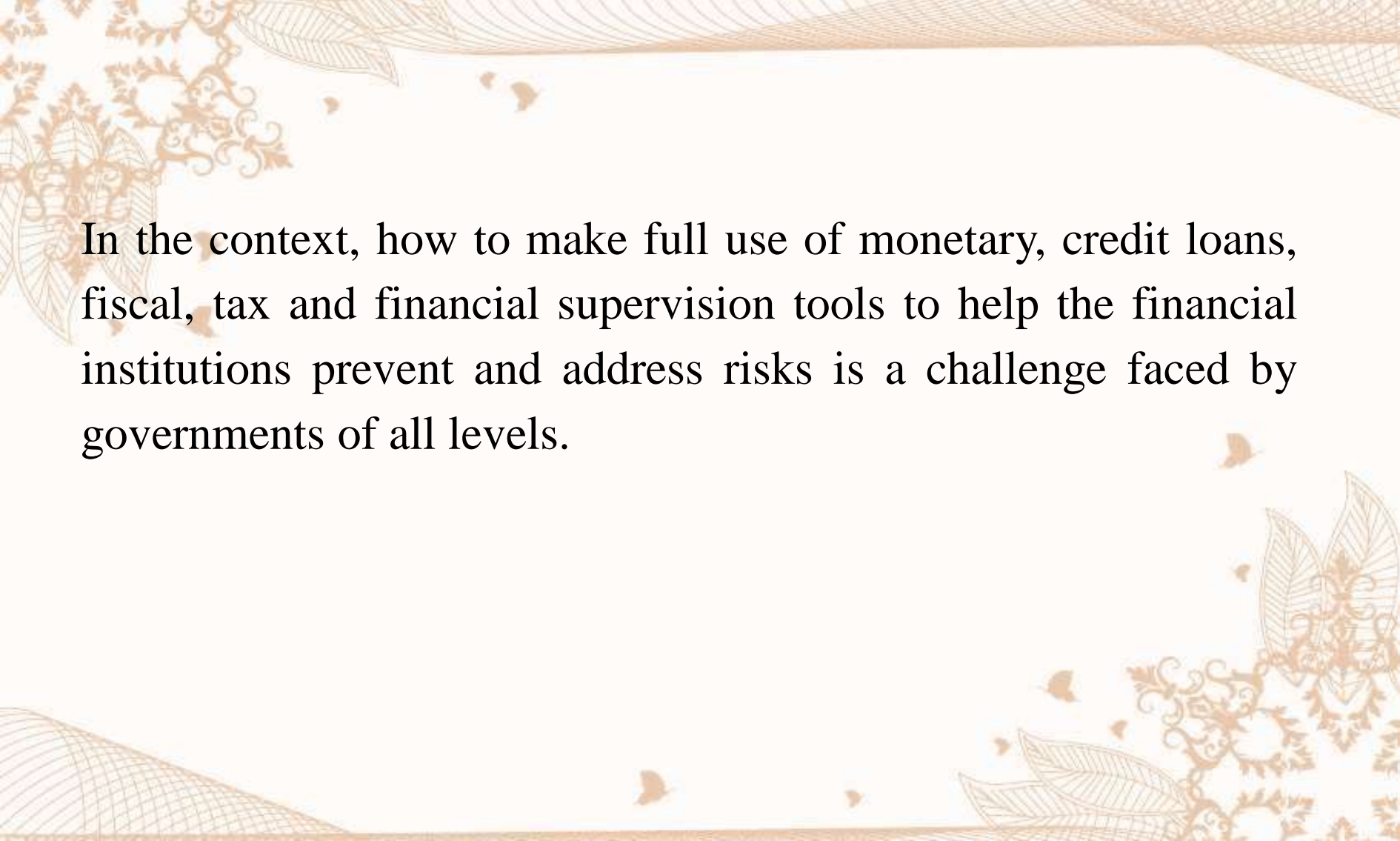
Third, prospects and reflections on poverty alleviation through finance in China

① Challenges

First, the poor areas need a huge number of capital to get rid of poverty. To alleviate poverty through relocation, the NDRC needs to allocate 600 billion yuan. Among that, 350 million yuan comes from the bank loans, which is almost 60%. There are also funds for poverty alleviation via industrial development, infrastructure and targeted poverty alleviation loans.

② The poor people live a sporadic way, with outdated natural conditions and infrastructure. The cost of targeted poverty alleviation is higher than that was expected in the past.

③ The existing poverty issue is more serious, complicated and stubborn than before. The poor households have no guaranty required by the financial institutions. The local governments are financially distressed. The newly founded government financial platforms are incapable of providing sufficient guarantee to long-term development or policy-oriented loans.



In the context, how to make full use of monetary, credit loans, fiscal, tax and financial supervision tools to help the financial institutions prevent and address risks is a challenge faced by governments of all levels.

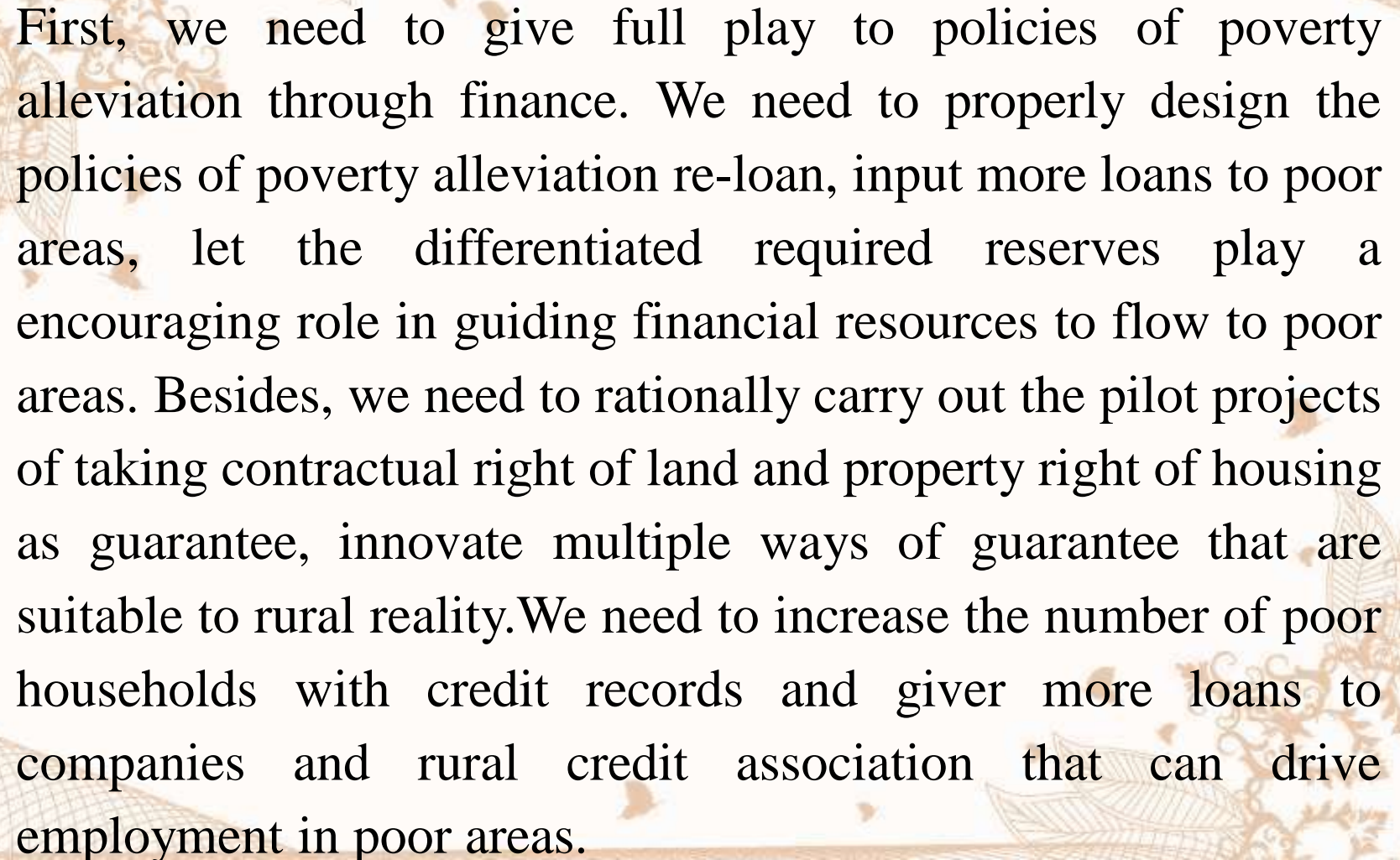
Second, relations need to be properly addressed in poverty alleviation through finance.

- ① We need to strike a balance between business interests and social responsibility.
- ② We need to have a rational understanding the relation between fiscal and financial policies.
- ③ We need to properly address the relation between poverty alleviation capital and basic financial service.
- ④ We need to take care of the relation between economic development and targeted poverty alleviation.

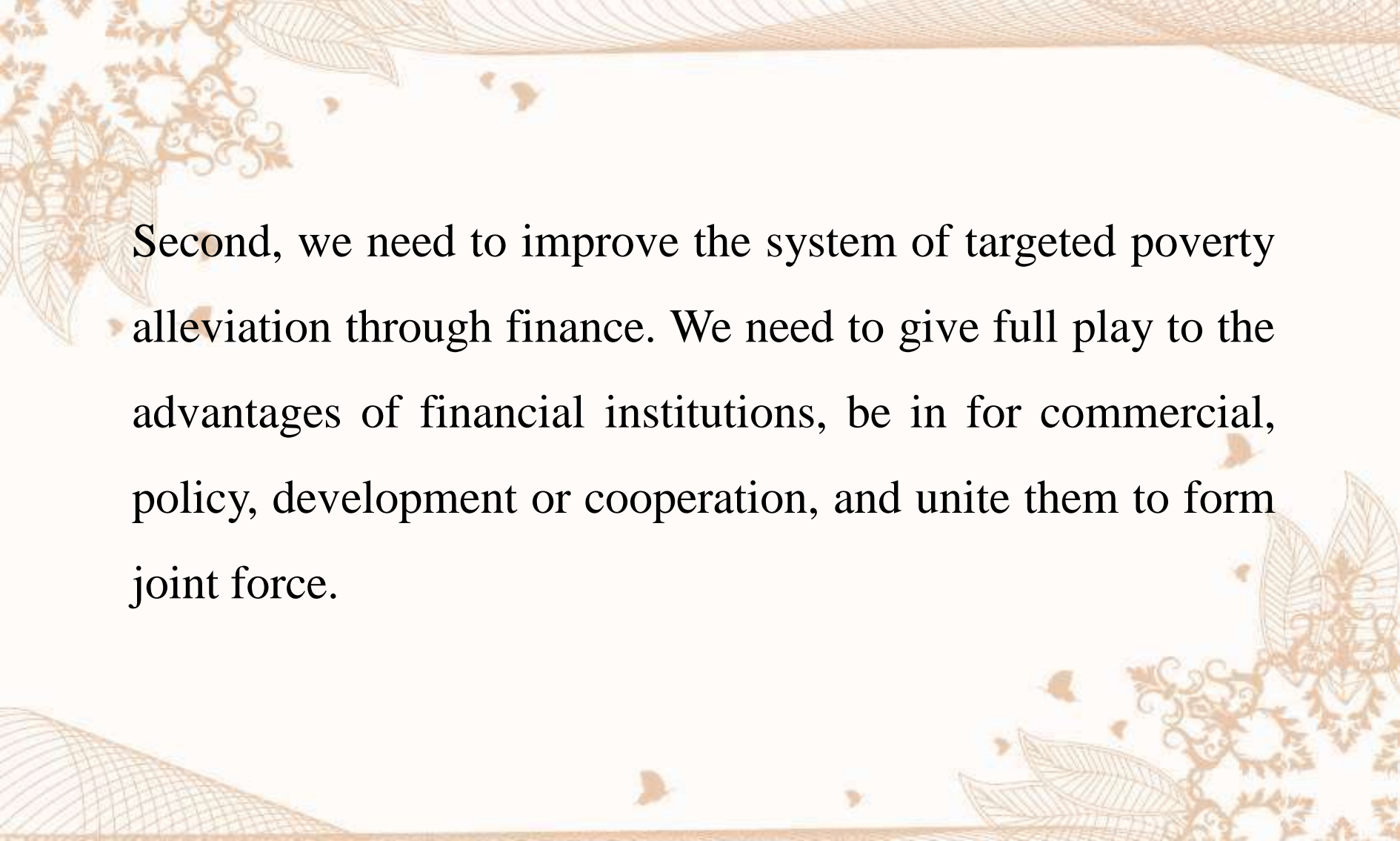


Third, major tasks.

Guided by the principles of targeted poverty reduction and alleviation, we need to make full use of finance and focus on the following five aspects.



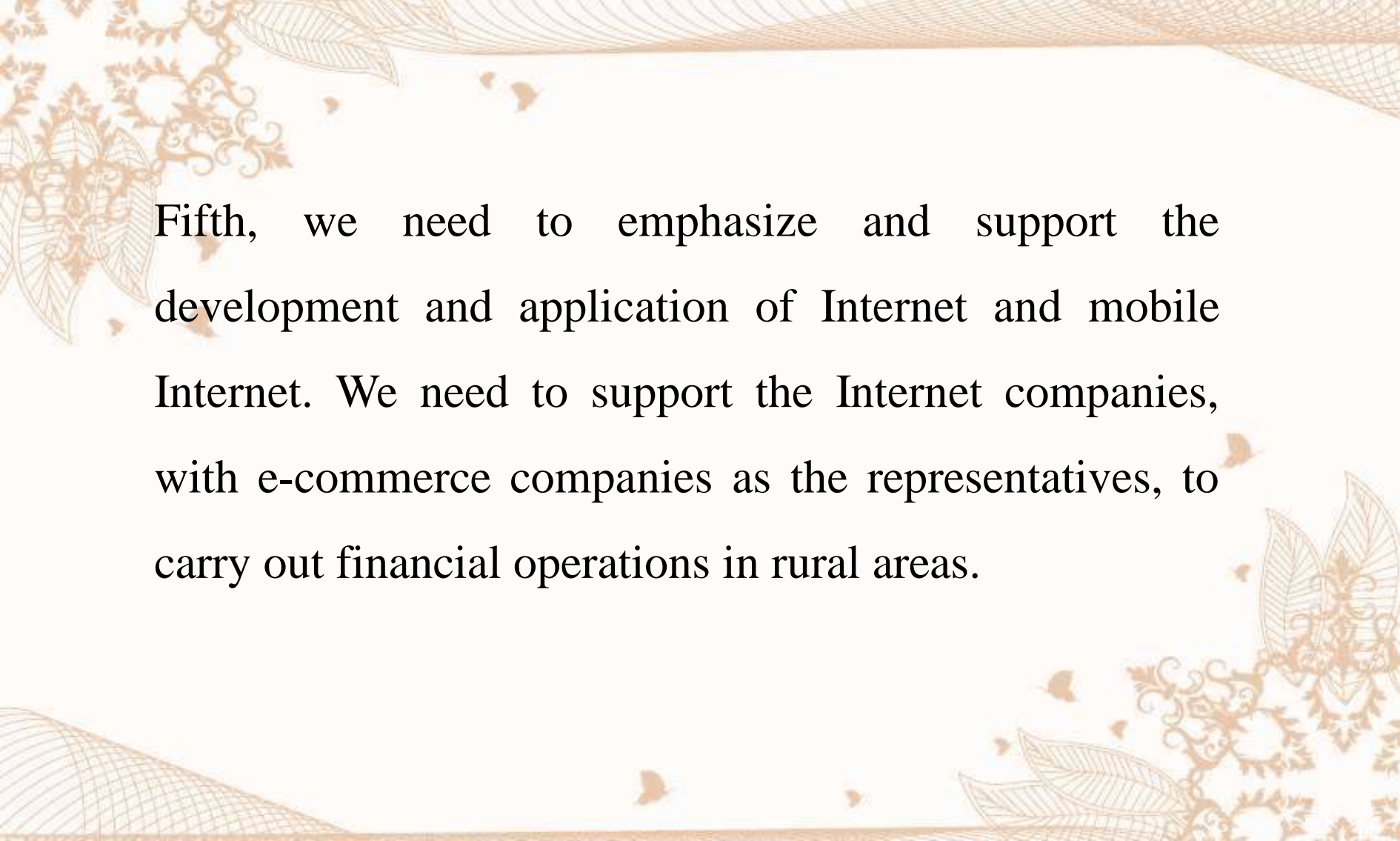
First, we need to give full play to policies of poverty alleviation through finance. We need to properly design the policies of poverty alleviation re-loan, input more loans to poor areas, let the differentiated required reserves play an encouraging role in guiding financial resources to flow to poor areas. Besides, we need to rationally carry out the pilot projects of taking contractual right of land and property right of housing as guarantee, innovate multiple ways of guarantee that are suitable to rural reality. We need to increase the number of poor households with credit records and give more loans to companies and rural credit association that can drive employment in poor areas.



Second, we need to improve the system of targeted poverty alleviation through finance. We need to give full play to the advantages of financial institutions, be in for commercial, policy, development or cooperation, and unite them to form joint force.

Third, we need to improve the infrastructure of finance in rural areas. We need the infrastructure for payment in poor areas, promote the application of settlement account, payment tools and payment and settlement networks. We need to build on and expand the existing agriculture-supporting money withdrawing services in poor areas, encourage and explore e-payment through mobile phones and Internet. This will help to expand the payment service market in poor areas. We need to strengthen the credit system, improve credit information database, explore credit evaluation indicator system for poor households and create favorable credit environment for poverty alleviation through finance.

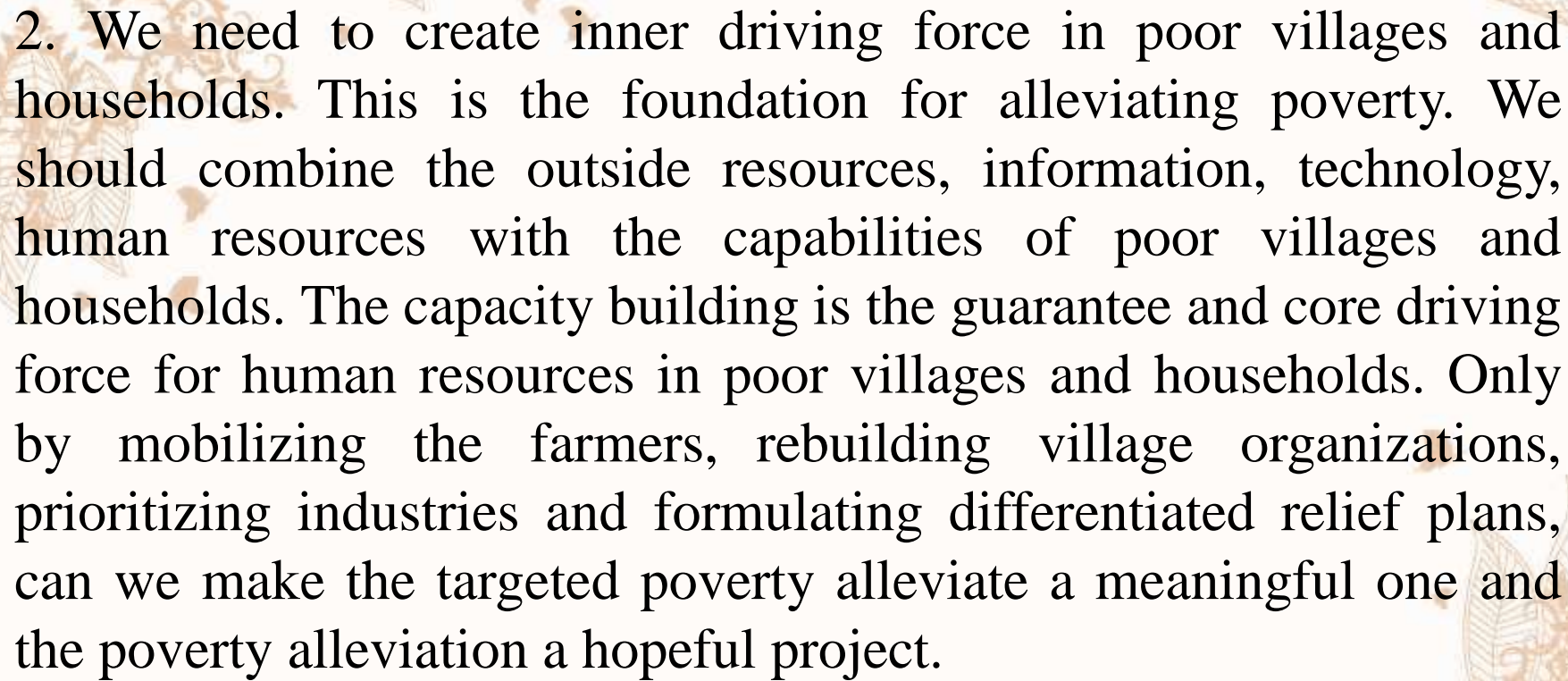
Fourth, we need to establish a mechanism to diversify financial risks in poor areas. ① We need to give play to reserve insurance system. ② We need to improve the guarantee system in rural areas. ③ We need to innovate products and services of targeted poverty alleviation, continue to expand the density and depth of agriculture insurance. We need to support the agricultural product insurance with local features by providing awards rather than subsidy. We need to improve and promote the guarantee insurance for microcredit loans and provide credit addition for poor household to get loans. ④ We need to optimize the financial ecological environment in poor areas, enhance the building of local social credit system, safeguard the judicial justice and combat people who default on their debts.



Fifth, we need to emphasize and support the development and application of Internet and mobile Internet. We need to support the Internet companies, with e-commerce companies as the representatives, to carry out financial operations in rural areas.

Fourth, reflections on poverty alleviation through finance.

1. Such finance should be the focus of banking sector in promoting targeted poverty alleviation. It has specific demand, clear responsibility for supervisory bodies, enough resource for commercial banks, good management (with accountability mechanism) and can be paid back (with the discount interest rate and guarantee from the government and cooperation of insurance companies.)



2. We need to create inner driving force in poor villages and households. This is the foundation for alleviating poverty. We should combine the outside resources, information, technology, human resources with the capabilities of poor villages and households. The capacity building is the guarantee and core driving force for human resources in poor villages and households. Only by mobilizing the farmers, rebuilding village organizations, prioritizing industries and formulating differentiated relief plans, can we make the targeted poverty alleviate a meaningful one and the poverty alleviation a hopeful project.

3. Paying attention to whether the poor groups are truly benefited. The government has greatly increased funds and projects for poverty alleviation and the number of people benefited is also on the rise. But we need system, measures and result evaluation to examine whether the poor and low-income households are preferentially treated and enjoy maximum benefit. i.e. the enterprise plus rural households model.



Thank you!