

Problems and Countermeasures of Rural Micro-credit

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Abstract. Micro-credit pushed by the rural financial institutions play a significant role in supporting the economic development and solving the three issues concerning agriculture, countryside and farmers. Pointing at the outstanding issues current micro-credit confront such as the inability to meet the strong demand for the loans from rural areas, slow cash flows and difficulty vulnerable farmers faced in application, this essay makes deep analyses in the reasons and put forward countermeasures to break the dilemma. There are four ways: accelerating the construction of rural financial institutions and outlets; lowering the threshold while improving the efficiency of loaning; perfecting rural credit legal system with reduced risks; expediting management mechanism innovation when focusing on the rural capital contradiction of supply and demand.

Introduction

Improving the living standards of peasants is most important in China's livelihood issues. The rural areas, the main driving force of China's economic growth and the biggest domestic demand expansion market during financial crisis, now face many a problems even with agriculture serving as the solid foundation of rapid economic growth.

Attention has been paid to the three key issues of China's economic development concerning agriculture, countryside and farmers to better promote the healthy progress of rural society.

Problems faced by the rural micro-credit

Among all the topics of the three issues concerning agriculture, countryside and farmers, micro-credit related to the driving force of rural economic development has become the research hotspots.

China's current micro-credit businesses mostly open to industries concerning the economic progress such as fish breeding and poultry raising, crop farming, small towns construction, handicraft, manufacturing and commercial services. Problems below still existed even with the enforcing function in supporting and aiding agriculture.

First of all is that rural financial institutions now available cannot meet the strong demand of the rural micro-credit business. Nowadays, China's rural economy has a fierce growth, speeding up the mechanization and industrialization of agriculture production along with the peasants' rising demand for loans.

Partly estimated, over 96% peasants interviewed in Jiangsu Province had borrowed money from others or institutions. 49% of them borrowed from relatives, 25% from friends or acquaintances, 19% from rural financial institutions and 7% from other ways. Opposite from the strong demands for loans, rural financial institutions offered only a small part, having difficulty meeting the small payments buying seeds and fertilize.

The main obstruct to satisfy rural micro-credit is the insufficiency of financial institutions outlets in China's most rural areas. Statistical reports in 2013 from the China Banking Regulatory Commission revealed the fact that there were 145 newly-built rural commerce banks this year with an overall number of 643, newly-built village banks this year reached a number of 195 in a total of 1071, covering only 32.1% nationally designated poor counties with 1180 rural outlets.

Moreover, 59% of towns and counties have ATMs with 5783 added this year. New POS machines cover 5783 administrative villages reaching coverage of 42%. Details are shown in Fig. 1.

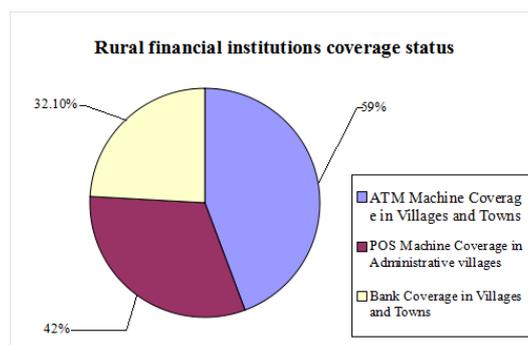


Fig.1 Rural financial institutions coverage status

It can be seen from the figure above that even with the steady development of rural financial institutions (China Banking Regulatory Commission released Administrative Licensing Matters of Rural Small and Medium-sized Financial Institutions Implement in 2014 to encourage the developing), the limited outlets directly restrain China's rural finance business, leading to the disability to satisfy the rural micro-credit demands.

The second is the slowness of the cash flow. Sufficient capital, which promises the implement of micro-credit, is also the premise of rational operation of China's financial institutions' businesses. According to China Banking Association, China's rural small and medium-sized financial institutions in 2013 have an asset of 18.3 trillion Yuan, an increase of 18.29%, far below the rate of urban commerce banks.

The financial crisis strained the situation with public deposits largely flow into the shadow banks. Many farmers, knowing nothing about the financial risks, poured their money into the pockets of the illegal fund raisers to pursuit higher interests. The massive illegal fund raising activities aggravated the problem of insufficient fund. Unable to absorb sufficient public deposits, some rural financial institutions even face the dilemma of loading without saving, taking decreases in both total efficiency and scale efficiency. Details are shown in Table 1.

Chart 1: total efficiency and scale efficiency of rural financial institutions

| Years | Total efficiency (TE) | scale efficiency (SE) |
|-------|-----------------------|-----------------------|
| 2008 | 0.879 | 0.904 |
| 2009 | 0.841 | 0.875 |
| 2010 | 0.844 | 0.899 |
| 2011 | 0.837 | 0.886 |
| 2012 | 0.833 | 0.882 |
| 2013 | 0.792 | 0.869 |

Data sources: Statistical Report of China Rural Cooperate Financial Institutions Operating Efficiency in 2013

The last is the outstanding difficulty vulnerable farmers had in rural credit activities despite the rapid development of rural finance and expansion of micro-credit businesses. Vulnerable famers, mostly have terrible cultural quality, weak economic bases, conservative thoughts and low annual incomes, generally engages in traditional farming and breeding, unable to fend off the risk. They take a considerable proportion in rural population.

Their own limitations of knowing nothing about the micro-credit, not to say credit cards and ATM lead to their inferior position in the loaning games with Rural Credit Cooperatives, which often refused their requests in the end. These vulnerable farmers of low income and no assets are, however, the exact group that calls for the help from credit policy. Only by helping them to build up their own family fortunes that is possible to motivate the economic development of the vast Chinese rural areas.

The loan business of the three issues concerning agriculture, countryside and farmers is the innovation of financial system carrying the government and non-government, debtors and creditors to motive China's economy. Therefore, based on the main problems current rural micro-credit faces, this essay analysis the prime reasons in-depth and then promote relevant management advices to

help more farmers throw off poverty, offering references for the government in practice to relieve the farmers' money raising difficulties and improve the rural financial institutions efficiency.

Main reasons for the micro-credit dilemma

According to the current situation of China's rural micro-credit services, the rural financial institutions present a benign progressing trend not only in developing trend but also the asset quality, relieving the loaning difficulty of farmers to some extent and enlarging the financial services.

But problems do exist, the inability to meet the strong demand for the loans from rural areas, slow cash flows and difficulty vulnerable farmers faced in application. There are three reasons.

The first reason is the rural financial institutions' inefficiency in follow-up funds and inability to absorb deposits. With the widespread of the internet and the cyber financing, rural areas of China's coastal developed sections having their access to Internet are influenced by the popular cyber financing, which directly influences banks attracting deposits.

Estimates in 29th Sep. 2014 showed that the average of the seven-day annualized yield of the monetary fund concerning the cyber financing is 4.87%. The so-called 'bao' type products included in good buying such as Yongjinbao (6.01%), Interests over Interests (5.29%), Guangfa Red Everyday(5.25%) have excellent performances. Baidu Baizhuan, BOC Current Treasure and Balance of the Treasure were in the post with their seven-day annualized yield of 4.50%, 4.47% and 4.22%.

The most striking Balance of the Treasure of Alibaba has a subscriber number of over 100 million, with a fund scale of over six hundred billion. In other words, there are over 100 million people in China that have put part of their savings in the Balance of the Treasure, which now absorbs approximately six hundred billion RMB.

According to experts, different kinds of so-called 'bao' products that help people manage their money including the Balance of the Treasure commanded large amount of deposits from banks and have reached approximately one trillion without slowing down. These products not only impact the deposits of urban commerce banks, but also absorb savings of many peasants, downing the absorbing capacity of rural financial institutions. Interest on deposits in rural financial institutions restrained by policies is hard to improve, making them difficult to assure sufficient follow-up funds on micro-credit businesses.

The second is that the farmers' limited knowledge and cognition are unfavourable to the rural financing. Despite years' popularization of compulsory education, farmers, especially the old ones in the west and less developed parts still have low literacy. Many of them cannot fully understand the loaning service; some cannot even read the whole loan agreement. They cannot successfully complete the financing such as micro-credit even with a strong desire for loaning.

Surveys by National Migrant Workers Work Conference revealed that there were more than 240 million migrant workers in 2013, and youth were the major force. Investigations on rural areas in Sichuan Province revealed a number of approximately 17.53 million of migrant workers whose destinations are Guangzhou and other developed areas. They had an average return from the city they worked to their homes of 0.7 per year.

From the surveys in Shanxi, we can see that 54.8% of farmers are working outside. Illiteracy rate among the adults remained is over 70%. Young adults that have finished the compulsory education are working outside, unable to help the illiterate or the old ones to complete the loan, leading the vulnerable farmers knowing nothing about the loan policies. Therefore, the peasants' limited knowledge and cognition seriously hinder the implement of rural financing, especially the credit part.

The third is the complex operation of micro-credit in rural financial institutions and unreasonable risk control. Procedures of micro-credit is generally complicated studying the operation process as formal rural financial institutions require peasants to offer materials such as the copy of household registration book and ID card. A credit card or related accounts are also needed along with a guarantor's signature to check the credit lines. Many peasants, however, take the micro-credit only for farming necessities like seeds and fertilize, they need low amount but high efficiency. A more

than a week time needed operation cycle and complicated loan procedure shut the door to most peasants.

Moreover, rural financial institutions focus their eyes on the risk control due to the strong demands for fund with limited funds available. To meet the need of achievement, some institutions neglect the peasants' demands for fund. By lowering the bad loan ratio, the total amount of loan is seriously restricted, leading to the pace of lending lower than the speed of the fund recovery.

In the long term, the peasants would be unable to complete the agriculture production and get benefits without the micro-funds it starved for, without extra money, rural financial institutions would have narrower funds sources and more difficulties in micro-credit services. Some agriculture banks open the ID micro-credit service letting peasants apply for micro-credit with their second generation ID cards only. But it is still hard to improve their credit lines and problems still exist in satisfying peasants' needs and fund utilization rate.

Attempts had been applied by current rural financial institutions to simplify the procedure of micro-credit service, improve the credit lines and have favourable credit interest. Abroad successful experiences, however, should be referred to establish reasonable and perfect risk control system and to utilize the solution to the dilemma.

Countermeasures to solve the rural credit dilemma

Foreign experiences are referred to solve the problems existed in China's rural micro-credit development. Here are the suggestions:

The first is speeding up the construction of rural financial institutions outlets.

China's peasants' occupation to institution outlets of the bank system is fairly low with every ten thousand having 1.54 outlets and 15.89 financial service personnel. Competition in rural financial market is insufficient as more than 30% bank branches concentrated in the counties while the average number of outlets in towns is less than 3 with 2868 towns having nothing.

Furthermore, the three new kinds of rural financial institutions of village banks, financial houses and farmers capital mutual cooperatives are rare in the countryside. China has 8231 towns with only one bank outlet, mainly Rural Credit Cooperatives and postal savings institutions, monopolizing the local financial market and fundamentally cut off effective competition.

Therefore, to fundamentally solve China's regional financial imbalanced allocation and difficulty in micro-credit, rural financial institutions outlets construction should be accelerated to break the financial market monopoly and improve the service in rural areas.

The second is to lower down the loan threshold and improve its efficiency. By training and promoting, governments of all levels and Rural Credit Cooperatives should let the peasants know that if they can repay on time, they can have preferential interest rates, credit upgrades, refinancing facility and other benefits. Thus realize the fully incentive to clients repaying loans. Defaults resulted by insufficient incentive can be conquered establishing the automatic repaying system.

When strengthening group lending system and promoting the loan publicity system, rural financial institutions are expected to lower down the loan threshold and quickly put the repayment into the fund pool to realize the fast turn-around of micro-credit. The fund utilization rate and loan efficiency are then improved along with the total efficiency of rural financial institutions when meeting the demands of peasants.

The third is to perfect the legal system of rural credit and decrease the credit risk.

Worrying about the agriculture production risk, which is hard to avoid, many financial institutions improve the loaning threshold while increase the difficulty of micro-credit. Agriculture insurance system can be promoted in rural areas to disperse and avoid its specific risk in production.

The ability of fending off risks of the loan parties can be improved by enlarging the subject of risk assumption to Credit Cooperatives and insurance companies. Capital supplement should be prepared at the same time and by perfecting the legal system, the bad debt ratio can be reduced, capital security enforced and credit risk weakened.

The fourth is to accelerate the management system innovation and solve the contradiction of supply and demand.

Governments of all levels and administration sections should take constant management system innovation to solve the micro-credit difficulty in-depth. There are several measures.

For one thing, abolish the discriminative restraining policies on Credit Cooperatives funds and open the administration authority on fiscal deposits. The local fiscal deposits, especially the financial treasuries of villages and towns, should be attended by the Credit Cooperatives to construct its specific using mechanism and enlarge the macro-credit resources.

For another, the Credit Cooperatives should properly be allowed to release the policy relief subsidies and have overall management to the agriculture supporting credit when enforcing the planning on micro-credits. Under the overall guidance of upper class administration section, funds transferring should also be allowed to improve the whole utilization rate at a certain range.

Conclusion

Micro-credit pushed by the rural financial institutions play a significant role in supporting the rural economic development and solving the three issues concerning agriculture, countryside and farmers. The rural areas, the main driving force of China's economic growth and the biggest domestic demand expansion market during financial crisis, now face many a problems even with agriculture serving as the solid foundation of rapid economic growth.

Pointing at the outstanding issues current micro-credit confront such as the inability to meet the strong demand for the loans from rural areas, slow cash flows and difficulty vulnerable farmers faced in application, this essay makes deep analyses in the reasons and put forward countermeasures to break the dilemma.

Suggestions are provided to solve the rural micro-credit problems and finally better promote the healthy development of rural economy as well as the whole society.

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