

Study on Rural Microfinance from the Perspective of Precision Poverty Alleviation

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Abstract: Microfinance has its unique operation mode provides financial services for rural poverty groups. but problems still exist in the actual implementation: high credit risk, low credit interest rates, lack of supervision legal and credit system, etc. This paper puts forward suggestions on optimizing the internal system of institutions and strengthening the supervision of the competent departments, so as to promote the stable and comprehensive development of rural microfinance in China.

1. Introduction

China is now in the process of unequal development of urban-rural dualization[1]. The extra value of products and infrastructure conditions limits the development of rural area greatly. Besides, rural financial services is incomplete due to the poor market conditions and atmosphere coupled with low level of long-term safeguard mechanism, local peasants almost have no property income source and zero risk-resistance capability.[2] Once faced with natural disasters or diseases, they are easily caught in the vicious circle of returning poverty.

In 2017, the 19th CPC National Congress clearly claimed the historical mission of winning the battle of poverty alleviation. As an important way of agricultural financial services, Although, the domestic agricultural microfinance is developing fast, but it also faces many difficulties.[3] Finding effective paths for the development of agricultural microfinance in poverty-stricken areas will be the main purpose of this paper.

2. Current Status of Agricultural Credit Development in China

2.1. Increasing credit scale and financial demand

Loans are the key areas of financial services for agriculture and relatives. With the infrastructure construction improved and the on-going agricultural modernization, the corresponding agricultural credit scale of domestic financial institutions is expanding. By the end of 2018, the total balance of agricultural-related loans had reached 32.68 trillion yuan, of which the scale of farmers' loans had exceeded 9 trillion yuan, an increase of nearly 14% over 2017.

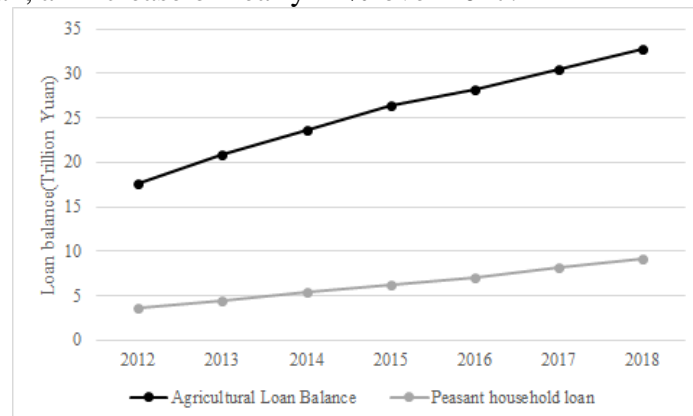


Fig.1. The Scale of Agricultural Loans of Financial Institutions in China

In recent years, with the continuous promotion of poverty alleviation work, the credit demand in poor areas has growing rapidly, with the increasing financial support at all levels. By the end of 2018, the loan balance of the poor households and the household out of poverty reached 724.4 billion yuan. Among them, microfinance for poverty alleviation has contributed a lot. It has supported more than 6 million poor households nationwide, nearly 40% of the registered poor household.

2.2. Expanding proportion of small financial institutions

Rural commercial banks and other small financial institutions have long been the main source of agricultural credit funds. The proportion of their credit scale has increased gradually. Now, the number of banking outlets in China has exceeded 220,000, and the coverage rate of rural outlets is about 95%. In 2017, the scale of agricultural-related loans from rural small financial institutions reached 31% of total. Small financial institutions are becoming pillar to the development of agriculture and relatives.

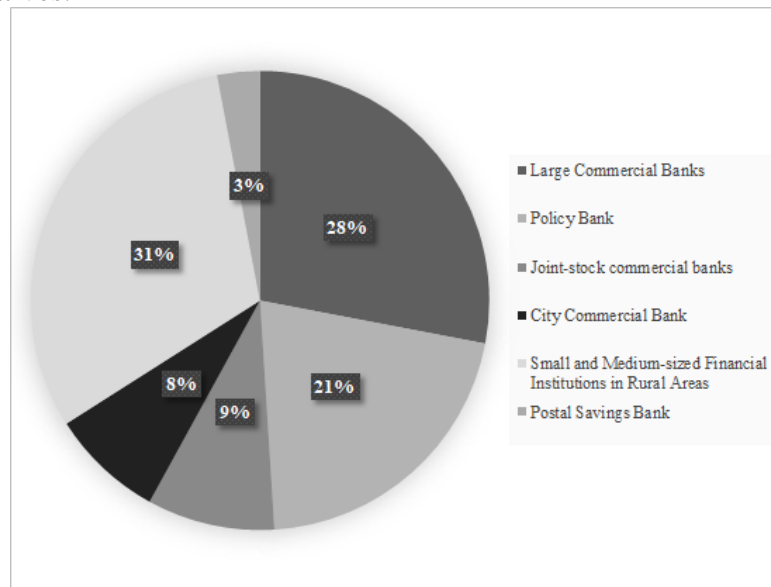


Fig.2.Source Structure of Agricultural Loans in 2017

2.3. Internet innovation in agricultural-related services

Microfinance corporation is an important supplement to China's agricultural financial services. According to a survey conducted by Renmin University, 35% of the corporations regard agriculture, forestry, animal husbandry and fishery as their primary business target. Most of its customers are concentrated in low-income groups, of which more than 48% of them have loans of less than 50,000 yuan.

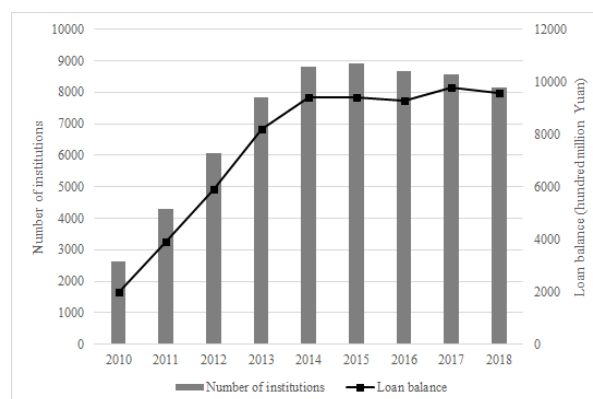


Fig.3. Development of Microfinance Corporations in China

Since 2008, the number and loan balance of domestic microfinance corporations have witnessed an explosive growth. However, in recent years, the number of institutions and loan scale both decreased significantly. The intervention of the Internet technology has make things different. One

typical examples is Pterosaur Loan. Its P2P network loan service has covered more than 1,000 counties in China, with the number of users and the scale of loans exceeding 5.3 million and 70 billion yuan.

3. Bottlenecks and Problems in China's Agricultural Microfinance

3.1. High Level of Credit Risk

Market risk of agricultural products refers to the uncertainty of trading conditions. The market risk of agricultural microfinance mostly comes from the information asymmetry.[4] Inefficient management and lack of market information resources make farmers disadvantaged in market competition, besides, the irrational production behavior will also increase the risk of recovery delay. In addition, because of the long production cycle, farmers can not regulate production behavior in time. They can only become passive recipients of market prices.

3.2. Incomplete Credit System

Bangladesh's poor bank is a successful case in the field of international micro-guaranteed loans.[5] The Garmen Bank model is also partly used for reference in China's micro-insurance loan system. But in practice, the effect is not as good as expected. The members of the joint insurance group are mostly relatives, and almost from the same industry. Once in the production depression, the risk of loan overdue will spread and accumulate within the group. At present, incomplete credit system, the complicated procedures of loan application, and many other factors restrict the development of agricultural microfinance. As a result, the peasant groups prefer private lending instead.

According to a research from the Central Bank, the domestic microfinance industry showed its first overall negative growth in 2016, accompanied by a high non-performing loan ratio and a deteriorating trend. The risk factors continue to accumulate as the absence of supervision.

Poor credit system also has negative impact in the extension of agricultural microfinance. The conservative ideas and limited education of farmers make them pay less attention to their low credit condition. Personnel from loan companies have to spend more time in monitoring, which undoubtedly increases the cost. In addition, the absence of traditional financial institutions in personal consumption credit market results in the loss of personal debt information. Besides, the relevant legislation of personal information protection has not yet been completed. For instance, the description of personal information collection in the Regulations on Credit Information Management implemented in 2013 was vague. In contrast, in the 1970s, the United States enacted laws and regulations like the Fair Credit Reporting Act, to clear responsibility in personal information protection.

3.3. Low Credit Interest Rate

Low-income groups usually engaged in traditional industries with low yield. Therefore, microfinance corporations often set higher loan interest rates to maintain profit. However, high interest costs will result in customer churn. But too low profit margin will also bring some problems.

In order to promote the development of microfinance industry, the Central Bank and the CBRC jointly formulated and issued a series of norms. Especially the Guiding Opinion in 2008 clearly stipulates the level of loan interest rate and lending principles of microfinance corporations. Although it protects the interests of low-income groups, it reduces the profit margin of microfinance corporations, which is not conducive to the future development of the industry in the long run.

In addition, normal commercial banks can absorb deposits, but microfinance institutions can only use their own funds, so in the cost of funds. Microfinance institutions are 5-10% higher than commercial banks. What's more, the risk of mismatching borrowers' credit and collateral has further increased the operating costs of microfinance institutions. On the one hand, low interest rates tend higher defaults, and the lack of repayment pressure also result in a sharp increase in farmers' credit risk; on the other hand, some non-poor households will abuse the loan for profit, crowding out of the actual poor households, reducing the effectiveness of Poverty Alleviation Policies.

4. Suggestions on Development of Domestic Agricultural Microfinance

4.1. Strengthen the Preventive Measures of Microfinance Risk

Firstly, a diversified financial service pattern with multi-force participation should be established, expanding the financial service supply. Agricultural microfinance institutions can make use of their advantages of deep-rooted basic units to accurately identify service needs of poor farmers. At the same time, the government should play a leading role in guiding social resources flowing to rural areas, optimizing the allocation of resources, solving the dilemma of market failure caused by information asymmetry.

Secondly, innovate risk control mechanism to mitigate credit risk. Microfinance institutions should take full advantage of the Internet, using big data technology in risk control and prevention, building an assessment and tracking system of funds, alleviating the operation cost, and more in line with the concept and connotation of "inclusive finance" and precise poverty alleviation.

The government should actively intervene and guide the implementation of differentiated poverty alleviation credit strategies according to the different conditions of poor households. For poor households who have lost their working ability, they should turn to rural social security to improve the "bottom-up" welfare policy; for those who have the ability to increase their income, should focus in improving their skill through participating in various short-term training courses. New types of farmers' professional cooperatives should be encouraged, developing mutual financial assistance and make full use of credit funds, together with special subsidies to enhance ability of poor farmers. Guiding the poor peasant households to enter the modern agricultural industry chain. In addition, financial supervision and supervision departments should strengthen cooperation at the basic level in rural areas.

4.2. Promoting the Construction of Agricultural Credit System

In order to effectively improve farmers' credit awareness and improve rural credit information system, education should be taken into consideration. By posting propaganda posters in the community, listening to and watching credit education propaganda programs and other media means, we can promote the formation of credit atmosphere in rural areas. Rural financial institutions should actively participate in the construction of agricultural credit system, collecting information such as family background, loan frequency, repayment status, etc. A national credit collection platform should be established to share credit data. The data platform will also improves the accuracy and precision of poverty alleviation.

Credit evaluation is an objective evaluation of individual or family's performance ability and credibility in economic activities. Firstly, when formulating the evaluation index, we should fully consider various factors, such as health, marital status, management mode, etc., so that it can objectively and comprehensively reflect the true situation of peasant households' production and life. Secondly, we should ensure that the credit rating process is transparent. Finally, we should improve the credit system by forming a risk control mechanism during the whole process. In the pre-approval of loan matters, the market prospect, income level and the possibility of overdue bad debts should be fully investigated based on farmers' credit rating, while in-process management requires credit department personnel visiting farmers regularly, monitoring the use of funds, every use and withdrawal of loan funds should be truthfully recorded in the credit files of peasant households to provide effective reference for their credit rating adjustment and follow-up services.

4.3. Rationalizing Interest Rate and Enhancing Flexibility

Dealing with poverty alleviation, the interest rate of microfinance is too low, mainly for small private credit institutions. Microfinance is essentially an economic behavior. As a borrower (poor group), owing to the limited funds, it is hoped to obtain loans at lower interest rates. For lenders (credit institutions), on the one hand, it is necessary to play the role in poverty alleviation. On the other hand, proper and sustainable development should keep in mind. In combination with operating costs, loan quotas, sources of funds and risk costs, rural microfinance institutions should introduce different interest rate products to meet the needs of different types of farmers. Operating conditions of

farmers and the actual repayment rate should be taken into consideration to formulate a reasonable interest rate. Low interest rate can be applied to living loans, while investment and production loans interest rate can be increased appropriately. While fully protecting the differentiated financial needs of farmers, ensuring the profitability of microfinance institutions, and guiding more financial resources to agriculture and relatives. By promoting the market-oriented reform of rural interest rates, the microfinance industry can developed healthly.

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