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**A CASE STUDY OF THE IMPLEMENTATION OF THE GRAMEENCREDIT  
INSTITUTIONS IN CHINA'S COUNTRYSIDE**

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## **Abstract**

The success of the Grameen Bank in Bangladesh reinforces microcredit's role in alleviating poverty and empowering the poor. In the wake of this success the Grameencredit has been widely duplicated in different countries around the world. China joined the trend to implement Grameencredit as early as 1993 but did not see the expected triumph. This thesis therefore explores the obstacles hindering the viability of Grameencredit Institutions in the Chinese context by looking into two Grameencredit Institutions serving the rural poor households in Northern China. A systematic perspective was adopted to examine these obstacles by first making assessment on Grameencredit Institutions' performance, followed by organizational analyses while simultaneously taking account of the effect of external environment. On the basis of the evidence from quantitative and qualitative data, three internal obstacles and two external obstacles are identified. They are interrelated and can not be removed without enabling a microcredit-friendly environment.

**Keywords:** Microcredit Institution, Grameencredit Institution, Open System, Outreach Framework, Organization Analysis, Outcome, China

## Acronyms

<b>ADB</b>	<b>Asian Development Bank</b>
<b>BOC</b>	<b>Bank of China</b>
<b>CARD</b>	<b>The Center for Agricultural and Rural Development</b>
<b>CASS</b>	<b>Chinese Academy of Social Science</b>
<b>CBRC</b>	<b>China Banking Regulatory Commission</b>
<b>CGAP</b>	<b>Consultative Group to Assist the Poor</b>
<b>DFID</b>	<b>Department for International Development (United Kingdom)</b>
<b>FDI</b>	<b>Fuping Development Institute</b>
<b>FPC</b>	<b>Funding the Poor Cooperative</b>
<b>GB</b>	<b>Grameen Bank</b>
<b>GC</b>	<b>Grameencredit</b>
<b>GCI</b>	<b>Grameencredit Institution</b>
<b>HRM</b>	<b>Human Resource Management</b>
<b>MCI</b>	<b>Microcredit Institution</b>
<b>MCO</b>	<b>Microcredit Organization</b>
<b>MDGs</b>	<b>Millennium Development Goals</b>
<b>MFI</b>	<b>Microfinance Institution</b>
<b>MFO</b>	<b>Microfinance Organization</b>
<b>MIX</b>	<b>Microfinance Information Exchange</b>
<b>MSC</b>	<b>Microcredit Summit Campaign</b>
<b>NGO</b>	<b>Non Governmental Organization</b>
<b>NSMD</b>	<b>Network Supporting Microcredit Development</b>
<b>OECD-DAC</b>	<b>Organization for Economic Cooperation and Development -Development Assistance Committee</b>
<b>OPAD</b>	<b>(Chinese State Council Leading Group) Office of Poverty Alleviation and Development</b>
<b>PPP</b>	<b>Purchasing Power Parity</b>
<b>RCC</b>	<b>Rural Credit Cooperative</b>
<b>RMC</b>	<b>Rural Mutual Cooperative</b>
<b>Sida</b>	<b>Swedish International Development Agency</b>
<b>TFMF</b>	<b>Tuanshuitou Fuping Microcredit Fund</b>
<b>UN</b>	<b>United Nations</b>
<b>UNDP</b>	<b>United Nations Development Program</b>
<b>UNICEF</b>	<b>United Nations Children's Fund</b>
<b>WB</b>	<b>World Bank</b>

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## 1. INTRODUCTION

Microcredit, or microfinance in regard to empowerment of the poor is defined as “programs extending small loans, and other financial services such as savings, to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families” (Microcredit Summit Campaign [MSC] 2002). It has become “one of the favored interventions for poverty alleviation and economic development for poor households across both the developing and developed world” (Noponen 2003:121). Latest data from MSC (2009:3) proclaimed that as of December 31, 2007, 154 million clients were reached by 3,552 microcredit institutions, of whom 106.6 million were among the poorest when they took their first loan.

While acknowledging this proliferation, microcredit is still quite a new emergence in poverty reduction: “the word ‘microcredit’ did not exist before the seventies” (Grameen Bank, 2009). It was not until 2005 that microcredit truly started to catch attention – the year was identified as “The International Year of Microcredit” by United Nations (UN 2005), followed by Dr. Muhammad Yunus and Grameen Bank’s Nobel Peace Prize in 2006 for “their effort through microcredit to create economic and social development from below” (Nobel Peace Prize Committee 2006). Correspondingly, the Grameencredit (GC), originated from the Grameen Bank (GB) founded by Dr. Yunus, became a model to be promoted by development practitioners in many developing countries which wished to pursue Grameen style success for both poverty alleviation and financial sufficiency. So far the Grameen Bank Replication Program has supported 138 replication partners in 37 countries around the world to multiply the programs locally, including several of them in China (Grameen Trust 2007).

Unfortunately it seems the GCIs are struggling to survive in China despite having been introduced into the country 15 years ago. At present there are around 300 microcredit programs in China, which can be divided into three categories in light of

the running institutions: the first are programs run directly by the international development agencies, e.g. UNDP and UNICEF in corporation with local government (Zhao, 2008). In this category, only one third of them were still in operation up to date due to the UN's time bind for programs (Du et al 2008:24); the second are programs run by the half-state-run China Poverty Alleviation Foundation with funds from international agencies, mainly the World Bank; the third are those run by independent institutes and local NGOs (Zhao, 2008). The 300 programs were mostly based on Grameen model though small modifications were made in some of them in an effort to fit the local context (Du et al 2008:20). Of the existing 300 microcredit programs, only 100 struggled to survive and less than 20 sustained normal operation (Cheng and Xu 2006). This is a very low ratio in comparison with the large proliferation of microcredit in many other developing countries. Against this scenario the author aims to launch a baseline study exploring the status quo of the third category GCIs and probing the possible bottlenecks hindering the buildup of GCIs in China, with an ultimate purpose to bridge the gap for GCIs' maturation within Chinese settings. To reach the goal two questions need to be addressed:

1. To what extent are the GCIs in China able to approach the twofold mandate of reaching the poor and maintaining financial self-sufficiency?
2. What are the main obstacles hindering the viability of CGIs?

The research will focus on the third category GCIs run by NGO or independent institutes because the first category run by international agencies is time bind bound to quit and will not serve as long-term programs while the second category is subject to the top-down dominance of government rather than self-motivation. The third category does deserve attention: in spite of its potential for growth, little research has been carried out in relation to it.

The paper is composed of six chapters. The first chapter raises two research questions after presenting a concise background profile of microcredit. The second chapter reviews the poverty alleviation situation in China and how GCIs were ushered in for

intervention. After that, a section is given to brief the main research trends of the implementation of GCIs and clarify the focus in this paper. The third chapter first demarcates the concept of the object of research, followed by the introduction of open system model and the double bottom line outreach framework which construct the theoretical and analytical skeleton of the study. The fourth chapter elaborates the methodological design and the three methods applied, a short discussion on validity, generalization and limitation as well as ethical consideration ensues. The fifth chapter provides two units of specific analyses in responding to the two research questions. The paper ends up with a conclusion summarizing the findings and taking a glance at GCIs' potential.

## **2. LITERATURE REVIEW**

### **2.1 Poverty Alleviation and Microcredit in China**

China's achievement towards poverty reduction has been commented as "remarkable" by the former World Bank president Paul Wolfowitz in 2006<sup>1</sup>. In a way, it deserved the praise given the success to liberate over 600 million people from income poverty in less than 25 years between 1981 and 2005 (Chen and Ravallion 2008:11). On the other hand, a substantially higher poverty rate was found in China, implying about 130 million more in consumption poverty and 65 million more in income poverty than past estimates by applying the international poverty line of \$1.25 a day at 2005 PPP<sup>2</sup> (ibid:1). Even according to China's official poverty line, which is lower than \$1 a day<sup>3</sup>, there are still over 40 million people living in absolute or low-income poverty today. This implies continued challenges for China's effort to eradicate poverty (Chinese State Council Leading Group Office of Poverty Alleviation and

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<sup>1</sup> Wolfowitz made this comments in his formal visit to China in October, 2005. Cited by Liu Jian, the director of OPAD in his address on the Opening Ceremony of International Conference, Poverty Reduction Strategy in the New Millennium: Emerging Issues, Experiences and Lessons on May 23, 2006

<sup>2</sup> This is an adjusted line taking account the PPP for 2005 based on the international standard of \$1 a day. (Chen and Ravallion 2008:9 )

<sup>3</sup> The line is about \$0.2 (¥ 683) and \$0.2-\$0.4 (¥ 683- ¥944) a day for absolute poor and low-income groups respectively. (OPAD, 2008)



Development<sup>4</sup> 2008).

Essentially, there were two different, yet parallel efforts to alleviate poverty: the formal governmental programs as well as activities initiated by non-governmental institutions. Starting from 1986 the state council has rationalized the anti-poverty initiative by focusing on raising the income generating capacity of poor rural households. This was done through investments in infrastructure<sup>5</sup>, primary education and health care system as well as subsidized loans to farms (WB 2005; OPAD 2008). The key strategy was to promote profit-oriented incentive (WB 2005).

While the investment did get payback, a three-fold body of evidence implied that the subsidized loans – distributed mainly through Rural Credit Cooperative (RCC) and Agriculture Bank – were less effective in covering and targeting the poor: first, a huge backflow of financial capital from rural to urban area since only one fourth of the US\$530 billion deposit from countryside returns to countryside (Ling 2006:95); second, a debt rate as high as 75% since large proportion of loans are intercepted by rich households; and third, a repayment rate as low as 50% on average (ibid 2006:95; Park and Ren 2001:4). Moreover, the commercial banks were reluctant to allocate discounted loans mandated by the central government because “it’s too costly and too much trouble to be recovered” (Ling 2006:95). The above defectiveness overtly mirrored the deadlock of subsidized loans.

Against such a backdrop, the first microfinance program was introduced and implemented in China in 1994 by the Chinese Academy of Social Science (CASS) in cooperation with the Yixian County government in Heibei province (Du et al 2008:7). It has fully used the Grameen experience as reference during its operation. In the following year similar programs were introduced to 48 counties in 17 provinces through cooperation between China International Centre for Economic and Technical

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<sup>4</sup> It is abbreviated as “OPAD” in following text for reading convenience

<sup>5</sup> e.g. roads access, electricity and drinking water

Exchange and UNDP (Cheng and Xu 2006). The RCC also started to develop microcredit projects from the late 1990s onwards. They were acknowledged to contribute to solving difficulties of the “less-poor or middle-income groups”; however, they failed to reach the poorer, as labeled by the government (Du et al 2008:15).

Studies regarding the implementation of CGIs turned out particularly significant due to the deterioration of financial situation in rural areas. In recent years the rural poor’s opportunities for loan were further decreased due to the withering of RCC outlets and the quitting of four state-owned commercial banks<sup>6</sup> from rural markets under the intensified competitiveness for profit (ADB 2007:1). News from the official Xinhua News Agency even criticized the state-run rural financial institutions for “only absorbing deposit but without giving loans”, which caused “the rural financial pool to dry out in the long run” (Xinhuanet.com 2009). In contrast to loan shortage, 69% of rural residents have taken loans – this further reflects the substantial gap between loan demand and supply (ibid). Under such circumstances, the viability of microcredit institutions are worthy of particular concern, given its dynamic and complementary function to the rural financial markets and prominent reach to the poor.

## **2.2 Research Trends of the Implementation of GCIs**

While there is a multitude of studies focusing on decoding the success of GC, less researchers interrogate the cases’ implementation in a specific context (e.g. in a region or a country). Therefore, research in this field is essential and meaningful, especially keeping in mind Hulme’s (1990, cited in Schreiner 2003:32) warning that “Grameen is not a blueprint but rather a source of broad lessons which must be adapted to local contexts.” Three approaches can be discerned from the studies conducted over the GC implementation. The first approach examines the feasibility of GC’s core lending mechanism in relation to a specific context. A good example was an experimental

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<sup>6</sup> The four state-owned banks are Bank of China, China Industrial and Commercial Bank, Construction Bank and Agriculture Bank.

study carried out with the Green Bank of Caraga in the Philippines (Park 2007:284). It tried to identify whether the typical GB joint-liability group lending model is more suitable to the Philippine circumstances than an individual lending model through transforming 69 (out of 161) joint-liability group lending centers into individual lending centers. Upon comparison the result indicated the transformation did not worsen repayment rate while joint-liability groups did not necessarily mitigate default risk, implying the possibility to tailor GC to the local context. The second approach has more interest in exploring the functional efficiency of GCIs at the organizational level. For instance, in his study regarding Prizma, an MCI in Bosnia and Herzegovina, Kline (2003:39-41) has associated the social performance of GCIs with good management of leadership, organizational culture and incentives for personnel. The third approach concentrates on the optimization of micro-environment in regard to the viability of MCIs, e.g. the authority commitment and legitimacy of institutional and regulatory rules. In recent years the impact of pro-microcredit environment has been further realized and tested by some countries' experience (e.g. Pakistan, Brazil and Colombia). This resulted in the expansion of the MCIs after governmental efforts for supportive legal and regulatory environment (CGAP 2007). Understandably, these three approaches are not exclusive of each other.

According to Latifee (2003:38), the managing director of Grameen Trust, China is “a country with particular challenge in implementing GC” due to its environmental complexity and diversity. Of the three key approaches mentioned above, the first one – namely the lending mechanism in relation to a specific context – is currently the most accepted, since it has been refined after many years of practice. The controversy has concentrated on whether GC's difficulties in China are due to the mismanagement of institutions, or due to factors beyond the control of institutions, undermining the GCIs' performance (Chen and Li 2007:40; Xu 2009). Yet neither argument alone can straighten out the issue. To explain the growth of MCIs, Counts et al. (2006) proposed to integrate factors springing from both the organizational and the environmental viewpoints. Drawing heavily from these authors, this study attempts to identify the

obstacles impeding the viability of GC from a systematic perspective. More specifically, this is done by using an open system model (see section 3.21), which articulates the GCIs' outcome, functional mechanism of the organizations and the influence of external environment for analysis.

### **3. THEORY**

#### **3.1 Terminological Clarification**

Since Grameencredit is the object of research of this paper, a clear specification shall be provided to demarcate it from other categories of microcredit. According to Yunus (2009), there are mainly two features – mandate and goal on one hand, and technology on the other – displayed by GC which can be summarized as follows<sup>7</sup>.

With reference to mandate and goal, GC promotes credit as a human right by offering the poor, particularly poor women, loans for self-employment and income-generating activities. Reaching the poor is its non-negotiable mission. Reaching sustainability is a directional goal that shall be realized as soon as possible so as to expand its outreach without fund constraints. GC also emphasizes the building of social capital and human capital among borrowers (ibid).

Technologically GC is not based on any collateral, or legally enforceable contracts, but on “trust”. It provides service at the doorstep of the poor based on the principle that the poor should not go to the bank but the bank should go to the poor. In order to obtain loans a borrower must join a group of borrowers. Loans can be received in a continuous sequence. New loan is available if previous loan is repaid. All loans are to be paid back in installments (weekly or bi-weekly). The loans come with both obligatory and voluntary savings programs for the borrowers (ibid).

The first feature represents the directing motto and fundamental principles

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<sup>7</sup> For complete GC feature description please see appendix 1

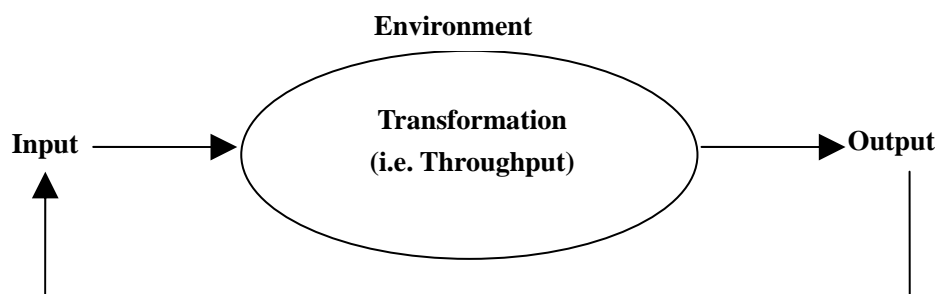
underpinning the specific activities of the institutions, whereas the second feature is comprised of methods created by Grameen for the realization of the twofold mission. It should be noted the technical methods were not invariable as GB never stopped innovation. GB even marked “flexibility” as its new symbol (Dowla and Barua 2007:XIV). The directing motto was comparatively permanent and has been widely appreciated and accepted by majorities of MCIs as code of conduct whether they claim themselves to be Grameen type or not.

### 3.2 Open System Theory and Development

#### 3.2.1 Open System Theory

Open system theory was originated from Bertalanffy’s input-output open systems which at the beginning “attempted to describe the biological world” (Barton et al 2004:29; Barton and Haslett 2007:148; Drack and Apfalter 2007: 541), followed by Katz and Kahn (1966:18; Falletta 2005:3) to develop them for social system and organization analysis. The open system theory broke through the traditional closed system constructs which tended to treat social structures as closed machinery independent from environment (ibid). According to open system theory, an organization can be viewed as a total system with inputs, throughputs, and outputs, connected by feedback loops. The premise of the theory is that organizations are social systems which are dependent upon the environment in which they exist for inputs (Katz & Kahn 1978 cited in Falletta 2005:8). Figure 1 below presents the model of open system theory:

Figure 1 Open System Theory Model



Source: Falletta (2005) “Organizational Diagnostic Models: A Review & Synthesis”, p9

To understand the model clearly it is necessary to specify each component.

**“Input”** refers to some form of energy that the open system imported. It emphasizes that social organizations need to draw renewed supplies of energy from other institutions, or people, or the material environment. No social structure is self-sufficient or self-contained; **“Throughput”** refers to the progress that open system transforms the energy available to it. During this progress the organization creates a new product, or processes materials, or trains people, or provides a service. These activities entail some reorganization of input; **“Output”** means the product exported by the open system to the environment; **“Feedback loop”** refers to the cyclic character of the system in which the energy exchange activities repeated themselves (ibid:27); a positive “output” can be transferred into “input” again through the “feedback loop” to energize the organization in the system<sup>8</sup>. **“Environment”** is where the organizations draw input from and export output to (Katz and Kahn 1966). The open system theory maintained that environmental influences are integrally related to the functioning of a social system, which can not be understood without a constant study of the forces impinged on it (ibid:27).

In the past three decades many organizational diagnostic models were developed relying upon the open systems theory as a basic assumption. Typical ones include Weisbord’s Six-Box Model in 1976, Congruence Model for Organization Analysis in 1977, McKinsey 7S Framework in 1981 and 1982, High-Performance Programming in 1984 and the Burke-Litwin Model of Organizational Performance & Change (Falletta 2005). All above models have followed the input-output framework and incorporated the external environment as a factor in organizational functioning though they did differ in factors considered vital to organization functioning or effectiveness.

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<sup>8</sup> For example, a computer manufacture made a great sale of their products, namely the output. The revenue earned via sales of the output can be used to buy new productive input again for repeated production, which is the “throughput”.

GCI is an organization and therefore is subject to the applicability of open systems theory. It turns out even more valid when this research is related to organization's accommodation and interaction with particular context. Based on the model, the research questions can be interpreted and conceptualized as 1) To what extent are GCIs able to produce output as expected in the Chinese context, namely to realize the twofold mission? 2) What are the main obstacles? Do they spring from the "throughput" progress, namely is the organization inherently inefficient in some respects; or is it subject largely to the "input" deficiency in relation to the influence of external environment (e.g. financial investment, human resource intake, national policy and regulatory rules) ?

It was noted that GCIs were engaged with development business which had its own assessment standards in terms of outcome and organizations' functional efficiency. It is essential to explore the open systems theory's application in the development arena so as to identify an adequate model to inform the study of GCIs from development perspective.

### *3.22 The Application of Open System Theory in Development Arena*

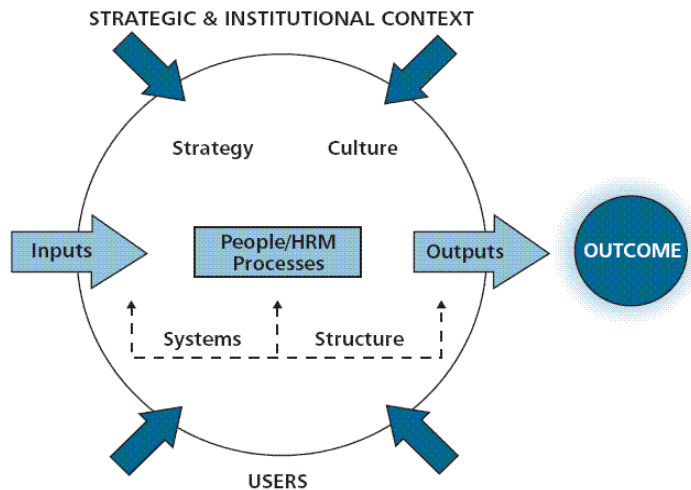
In the development arena, models based on open systems theory have been applied to analyze the interrelations of capacity development amidst individual, organization and external institutional and cultural environment. Capacity development was recognized as the core of human development since the mean and end of development is to eradicate the deprivation of capacity of each human being (Sen 1999). Through substantial definitions, capacity has been extensively identified as the ability for individual, organization and society to solve problems and manage affairs (UNDP 2007:5; OECD-DAC 2006:7; Kaplan 2007). Inherently capacity is a systems phenomenon (Baser and Morgan 2008:29). In the language of systems thinking, it is an emergent property or the effect of multiple interactions out of a complex interplay of attitudes, assets, resources, strategies and skills, both tangible and intangible. It

emerged from the positioning of an organization or system within a particular context (ibid).

In light of the open system thinking, focus and approaches to capacity development experienced expansion over the last three decades. In the 1970s the major focus was on the development of the smallest system, namely the individual, through scholarships, external and “on-the-job” training for people in key positions of development careers. In 1980s the focus was enlarged to organizations which led to restructuring and re-design, using organizational audits, advisory support, and help with the development of financial and HR systems. The 1990s brought an increased understanding of the wider institutional framework and the need to focus on outcomes (ibid:v). In 2000s the development actors’ concern was further escalated which led to the consensus on Paris Declaration to guide and regulate donors and recipient partners’ actions for improved aid effectiveness in international level (Manning 2005:50). Whatever the “capacity system” is enlarged, the open system theory turns out conducive and model rooted on it has been utilized to explore the links between outcome, development agencies and organizations and wider institutional environment. Figure 2 below is the open system model used by DFID for analysis of development organizations, which examines the functioning of organization outcome, running mechanism, input and external environment. It will be employed as the theoretical framework for this paper.

Figure 2 Open System Model for Development Analysis





Source: Cummings and Worley (2001) “Organization Development and Change” cited in DFID (2003) “Promoting Organizational and Institutional Development”, p2.

Figure 2 specifies the organizational, or the “throughput” constructs into modules of “people, system, structure, strategy and culture”. Nonetheless, it fundamentally overlaps with the original open system model presented in Figure 1. The “outcome” is particularly highlighted in this model because “development outcomes will shape the direction and the type of change needed - usually a combination of institutional and organizational change” (DFID 2003:2). For the same rationale in application the analysis will start from the right with outcomes and lead on to the action implementer, and then the input and institutional changes needed.

The five components of “throughput” represented different aspects upholding an organization and inefficiency in any one of them will bring negative effect to the overall running of the organization. **Strategy** concerns the goal and mission of the organization and the progress planning for it (ibid:10). It regards questions such as what is the mandate of organization and how decisions are made in organization. **System** has a broad meaning in different organization models, for instance it was referred as the “financial resource and administrative routine to run its activities” by Sida in its octagon<sup>9</sup> model (2002:4); it is related more with the control mechanism

<sup>9</sup> An NGO organization analysis model comprises eight assessment modules, namely target group, activities, relevance, identity, structure, system and finance, expertise and working environment.

and technology deployment in the pentagon<sup>10</sup> model (Bridger and Vansina 2008). To incorporate these dimensions system in this study encompasses financial resource control and technology deployment as well as the lending mechanism which is the key component of GCIs. **Structure** refers to organization's management level and its division of duties and responsibilities (Sida 2002:4). Questions relevant entail how does the units distribute? Is there a clear organization chart? What is the degree of decentralization, etc (DFID:10). **HRM** refers to the human resource management system entailing the recruitment, meriting system as well as trainings and other incentives to manage and invigorate employees (ibid). **Culture** in here refers to the attributes of national customs and values which may affect the organization activity and its outcome (ibid). Thus although it was included into the "throughput", it as such is a module belonging to external environment. In regards to GCIs, it is referred as the rural residents' point of view and customs on loan behaviors. The five components make up a stable framework supporting organization running and will be articulated as a unit for "throughput" analysis.

In this paper the GCIs is the researched organization and therefore will be laid in the "throughput" position. The "environment" is the Chinese context in which the GCIs embeds, draw input from, export output to and subject influence to. Following the energy flow and the rationale of the model, the analysis will start with evaluation of GCIs' outcome so as to answer the first question—to what extent are GCIs able to maintain its twofold goals? The next step will go to the "throughput" component to analyze GCIs from organizational level with attempts to identify the bottlenecks. The outcome assessment framework and criteria will be discussed in following section 3.3 in considering MCI's outcome particularity characteristic of twofold mission.

### **3.3 Double Bottom Line —Outreach Framework**

The difficulty of measuring the outcome of MCIs essentially lies in the MCIs'

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<sup>10</sup> An organizational analysis model comprises five assessment modules, namely purpose, structure, technology, control system and people.

mission dilemma of reaching the poor and simultaneously maintaining financial self-sufficiency. The two missions are self-contradictory because the incentives underpinning the two missions are competing with each other in the following ways.

First of all the MCIs are born with the social mission to help the poor which is attached to the contribution to at least the first six Millennium Development Goals, e.g. eradicating poor and hunger as well as empowering women, etc (Greeley 2006:8). This is a mission delegated by the society at the opportunity cost of giving up other options for similar purpose, such as work-for-food programs. In other words, if MCIs are unable to reach the poor, there is no rationale for society to continue to support it because the resources can go to other options. It is believed that “MFIs<sup>11</sup> that do not deliberately and rigorously target poor households are unlikely to make any difference to MDG attainment” (ibid:3). Therefore, MCIs’ outreach to the poor, or its contribution to MDGs lay down imperative basis for its legitimacy of existence. On the other hand “the society care about the poor both now and in the future” (Schreiner 1996:2), thus financial self-sufficiency matters because “an MFO without profits will shrink and die when donors withdraw” (ibid). In contrast, “an MFO with profits can live grow without donors, and life and growth means more help for more poor people” (ibid). In addition, the profit can be regarded as fund that MCIs repaid to society for subsidized resource, which from society point of view is worthwhile because “it benefit for the poor at no cost to society” (ibid).

Consequently in order to expand coverage of more poor and at the same time maintain sustainability, the MCIs generally need to seek financial support, usually in the form of loans or equity from external environment. The difficulty emerges then because

*“MCIs face serious risk of “mission drift”, concentrating on achieving outstanding financial performance, which is necessary anyway and especially if they wish to access commercial funds, and neglecting their social mission”*

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<sup>11</sup> “Microcredit” and “Microfinance” as well as “MCIs, MCOs, MFIs and MFOs” are interchangeably used in many references. To remain loyalty to the reference they will be quoted as what they are in this thesis.

*(Greeley 2006:3).*

To sum up sound MCIs shall be those attaining equilibrium between their social mission and financial self-sufficiency with least “mission drift” though in reality only a small number of them can manage to achieve the goal (Simanowitz 2003:5).

The duality of MCI makes measurement of it “too odd to fit to traditional framework” (Schreiner 1996:3). Therefore the term “social performance” has been ushered in and accepted by many scholars to cover the broad concern that MCIs casted in social and economic respects (including poverty), which together with “financial performance” constituted the MCIs’ “double bottom line” (Copestake 2003:54; Greeley 2006; Simanowitz 2003:1). In responding to the “double bottom line” a measurement framework was put forward by Schreiner (2002, 2003) aiming at assessing the social impact, mainly the outreach to the poor as well as the financial performance of MCIs.

The framework is composed of six dimensions. They are worth and cost to users, depth, breadth, scope and length (ibid; Copestake 2003:54). Briefly speaking, **depth** is the social value of **net gain**, where net gain is **worth** to clients minus **cost** to clients. **Breadth** is number of clients, **length** is years of service, and **scope** is types of service contracts. The social benefit of the outreach of a microcredit organization is net gain weighted by depth, summed across breadth of clients and across scope of contracts, and summed and discounted through length of time (Schreiner 2002:12). Of all six dimensions, length is the one measuring MCIs’ financial self-sufficiency while the rest five are benchmarks for assessment of outreach to the poor. For detailed definition of the six dimensions please see attached appendix 2.

## **4. METHODOLOGY**

### **4.1 Why Two GCIs with Two Analytical Units**

Limited by time and budget it is impossible for the author to conduct large scale sampling and survey across dozens of GCIs simultaneously. An in-depth exploration

over one or two cases will be a cost effective remedy fit to the research aim for “analytical generalization” to examine the obstacles (Yin 2003:32).

In order to find out answers for the two questions two analytical units are embedded around the outreach framework for outcome assessment and the five modules of the “throughput” unit of analyses, namely strategy, system, structure, HRM and culture.

Two cases were selected considering that conclusions from even two cases are more powerful than from only one (ibid:53). In addition, if under varying circumstance common conclusions still have been arrived by the two cases, the generalizability of the result can be immeasurably expanded (ibid). A more practical rationale came from the pre-research desk review which informed the author that the third category GCIs revealing wide spectrum of diversities in terms of size of targeting groups, financial sources and scale, running terms, etc. The finding convinced the author of necessity to take at least two cases into account although no more can be reached constrained by time and resource.

The critical logic underpinning case selection in this study is to expand the representativeness domain by filtering the cases with discrepancies in as many respects as possible. Several basic criteria were chosen as benchmarks to pinpoint the adequate GCIs. They comprised the identity of the institution, project size, financial sources and scale, running terms, rough organization structures and manpower. Eventually two GCIs were targeted given above criteria and principles. They were Funding the Poor Cooperative under the Chinese Academic of Social Science (FPC under CASS, case 1) and the Tuanshuitou Fuping Microcredit Fund under the Fuping Development Institute (TFMF under FDI, case 2). Please see below table 1 for the specifications of criteria:

Table 1 Criteria Specification of Two Cases

	<b>Case 1 FPC</b>	<b>Case 2 TFMF</b>
Starting year of first project	1994	1993
Identity of the running	More closely linked with	Grass root NGO

institutions	government	
Total project amounts	4	1
Total counties that projects cover	4	1
Total investment of fund	1.87 million US\$	0.16 million US\$
Project size	45,000 poor used to receive the loans	4,000 households used to receive loans
Financial source	Multilateral	Single
Organization structural level	5 levels	3 levels
Staff	6 professional in headquarters, branch staff were locally employed	1 credit supervisor in headquarters, branch staff were locally employed.

Source: Cheng and Xu, 2007: 94, Du, 2007: 5, Du 2007, CASS

<http://www.cass.net.cn/file/2007040690270.html> as well as Mao, 2006: 84

As the table reveals the FPC is a GCI receiving more investment funds from multilateral channel, covering larger area and targeted groups and employing more complicated organizational structure whereas the TFMF is comparatively smaller and simpler with less funds from less channels. One more rationale to select the two is that TFMF is a locally born GCI which therefore has not completely followed suit of the typical Grameen running model. It can enrich the analysis' validity as a complement to FPC that has adopted very typical Grameen running model. The author intentionally chose GCIs running for long terms in thinking that 1) they accumulated abundant experience and materials for research; 2) if they, as the forerunners, were confronted with bottlenecks, other new players might face them with much more difficulties. Given above concerns, both institutions selected belonged to the first batch participating in the initiation of GC in China as early as around 15 years ago.<sup>12</sup> In brief the study applies a two case design embedded with two units of analyses<sup>13</sup>.

## 4.2 Methods

Case study itself doesn't have prejudice against any methods. As McGregor (2006:201) pointed out "[it] requires the use of a wide range of methods that may combine qualitative and quantitative techniques...". In this research both quantitative and qualitative methods have been used comprising of interviews, observation and semi-structured questionnaire survey.

<sup>12</sup> For field offices locations of the two selected GCIs please see the map in appendix 3.

<sup>13</sup> For layout of the case study design please see appendix 4

#### *4.21 Interviews in Beijing*

The interviews in Beijing encompassed in-depth interview with one expert from NSMD and several times of interviews with key informants from the two GCIs' headquarters in December 2008 and January 2009.

It started with in-depth interview with Mr. Chu Yinghuan, head of the NSMD. The two-and-half hour interview was unfolded around the updated profile of GCIs in current China, which provided me valuable clues and enlightenment for next step interviews. Latter on December 2008 in-depth interviews were carried out with Mr. Li Naiwei, the chief officer of TFMF and Mr. Li Yiqing, the dean of microcredit office under CASS in charge of the operation of FPC. The interviews were conducted in their office in Beijing in rather open-ended manner although I did draft dozens of questions referring to the overall running and characteristic of two institutions. An open-ended manner was preferred because it provided room for interviewees and me to make "a mutual exploration of the issues without the author imposing his or her ideas" (Nichols 1991:13).

The interviews were divided into two phases. In first phase the interviewees were invited to make free introduction on the institutions and relevant microcredit projects. Details were recorded through notes and digital recorder. Omitted or missed issues were picked out to be double checked with the interviewees. In the second phase interviewees were asked to express their own remarks, advices and suggestions over the performance and running systems of the institutions and projects. The sequence was arranged in an effort to encourage the interviewees to release as much information as possible in a relaxed and communicative mood. There was a pleasant interaction between the author and interviewees since both two interviewees behaved actively and were willing to talk. Information obtained from the interviews was very helpful either for understanding the institutions' structure, mechanism and running style or for the design of semi-structured questionnaire which later was used in the

author's field visit to two GCIs' targeted areas. Based on data from field visits second time interviews were conducted again on January 2009 with the heads of two GCIs in Beijing to finally clarify uncertain details.

#### *4.22 Observation and Interviews in the Field*

One of the most effective methods to seek the first hand impression and materials on the running of two GCIs was to visit and observe their local branch where the microcredit programs were delivered. FPC's programs covered four counties in three provinces in northern China, of which Yixian bureau in Yixian county, Hebei province was the first and a very typical one and therefore it was selected. TFMF's coverage was limited in Tuanshuitou town of Linxian county, Shanxi province, which naturally became the author's another visit destination.

The author first visited TFMF's field office in Tuanshuitou town between Dec. 9-11 2008 and later visited FPC's field office in Yixian county between Jan. 7-9 2009. Observation was taken as the main tool during author's visit to the field because "it provides context for sampling, open-ended interviewing, construction of interview guides and questionnaires" (Dewalt and Dewalt, 2002:2). Local households' daily lives, the branch working venues, staff's working procedures, attitudes and behaviors as well as local residents' reaction to microcredit were main observation objects, which to certain extent implied the outcome efficiency of the two GCIs. The observation could take place anytime, for example the author noticed in Tuanshuitou Town that locals only had two meals per day, with meat to be luxuries enjoyed only in weekend or holiday, which laterally implied the poverty level of the region. Another example was there was once when the credit supervisor accompanied the author out, the supervisor were seen to be warmly greeted by every local encountered to whom the supervisor responded immediately by telling every greeter's name with ease. It in some way manifested the supervisor's good relationship and familiarity within the neighborhood, which was one of the crucial qualifications that a sound loan officer should possess. Apart from these primary details, observation data also provided solid



grounds for the finalization of the interview questions and the semi-structural questionnaire later used in surveying the household members. During observation, camera was used to capture image-form materials in addition to transcripts.

Coincided with observations, in-depth interviews were conducted separately with 5 staffs in Yixian branch of FPC, including the branch head, 2 loan officers and 1 accountant; in Tusnshuitou town, in-depth interviews were conducted with the chief credit supervisor, one teacher in town primary school and one volunteer in school library which had connections with TFMF microcredit program. Compared to the interviews in headquarters which were more generalized in content, the interviews in field tried to focus more on on-site services and customer relationship that GCIs developed with targeted clients in branch and community level. Interviews to the branch leaders of two field offices were repeated multiple times as sometimes new questions came out after reflection. When talking with the loan officers they were noticed a little nervous facing the digital recorder, so the author finally turned it off and took notes by hand. To avoid disturbing the loan officers' normal works the interviews were generally not longer than 1 hour, even though the results were fruitful in complementing the first hand data on the institutions' reach to end clients.

#### *4.23 Semi-structured Questionnaire Survey*

A semi-structured questionnaire was designed based on data from previous key informant interviews. The semi-structured format was preferred over completed structured or open-ended ones due to its advantage of combining some structured questions to obtain basic information with others permitting more flexible answers to convey ideas or perceptions in an open-ended manner (Simon 2006:166). The aim of the survey was to testify data obtained through previous in-depth interviews and to explore potential information of targeted beneficiaries that could only be uncovered through face-to-face interviews, e.g. the poor households' basic facts as well as their direct comments and feedbacks on the microcredit services provided by the two GCIs.

The questionnaire was divided into two parts by living up to the “golden rule” of “commencing with the most basic and uncontentious—usually factual—information using structured questions” and “moving the contentious or controversial subjective questions towards the end” in view of minimizing interviewee’s offence (ibid). The first part was designed to collect the basic household information, particularly living conditions for poverty measurement, which comprised of five sub-category indicators, e.g. housing, public service, education, health, labor and income. In designing the questions Navajas’s (et al. 2000:16-17) index of basic need and Greeley’s (2003:14) poverty scorecard had been taken as reference which not only underlined factors in related to income poverty but also to social well-being powerlessness. Apart from income, questions in the other four categories applied proxy indicators which were easy to collect and believed reliable for well-being measurement (Ruit and May 2003:22). Information from the first part played important role in assessing GCIs’ outreach to the poor. The second part was designed to inquire details of the microfinance services by concentrating on four dimensions of the outreach, e.g. worth, cost, depth and scope. Breadth and length were excluded from the question list because they were beyond the answer range of clients and could be pursued through other channels such as interviews with GCIs staff, observation, etc<sup>14</sup>.

Limited by time and operative feasibility the surveys were controlled to be carried out in 20 households for each GCIs. For FPC, Yixian county bureau is composed of 4 branch offices providing services in 14 towns out of the total 28 towns in Yixian county. Under the 4 rural branch offices there are 175 community centers in village level directly dealing with the clients for daily loaning and repayment (FPC 2008:10). The survey was conducted by random sampling 20 client households under the branch office of Dongbaima town since it was comparatively close to be reached. The selection for TFMF is comparatively easier since its microcredit service covered only six villages in Tuanshuitou town. It was conducted by random sampling 20 client households in Tuanshuitou village, which possessed the largest scale loans and clients

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<sup>14</sup> For the semi-structured questionnaire used please see appendix 5.

in the six villages (TFMF 2008:2).

Concerning the literacy degree and time limit, the questionnaires were filled in by the author based on Q&A<sup>15</sup> communications with the households. The surveys varied from 30 to 40 minutes for each household with the first 15-20 minutes contributing to questionnaire filling-in and the rest for informal interviews. The rationale to combine interviews with questionnaire survey was to let them complement each other to catch a multi-facet and holistic picture of the project and to inform the author of the service quality from client's perspective. During the survey one loan officer was assigned to help the author to make contact with the households. Considering the officer's presence might sway the neutral mindset of respondents, they were asked to stay in other rooms when the author was making survey with the household members. Most respondents were quite cooperative though there was one in each survey unwilling to answer pro-sensitive questions like annual household income. All in all the survey results were reliable for use.

### **4.3 Validity, Generalization and Limitation**

One of the major barriers in doing case study is the external validity, which emphasized to establish a domain to which the research result or findings could be generalized. (Kidder and Judd 1986:26-29 cited in Yin 1993:34). To overcome the barriers efforts were made to strengthen verification procedures in different research phases. In data collection phase the author tried to access evidence from multiple sources through the overlapping use of interview, observation and questionnaire survey. Data and information collected from multiple sources were triangulated to reflect back on each other. Such a triangulation was commonly recognized as popular and cost-effective procedure for validity enhancement (Creswell 2007:203; Mikkelsen 2005:197; Yin 2003:99). In research design phase the two cases were carefully sifted out of the third category GCIs domain by using criteria to identify "contrast" cases to maximize representativeness and generalizability of the research conclusion.

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<sup>15</sup> Question and answer

In spite of the effort, there are two factors undermining the validity and generalizability of the research:

1. It is negotiable that whether the questionnaire survey result can be extrapolated to other communities served by the two GCIs given the small sampling scale and varying context of different areas.
2. It will be more holistic to interview the competitors vs. the third category GCIs, mainly state-run institutions and officials working in financial industry. However this proved to be a huge challenge due to hard-accessibility caused by bureaucracy.

To offset the deficiency caused by factor 2 more efforts were put on the use of “naturally occurring data” through reachable sources, e.g. reports and documents released in official websites and open archives (Yin 2003).

#### **4.4 Ethical Considerations**

Research independence: Informed by the fact that some parts of the research involved the assessment over targeted GCIs, the author had been trying to maintain a critical and independent manner during observation and data collection practice so as to avoid any misleading or prejudice caused either intentionally or unintentionally by stakeholders from researched side.

About interview and survey: In any case the “informed consent” principle was strictly abided by. The research purpose and methods were clearly explained to interviewees and survey respondents in advance. Confidentiality was specially highlighted beforehand to all. Fortunately none of the interviewees and respondents rejected to give their names, nor they insisted anonymize their names in the paper. There was small cultural shock even the research was conducted in the author’s own country. It occurred in two or three surveys when the rural households could not understand the author’s “formal language” whereas the author failed to catch the local’s dialects. A

re-inquiry was insisted under such circumstance to clarify the uncertainty.

## **5 ANALYSES**

The analyses are divided into two parts. Sections 5.1-5.3 respond to research question 1 while sections 5.4-5.7 respond to question 2.

### **5.1 Outreach Assessment of FPC**

Worth: Worth dimensions of a loan mainly include the amount disbursed, the term to maturity, and the size of the installment (Schreiner 2002:3). For deposits, worth increases with the interest rate and as the contract is less restrictive (ibid).

The loan provided by FPC to the poor totaled US\$17.5 million by the end of 2006, covered 45,000 households (Du et al 2008:22). The average loan borrowed by clients thus was US\$389. The loan size might vary from one bureau to another. Taking Yixian bureau for example, by the end of November 2008, there were over \$1.53 million loan being disbursed to 5,358 households, thus the average loan was \$286 (interview with Li Y.Q. 2008). Similar to GB which developed two generation models to adapt to the clients as time went by, FPC also evolved generation II in 2005. The term to maturity in FPC I followed the traditional Grameen I model to give one-year loan by dividing it into 50 installments to be paid back weekly starting from the third week after the loan was released (FPC Manual 2007). The FPC II enriched the service type to allowed loans to be repaid by flexible installments or lump sum within a term of 9 months (ibid).

Deposit was compulsory. For FPC I a forced “group saving” equating 5% of the loan would be deducted when the loan was released (ibid). Other than that, a compulsory saving up to 1% of the loan was demanded to be paid together with installment repayment weekly (ibid). The deposit could be withdrawn one year later if only loans of all five group members were cleared off (interview with Li Y.Q. 2009). For FPC II

no “group saving” required, but a management fee equating 1% of the loan had to be paid when borrowing the loan (FPC Manual 2007). The weekly compulsory saving rate also increased from 1‰ to 2‰ for members (ibid). The deposit could not be withdrawn until the member joined FPC for three years and under the condition that loans of all five group members were cleared off (interview with Li Y.Q. 2009). The interest on deposit was equal to the official interest on current deposit released by central bank<sup>16</sup>, which was rather low.

Cost: The price cost included cash payment for loan interest and fees. Currently the annual loan interest rate is 16% for both FPC I and II (FPC Manual 2007), which was higher than that of state-owned banks or RCC’s rate but in a moderate level compared with the rate of famous MCIs, e.g. for GB the rate was 20% (GB 2007), for BancoSol Bank of Bolivia the rate varied between 12%-22% (TheMIXMarket.org 2007). Fees comprised the compulsory savings mentioned above. Nevertheless, it would be returned to the clients after contracted terms.

The Transaction costs born by clients were too little to be calculated. The loan was released to group members in FPC’s community centre which was generally within half-hour walk distance from clients’ home (interview and survey with household members 2009). When evaluating client’s application for loan and collecting repayment, the loan officers would go to clients’ home. Therefore there was nearly no opportunity cost for time and transport. Since all registration forms were provided by FPC, there was no other indirect transition cost, such as stationery either.

Net Gain: Therefore the net gain to a client for a one-year contract loan of \$389 would be \$288 by using the worth minus the price cost given the assumption of zero opportunity cost and indirect transaction cost. But the opportunity cost would not be zero and it was hard to measure the loans’ contribution to household welfare improvement mostly because of the difficulty to know what would have happened in

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<sup>16</sup> The latest annual current deposit rate released by the central bank as of Dec. 23 2008 was 0.36%

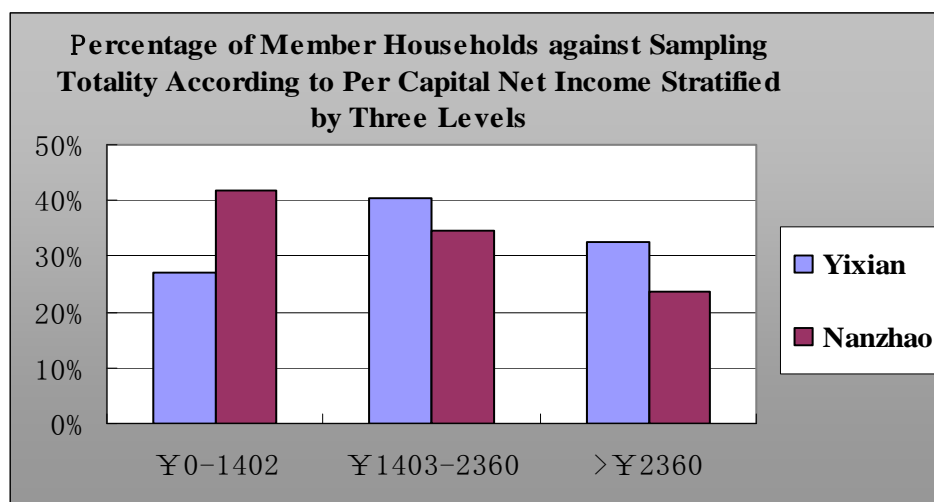
the absence of the loan. A reliable alternative was to compare the net gain with loans from other available sources (Schreiner 2002:6). Survey indicated to borrow from FPC was more profitable since lending interest rate of private moneylenders was higher than FPC. The RCC, on the other hand, requested guarantees with asset of at least \$4386 while PSB requested public officials to be guarantees of borrowers, which as some households claimed were “too trouble and impractical”. There were other evidences from the survey proved net gain was positive: 1) over 90% members had repeated borrow behaviors (interview to Li Y.Q. and Zhou 2009) 2) being asked whether the microcredit brought change to household, 100% respondents confirmed it “diversify income sources and increase household income” while over 50% additionally agreed “it strengthen household anti-risk capacity”.

Depth: Poverty is a good proxy for depth which however was measured through diversified benchmarks in different MCIs. For example, GB put land asset less than half hectare as a key criterion to screen the targeted poor (GB 2007); CARD in Philippine used mean test form integrating housing, food security, education and assets to filter groups they intended to approach (Greeley 2003:11). FPC had applied double thresholds for member entry which entailed total household asset as well as per capita net income of household members. For FPC I the asset ceiling was less than ¥20,000 (US\$2924) and the per capita net income should be less than ¥2,000 (US\$294); for FPC II the threshold were loosened to ¥23,000 (US\$3362) and ¥2,300 (US\$336) respectively. The income criterion was formulated taking account of the average per capita net income of rural residents of the four counties where FPC project located, which reached ¥2765 (US\$404) in light of the latest statistic in 2006. (Hebei Provincial Bureau of Statistic 2007; Henan Provincial Bureau of Statistic 2007). In considering the income growth, the figure should be closed to ¥2,300 when the criterion was put forward a few years ago.

But the standard itself could not identify the distribution of the clients among the targeted group. Sun’s (2007) survey in 2002 casted lights on it. Sun sampled 126

member households from 4 targeted villages in Yixian county and 119 member households from 4 targeted villages in Nanzhao counties. According to the average per capital net income of the two counties in 2002, which was ¥2360 (\$345), Sun stratified three income categories and obtained distribution ratio of member households of each level to the sampling totality:

Table 2



Source: Sun (2007:65) “Microcredit Targeting and Farmer Household’s Selection of Microcredit”

According Table 2, the survey showed in Yixian and Nanzhao there were 67% and 76% targeted member households of FPC felling in the income domain below ¥2360. It justified FPC’s targeting trajectory on low-income rural poor. The table also indicted Nanzhao enjoyed a ratio as high as 43% in targeting the poorest group with income less than ¥1402 compared to Yixian which had a ratio of 27%. The main reason might be attributed to the fact that Nanzhao was possessed of 50 thousand poor with per capital net income less than ¥958 while such poor population decreased to around 20 thousand for Yixian (Nanzhao Office Annual Report 2008:3; Yixian Office Annual Report 2008:2)

Income poverty was only one benchmark to measure the outreach depth. There were simple, indirect proxies in related to gender, housing, education, access to health service to reflect MCI’s outreach contributed to social performance (Schreiner



2003:7). FPC inherited the GB's preference on women borrowers. The FPC II was designed to aim particularly at women members. As a consequence, female members accounted for 90% of all members by the end of 2006 (Du 2007). Housing was less considered since in China rural families were allowed to build houses on distributed land in compliance with population (The Ministry of Land and Resource 2007<sup>17</sup>). Survey and interviews in Dongbaima town had verified the average room occupied by individual was nearly 1:1, therefore housing was not an essential conditions for concern. Education itself was not a premise for loan. However, relevant evidence from Yixian and Nanzhao supported the finding that educated women showed higher rate of choosing microcredit service compared to those with less education (Sun 2007:73). Besides, families needed to support children to go to school were inclined to the loan (interviews with household members 2009). Thus from reciprocal point of view education become a factor affecting microcredit' popularity from clients' side. As a principle the loan was not lent for seeing a doctor, nevertheless, it did not wipe out the possibility for members to use small proportion of it for illness and the rest for money-earning activities as what they stated in application.

Breadth: It started with one community center, six groups comprising of 34 household members as well as initial capital of ¥ 30,000 (\$4386) in Yixian county and expanded to current 4 counties in two provinces (FPC Brochure 2007). Aggregately FPC had reached 45,000 households covering over 180 thousand rural poor so far (Du et al 2008:22) . Currently there were over 16,000 household were receiving the loan from FPC.

Scope: FPC's microcredit services could be divided into generation I and II. The loan size ceiling for I and II were the same. Households were allowed to borrow loans no more than ¥2,000 for the first time which could be increased progressively to ¥3,000 for the second loan and ¥4,000 for the third loan and limited to ¥4,000 afterwards. FPC II displayed more flexible repayment term and was seeking

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<sup>17</sup> According to clause 22, "Land Management Law of P.R.C".

augmented prevalence in members.

There were not other financial services except for compulsory deposit, which as such was regarded as a tool cultivating clients' saving habit and alleviating bad debt risk of FPC rather than a kind of service.

Length: After the project was introduced to China in 1994 FPC had been running stably for 15 years. In county level the branch bureaus was capable of handling the revenue and expenses with balance. Still financially in headquarters level FPC was not able to take full responsibility for its own profits and losses if taking the bad debt into account. (Du 2007:18; interview with Li Y.Q. 2008)

Summary: FPC demonstrated positive net gain signs to clients either upon evidence from survey or comparison with other available local loan sources. As for depth, it varied with county context. Basically it was effective by using asset and income screening criteria in addition with concern on essential social factors. But the service scope was comparatively narrow since apart from loans and compulsory saving there were no other services offered. All in all FPC had been making progress steadily even though the covering area was limited to 4 counties. It seemed in a short term FPC would still confront with pressures for financial self-sufficiency and scaling-up.

## **5.2 Outreach Assessment of TFMF**

Worth: The total loan disbursed by TFMF till the end of 2008 reached ¥9 million (\$1.3 million), covering 4,000 households (Mao 2006:84). Thus the average loan for each household was around ¥2250 (\$329). Taking Tuanshuitou, Longshuitou and Xiaozhaishang villages for specific example, over 3291 loans was made with total sum up to ¥72 million to members in the three villages between 1999 and 2007 (TFMF Annual Report 2007). Thus the average loan in this period would be

$\text{¥}7,200,000/3291 = \text{¥}2190$  (\$320). Basically the loans were provided for terms of six months and twelve months. Principle and interest would be repaid at lump sum basis by contracted terms.

From 1998 TFMF started to accept villagers' deposit on annual interest rate of 6%, which nearly tripled the rate of state-owned banks. In 2006 the rate was lowered down to 4% given policy limitation, which however was still higher than the 2.25% interest rate for one-year deposit and withdraw in lump sum released by the government (Bank of China 2008). Interview to the chief credit supervisor of TFMF confirmed the rate would be further reduced to 3% in 2009 owing to the decrease of official rate in recent years.

Cost: At the very beginning the annual loan interest rate was 12%, charged only to borrowers using the loan for business initiation while loans for going to school and seeing doctors were free of interest. Starting from 2006 the rate was increased to 18%. It would be further increased to 21% in 2009 (TFMF Manual 2009:15; interview to Li N.W. 2008). Cautions needs to be raised since according to the updated interpretation given by The Supreme People's Court of China, loan rate four times of the government rate is considered as usury and is illegal (Ling 2006:p97). In 2008 the ceiling was curtailed to 21.24% from previous 24% in 2006 since the government rate has been cut down from 5.8% in 2006 to current 5.31% (BOC 2008). Thus there was no big room left for TFMF to increased loan interest rate.

There was little opportunity cost for time and transportation since most residents lived in loess cave dwellings which spread not far away from the community office. But the household need to pay \$3 for the membership book used for loan recording.

Net Gain: Given an assumption of zero opportunity and transition cost, the net gain to a client for a one-year loan of \$329 is \$259.4. The survey indicated households preferred TFMF over private moneylenders or RCC since for the former the loan rate

was 24%-30%, which was much higher than TFMF (interviews with households 2008). The RCC, though having a low loan rate, requested teachers to be guarantees, which was a harsh threshold refraining most clients from borrowing (interviews with households 2008). The net gain was positive since many clients had repeated borrow behaviors, which was further verified by 100% consent of agreement from survey respondents remarking the loan “diversified income sources and increased income” and 78% additionally deemed it “strengthened household anti-risk capacity”.

Depth: The per capita net income of rural residents in Tuanshuitou town was ¥1153 (\$168) in year 2008 (Tuanshuitou town government 2008), which was lower either compared with \$178 for rural residents in Linxian county in 2006 or with \$598 for the whole Shanxi province in 2008 (Linxian County Government 2006; Shanxi Provincial Bureau of Statistic 2008). Applicants were required to fill in investigation forms focusing on information relevant to household asset, annual net income and expenses as well as household’s loans from other channels. TFMF did not set up income screening threshold as a “bottom line” for loan release. It relied more on loan officers’ assessment capability over applying households. It was believed “only those really needy will go for us since generally households here are very poor” (interview to Li N.W. 2008). The average per capital net income of 20 surveyed households was higher than \$168 because of a few big borrows, but the median was around \$168, indicating the targeting priority to the poor.

TFMF has put particularly concern on vulnerable groups by providing loans for children’s schooling as well as for members that could not afford to go to the hospital. The statistic from Tuanshuitou, Longshuitou and Xiaozhaishang villages showed between 1999 and 2007, loans disbursed for children’s education and medical cares accounted for 4% and 5% of total sum respectively, which meant direct contribution to the social welfare improvement of local poor (TFMF Annual Report 2007). All loans were disbursed on household basis with wives’ agreement and signatures being compulsory when borrowers were couples, thus women engagement was as high as

95% in all borrows (interview with Li N.W. 2008)

Breadth: TFMF was founded by Mr. Mao Yushi, a Chinese economist together with Dr. Tang Min in 1993. The initiative fund was only ¥1500 (\$219). It started in Longshuitou village and was slowly expanded to Tuanshuitou and Xiaozhaishang villages. In 2007 the coverage was furthered enlarged to reach totally six villages. Its next step was to extend to cover all 28 villages under the administration of Tuanshuitou town (interview to Mao<sup>18</sup> 2007 and Li N.W. 2008)

Scope: The ceiling for loan had increased slowly by year from the initial ¥1000 in 1998 to ¥2000 in 2000, ¥4000 in 2004, ¥5000 in 2006 till scheduled ¥8000 in 2009. Starting from 2007, a larger size loan was launched to serve those with extra demand for money. It permitted single loan amount between ¥5,000-¥20,000, which however was limited to old clients that had repeated and credible borrowing records. Households having such large borrows were limited to 40 for the sake of risk control (interview to Li. N.W. and Li L.S. 2008).

TFMF provided deposit service, which contributed over 50% of the loan capital to it (Shen 2007:34; interview to Li N.W. 2008).

Length: TFMF has been in operation for 16 years since it was founded in 1993. In 2006, TFMF's field offices achieved \$5847 surplus (Shen 2007:34). Nevertheless, if deducting the cost spent by headquarters, the institution was still in the red (ibid; interview to Li N.W. 2008).

Summary: Clients of TFMF could enjoy positive net gain over other local loan sources. To intensify depth, TFMF heavily relied on the loan officers' experience and capability in assessing and targeting the poor. Loan for education and health care were integrated into the service agenda from the very beginning, which deepened the

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<sup>18</sup> The interview with Mr. Mao was conducted in Oct. 18 2007 in the author's previous assignment writing.

outreach to the vulnerable. In addition to loans, it also provided deposit service with interest rewards higher than official banks. The expansion was not quick since it took TFMF 8 years to multiply from 1 village to 3 and another 6 years to current 6. It remained in blur that how long it would take for TFMF to realize financial balance in headquarters level.

### **5.3 Similarity and Difference**

Similarity: Both institutions tended to achieve positive worth whatever in terms of the net gain compared with other loan sources, the repeated borrowing frequency or member households' affirmative feedbacks. The average loan size was between ¥2250 (\$329) and ¥2660 (\$389), which was nearly equal to a loan of 1\$ per day. The price cost for both institutions did not have big divergence since FPC's annual loan interest was 16% and TFMF's was 18%. The latter was a little higher than the former, however if considering the compulsory saving enforced by the former, the total price cost for both was nearly the same. On the other hand they all had a very tiny opportunity cost and transition cost. Although adopting different approach targeting the poor, over half of the households reached by the two institutions were below the average local income poverty line. In spite of the precise outreach to the poor, the expansions of both institutions were slow and financially they had not yet been able to achieve balance.

Difference: there were several differences identified in following respects:

***Saving:*** FPC had enforced compulsory saving while TFMF did not.

***Approach to target the poor:*** FPC applied income and household asset screening criteria in targeting the poor. TFMF relied more on loan officers' personal credibility and capability for assessment in targeting the poor. It particularly provided loans to support households with difficulty for children's education and health care.

***Breadth:*** FPC served more members than TFMF by covering more targeted villages,

which however was closely linked to their capital gap from initiative stage and investment attracted during their development.

*Scope:* FPC did not have real deposit service while TFMF did imposing an interest higher than official banks. Within loan scope FPC had been making effort to customize services by generating FPC II.

The similarity summarized the common ground of the two GCIs' all-round performance. Assessment from the first five dimensions of outreach framework showed they had managed to accomplish the social tasks committed to them to large extent in supporting the poor. On the other hand both of them were slow in multiplications and both faced challenges in sustained financial self-sufficiency and scaling up. Regardless of the homogeneity in performance, FPC and TFMF exposed different approaches in running tactics in some way. Whether and how much did the approach difference affect the performance of the two GCIs would be further discussed in the following section.

The assessment in this phase clarifies the first research question of this paper—that is the social performances of two GCIs are, if not perfect, quite acceptable and shall not threaten donors or investors away although financially the “outcome” was not outstanding enough to support the reciprocation of organization activities through the “feedback loop”. The result preliminarily confirmed the plight of GCIs in Chinese context shall not be attributed to their lack of sound social performance. It did not mean their output was so satisfied that there was not room for improvement. On the contrary, they exposed deficiency in service scope which was not diversified; the coverage was still limited when expansion was slow; particularly, they still could not support themselves with their own profit. To answer the second question, namely to identify the obstacles relevant to such deficiencies the following sections would go ahead into the organization capacity analysis.

## **5.4 Organization Capacity of FPC**

### *5.41 Strategy*

The long term goal of FPC was to intensify poverty alleviation development and empower rural poor while its original mandate was to explore the feasibility of GC in Chinese context (Du 2007:4). In other words FCP had regarded itself as a pilot trial for GC's implementation in Chinese context. To testify the feasibility FPC had made a comprehensive duplication of GC in term of the running mechanism and management procedures at the very beginning. Some part of the mechanism, after many years of practice was proved efficient and adequate to Chinese context whereas some were not (ibid). Thus innovation was made in responding to clients' demand and feedback which led to the birth of FPC II for certain technical alternation in relation to loan delivery and management, nevertheless, the morals and values underpinning FPC remained unchanged which firmly adhered to GC's ultimate mission to promote credit as human right.

FPC's strategy was single by concentrating only on microcredit provision. It did not follow GB's mode to mobilize weekly or fortnightly community meetings for community buildup given the high opportunity cost of time and female members' housework burden (Yixian 2008:9). For strategy planning the overall development goal, schemes as well as code of conduct was set up by the directorate and conveyed to branch bureaus in the counties. However, members shared the rights to elect lending group leaders and their voices could be conveyed to local bureau through loan officers who visited members' home at least once per month.

### *5.42 System*

Lending system: One of the most crucial systems invented by GB for loan management was the group-based lending system which demanded individual borrowers to form group of five to guarantee and monitor one other (Khandker et al 1995:12). This system was against the traditional collateral-based one used by



commercial banks in a belief that poor people were still able to use loans in productive way and pay them back (ibid). The running principle was “default by one group member leads to loss of access for all members” (Schiener 2003:5), namely if any one of the members failed to repay loan on time, the whole group would lose choice for future loans, at the same time, the rest members of the group were obligated to share the repayment of default loan. The system, when using group members’ accountability to create pressure for contract enforcement, could effectively reduce operation cost (Greeley 2003:4). It constituted a complete system together with compulsory saving (Khandker et al 1995:12). Although GB later innovated model II diversifying way of lending, the group-based mechanism still functioned as key methodology for loan delivery.

FPC had taken group-based lending as main framework for loan management. Li remarked it “positively against default” (interview with Li Y.Q. 2008). On the other hand, the mutual guarantee effect sometimes was not obvious since members were observed unwilling to pay default for each other due to lack of understanding on their obligations (Du 2007:7). Even though, it was still believed to be “the cost-effective method to eliminate financial risk thanks to the kinship and acquaintance impacts in rural society” (Yixian 2008:4). In FPC II, innovation was made to allow one or two members to use the loan borrowed by all five when the rest members were purely guarantors instead of loan users. The lending amount thus was increased to ¥20,000 (¥4000\*5 borrowers =\$2914). Interview to Jia (2009), the loan officer of Qiaotou town under Yixian bureau, showed over 50% borrowers in Qiaotou town were using this kind of loan, reflecting the innovation was responding to clients’ thirst for big size loan.

Financial control: There were several variables affecting the financial efficiency of MCIs: the loan officers’ productivity and operation cost, the loan interest rate, MCIs’ ability to tap external commercial source, such as deposit from public, donation, or equity. It became a common sense that “the administrative costs for tiny microlending

are inevitably higher than for normal bank lending” because “lending out a million dollars in 100,000 loans of \$100 each will obviously require a lot more in staff salaries than making a single loan for the total amount”, let along the cost of home visits for household appraisal, disbursement and repayment collection as well as following monitoring (CGAP 2009). In some cases<sup>19</sup> the paradox comes out when the rate, though suitable for MCIs and acceptable to borrowers, was opposed to the ceiling imposed by the government. In addition to adequate loan interest rate, “ongoing liquidity and funding are absolutely essential for scaling microfinance institutions” (Counts et al 2006:42). In all resources available, GB’s experience had justified deposit was an alternative “to minimize dependency on outside borrowing” and therefore was definitely as important as other social subsidies or commercial equity (Khandker et al 1995:29).

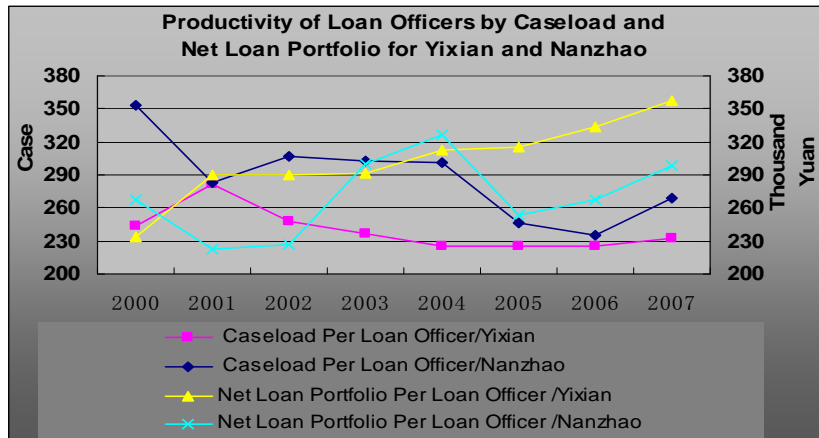
FPC managed to make tortuous growth in loan officers’ productivities during the past 15 years. Data from Yixian bureau showed the net loan portfolio per loan officer grew steadily from ¥234 thousand to ¥357 thousand. Nanzhao bureau experienced more overt rise and fall and now was maintaining a loan portfolio of ¥300 thousand per loan officer. The caseload for the two counties saw a trend to resume steady growth after 2005 and now was stabilized at 250-290 per officer (see Table 3), which was higher than the average benchmark of 208 per officer in Asia area and 216 per officer globally investigated by MIX<sup>20</sup>. (MIX 2006 cited in Patel 2008:7)

Table 3

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<sup>19</sup> For example, ACSI, an Ethiopia MCI was suppose to make a rate of 30% in considering the poor infrastructure to reach the poor, but constrained by political reality its rate could only be raised to 18% (Counts 2006:87)

<sup>20</sup> The survey was conducted by MIX to cover 184 Asian MCIs and 704 MCIs globally (Patel 2008:1).



Source: Drafted by the author based on FPC Annual Income Statement 2000-2007

The operation cost also slightly increased following organization expansion and productivity growth. A prominent evidence was the cost for ¥1 loan delivery increased from ¥0.02 to ¥0.07 for Yixian and from ¥0.03 to ¥0.05 for Nanzhao between 2000 and 2007, which was partly due to increase in employee salary (FPC 2000-2007). In spite of the cost growth, the loan interest rate was remained at 16% evenly in past 15 years. This might be out of concerns for the acceptability of targeted households and for FPC’s sensitive role as pilot GC in responding to national regulation for rating (interview with Zhou 2009).

Currently FPC was surviving mainly relying on external funding and donations.<sup>21</sup> One of the most critical issues confronted with FPC was to tap new funding sources as loans from Ford Foundation was going to be due (interview with Li Y.Q. 2008). However, there were two obstacles hindering commercial funds from flowing in: First, FPC was not legally recognized by relevant government regulatory authority and therefore had difficulty to receive funding via formal channel due to identity ambiguity (interview with Li Y.Q. 2009). The author was informed FPC lost many choices to seek large funding because the foreign donors could not be convinced by the “unclear legal status” of FCP. Second, even loans flowed in, the complicated foreign exchange settlement procedures and regulations to limit settlement to small

<sup>21</sup> Grameen Trust provided the first batch of low interest loans for initiation of FPC, followed by Ford Foundation as a main donor. Others included small portion loans from Citi Group, Australian International Development Agency as well as donations from an Taiwan entrepreneur (Cheng and Xu 2007:96; interview with Li Y.Q. 2008)

amount caused big operational inconvenience and extra cost for FCP's repayment of loans to donors (interview with Li Y.Q. 2009).

FCP neither stretched out hands for public deposit. Unlike banks, its deposit was constrained to compulsory savings which absorbed only very small and fix quota from members. The saving was too limited to contribute to alleviate FPC's dependency on external sources. The public deposit transaction was excluded from FCP's service scope intrinsically because the current law did not permit institutions other than commercial banks, RCC and PSB to proceed fund raising activities inclusive of deposit and saving.<sup>22</sup> FPC definitely did not want to play with fire at a risk of offending the law. The legal status ambiguity and prohibition for deposit had set up a buffer zone largely barring the external funds away.

Technologic deployment: The technological deployment here referred to the technical tools and procedures deployed by FPC in sustaining daily operation. The information exchange between headquarters and field offices were through phone and post at the very beginning. Computers were luxuries even for the county bureaus before 2001 (interview with Zhou 2009). Author observed 3 computers in Yixian county bureau office, of which two were donated and no computers at all in town branch office. Loan portfolio and accounting data were handled via manual accounting at community and town level and compiled into electronic spreadsheets by county bureau before being conveyed to headquarters by email on weekly, monthly, quarterly and yearly basis. The workload for bureau office therefore was progressively heavier in the wake of caseload growth (interview with Chen 2009)

FPC had been making effort to explore and develop loan portfolio processing software which however was discontinued due to large capital input demand for high quality computers and network construction. Currently a set of indicators developed

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<sup>22</sup> According to clause 176 of the Criminal Law of P.R.C updated on June 29 2006 as well as clause 4 in "Enforcement of Ban on Illegal Financial Institutions and Illegal Financial Business" released by the State Council of P.R.C validating from July 13 1998.

by CGAP was utilized by FPC for loan quality monitoring and financial viability assessment, which could be calculated in excel forms. However the leaders became increasingly aware of the urgent need for a more efficient management information system in view of institution scaling up (interview with Li Y.Q and Zhou 2009).

#### *5.43 Structure*

For many years FPC could only register its subordinate field office as poverty alleviation associations by incorporating with the local county government. The headquarters could not register as legal corporation until 1999 when it obtained a special authorization from central authority for the first time to officially permit it “continue to run microcredit as experiment”<sup>23</sup> (Du 2008:22; FPC 2007:2), which however still did not clarify its legal status. For running convenience FPC took a alternative route by setting up a foundation with one of the private donors<sup>24</sup> in 2004 and attached FPC to the foundation (FPC 2007). It helped in some way yet could not solve the issue from the root. The ambiguous identity caused ownership confusion and confrontations within the institution since the headquarters, not legally registered, was leading and running the field offices, which in turn were legally registered (Du 2007:20; interview with Li Y. Q. 2008).

Leaving the intricacies aside, structurally FPC constituted five layers, e.g. headquarters in Beijing, the county bureau office, the town office, community centers and clients in villages (see Figure 3). Each county bureau had one chief, one audit and one accountant and each town office was equipped with 4-6 staff inclusive of one chief supervisor and three to five loan officers who also worked as part time accountant and cashier<sup>25</sup> (FPC 2007:13-15; interview with Chen and Jia 2009). The field offices enjoyed autonomy in scheduling development plans and controlling

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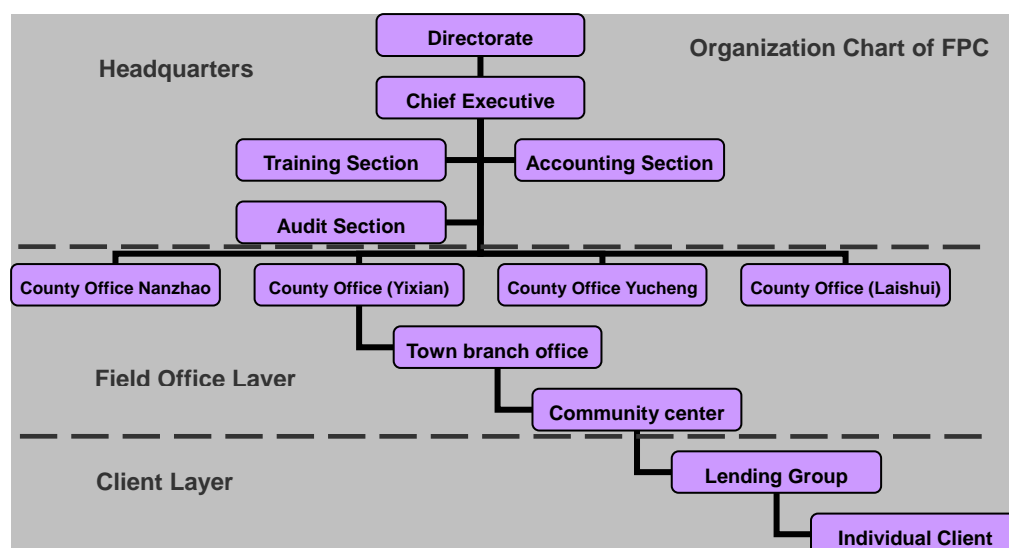
<sup>23</sup> The authorization was jointly approved by the general office of the State Council, People’s Bank of China and the State Council Leading Group Office of Poverty Alleviation and Development (Du 2008:22; FPC 2007:2)

<sup>24</sup> The private donor was Mr. Yang Lin, a Taiwan entrepreneur

<sup>25</sup> For example, Qiaotou town office under Yixian bureau constituted 1 office chief and 3 loan officers. Each officer was responsible for 400 households (interview with Jia 2009).

progress while headquarters supposed to inspect each county offices five times yearly, in addition to annual auditing which in reality was subject to alternation if emergency occurred (FPC 2007:179). The structure imitated GB's layout which constituted 6 layers but covering a network outreaching the whole country (Dowla and Barua 2007:27). If comparing the proportion of structure level to reaching scale of the two, FPC's structure was hierarchic rather than flat. Bad accounting took place in Yixian field office in 2000 and 2002, which was exposed with a delay due to the multi-layer communicative path and the backwardness of management information system (Du 2008:12; interview with Li Y.Q. and Zhou 2009). It strongly implied the necessity to streamline the structure.

Figure 3



Source: Drafted by the author after Du (2008:10) and interview with Li Y.Q. (2008)

#### 5.44 HRM

At present FPC totally had over 80 staff, of which the six staff in headquarters were actually employees from CASS (Du 2008:22). The field staff were mostly educated locals or laid-off employed via open recruitment except for the four county bureau leaders, who were originally government officials from the county office and were designated as a consequence of compromise between FPC and local authority. Currently three of them already quitted to become completely FPC staff whereas one

still did not give up his official position (interview with Zhou 2009).

The loan officers' proficiency was uneven as some were experienced professionals having working experience in commercial banks<sup>26</sup>, but more were locals receiving middle-level education yet without any financial work experience<sup>27</sup>. Dozens of samples proved locals could make excellent field staff not only because they were familiar with the region, people, and local culture, but also because they were accustomed to the harsh work and living conditions and were therefore less likely to leave the organization (Counts et al 2006:86). Such was the case in Yixian county where over 82% staff had stuck to their position for over 6 years, displaying undoubted loyalty to FPC (Yixian 2008:10) and their work was praised as "admirable" by Li (interview with Li Y.Q. 2009)

Even though, FPC was in a shortage of talents to support scaling up. In headquarters 6 staff were definitely far from enough to supervise and deal with the heavy loads of affairs accumulated from 4 county officers, particularly, as Li confessed, they lacked talent specializing in microcredit (interview with Li Y.Q. 2009). The field offices were not optimistic either as expansion demanded the participation of more qualified and experienced loan officers, which as Zhou described "was not easy" due to FPC's nondescript identity threatening will-to-be participants away and the salary and well-being which looked not more attractive than vacancies in competitors (interview with Zhou 2009).

It did not mean FPC's merit-based incentive was not efficient. Loan officers' remuneration was made up of fixed base and extra bonus which was in proportion with one's outstanding loan portfolio as well as repayment rate (interview with Chen and Zhou 2009). If all loan officers' did a good job, the in-charge office chief and

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26 For instance, Mr. Zhao, the chief of Dongbaima town office that author interviewed used to work for the Agricultural Bank's branch in Yixian for 15 years (interview with Zhao 2009).

27 For instance, 65% staff in Yixian field office were with degrees of junior college or secondary technical school (Yixian Office Annual Report 2008:10)

account would also be awarded certain bonus. Interview with Chen (2009) showed normally a loan officer's monthly payment could reach ¥ 2200-2300 (\$336), of which around 30% were bonus. Even though in comparing with the sacrifice of weekends and holidays for home visits and trivial tasks, the payment indeed deserved reconsideration. It somehow formed a vicious circle when talented professionals flowed into commercial banks lured by their high salary and comfortable working environment. MCIs could only seek what were less inspiring. As Li (2008) remarked "we need to pay more if we want to hire ideal person as we expect". However, limited by running cost sufficient human resource backup would remain as a challenge worrying FPC.

## **5.5 Organization Capacity of TFMF**

### *5.5.1 Strategy*

As a subordinate under the FDI, TFMF maintained coherence with FDI's long term goal to facilitate social innovation and equality, alleviate poverty and encourage sustainable development for the establishment of harmonious society (FDI 2009). It endeavored to contribute to the goal by creating self-motivated opportunity for the poor via the scaling up of microcredit (ibid).

TFMF's mandate was incorporated with FDI's community and civil society promoting programs and launched in a "microcredit plus" strategy. For example, TFMF took out proportion of earning to pay for the 8 teachers working in the non-governmental primary school in Tuaishuitou village and helped to invite volunteer to manage school library for the children (interview with Sun and Zheng 2008). It also assisted for the establishment and running of Community Learning Centre for Women in the town where participants had choice to learn literacy classes and have entertainment together, which in turn strengthen their understanding and trust on TFMF and the microcredit program (interview with Li L.S. and household members). Zhao Huayan, 35, the mother of two boys told the author that she was



pleasant to attend the center because she learned more about how to use the credit and make many friends there (interview with Zhao 2008). It turned out the integrated strategy reinforced the viability of microcredit as well as the buildup of community.

### *5.52 System*

Lending system: Instead of duplicating the group-based lending mechanism, TFMF developed its own methodology by purely relying on household credibility. Borrowers were required to make lending on household basis, namely lending agreement need to be signed by couples or at least two linear household members if the borrowers were single or divorced, e.g. by father and son together. One household could borrow only one sum of loan at the contracted period (TFMF 2009:19; interview with Li. L.S. 2008)

The system was simple and easy for handle when it also exposed TFMF to larger default likelihood since there was not joint-liability guarantee based on groups. To minimize the risk TFMF tried to create pressure on borrowers through combination of incentive and penalty and publicizing the default to open (TFMF 2009:16; interview with Li N.W. 2008). As reward creditworthy members could obtain larger loan portfolio in future whereas those defaulted would be punished by paying higher interest rate increased from the normal 1.75% to 2.1% monthly (ibid; interview with Li N.W. 2008). Simultaneously the default member would be publicized in bulleting board located in the community center office monthly. A Creditworthiness Day was celebrated on September 15 of every year aiming at raising awareness for “good credit” amongst villagers (interview with Li L.S. & household members 2008). “The default borrowers will be subject to contempt from neighborhood and felt losing their face, which is a big concern for villagers cherishing their reputations” (interview with Li L.S. 2008). The outstanding repayment rate verified the efficiency of the system. Except for a few default cases due to borrowers natural death and force majeure accidents, 98% members repaid their loan on time (TFMF 2007:20; interview with Li N.W. 2008). After 2007 the rate was even further improved (ibid).

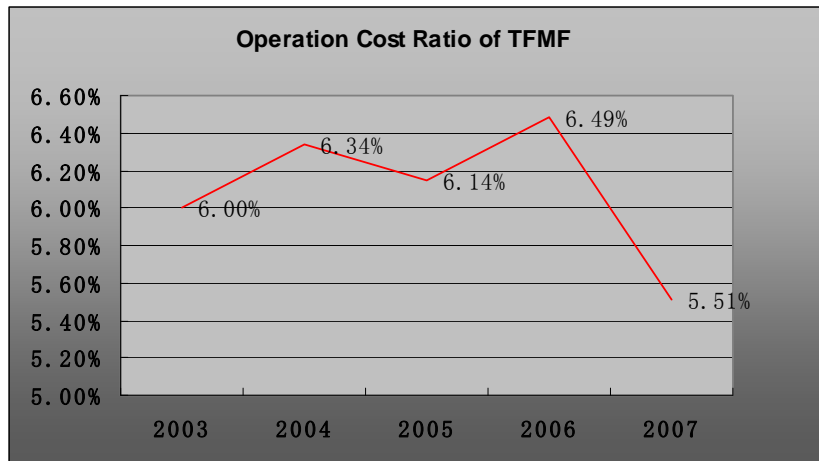
Financial control: TFMF covered only six villages, thus the loan portfolio and caseload of per loan officer was constrained by circumstance and might not be suitable criteria for productivity measurement. An alternative was to compare the ratio of current member households to the total households of the villages. The ratio for Tuanshuitou, Longshuitou villages were both around 31% and up to 60% for Xiaozhaishang village (TFMF 2007; Tuanshuitou Town Government 2008). The ratio for the former two was comparatively lower perhaps due to the earlier intrusion of microcredit into these two villages. As a result some households have come off poverty and quitted from the program. Nevertheless, 31% as such was not a low coverage rate. In 2009 TFMF decided to expand services throughout the 28 villages under Tuanshuitou town (TFMF 2009). Whether the expansion could bring productivity surge needs further observation.

In the past five years the operation cost ratio<sup>28</sup> of TFMF was comparatively even, with slight rise and fall within the spectrum of 1%. In 2007 it saw an obviously decrease from previous 6.49% to 5.51%, implying TFMF made particular effort on expenditure control (see below Table 4). The ratio was a little bit lower than the average ratio of 6% for Asian MCIs and 7% globally (MIX 2006 cited in Patel 2008:8). Of all operative cost salary was the largest proportion which accounted for 72% of total cost for 2007 (TFMF 2007:20)

Table 4

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<sup>28</sup> The ratio was calculated by using the formula of “Total operating costs /Average net outstanding portfolio X 100%” taken from CGAP MIS Handbook for MFIs (Waterfield and Ramsing 1998:60)



Source: Drafted by the author after data from TFMF Annual Operation Report (2005-2007)

Of TFMF’s \$175 thousand fund resource, 40% were donations and 60% were savings. Within the \$105 thousand savings around 55% were from local households (Shen 2007:34; interview with Li N.W. 2008). It was not an overstatement to say savings contributed over half resource which significantly supported TFMF’s development. It did not mean TFMF was exempted from the risk of being suited for illegal fund raising. Actually how to define and interpret “illegal fund raising” itself was subject to controversy since it sternly restrained the deposit service to official banks and deprived any civil financial organizations of the credential for engagement (Zhu & Zhu 2008). TFMF was an exception bypassed by legal sanction largely due to its founder, Mr. Mao’s personal prestige in society. In Mao’s words, “The government just feels ill at ease to put me into jail after witnessing what I have done” (interview with Mao 2007). The subtlety was fully demonstrated by the self-contradictory reaction of different powerful authorities— in 2001 and 2004 the county government ordered TFMF to close down by releasing official documents, whereas in 2005 the vice chairmen of Chinese Bank Regulatory Commission visited TFMF in view of “constructive idea exchange” (Shen 2007:34; interview with Li N.W. 2009). TFMF also faced difficulty in absorbing commercial funds due to legal recognition of identity. Thus the external funds it raised were largely donations.

Technological deployment: Working circumstances and facilities in the field offices

were modest. The office was set up in one of the loess caves of credit supervisor's home, with one donated computer and one printer to be the total asset. There was no internet access in the field offices until 2004. Prior to that connection between the field and headquarters mainly depended on phone and post (interview with Li L.S. 2008). Currently the loan portfolio and cash flow accounts were recorded manually and reports were conveyed to the headquarters weekly through email. Indigenous knowledge was taken for reference in designing the accounts, but the field office has not adopted systematic indicators for loan quality and risk assessment, which was put into the development agenda of 2009 following the expansion of TFMF (TFMF 2009). Still limited by budget and the education level of staff this would not be an easy task (interview with Li N.W. 2008).

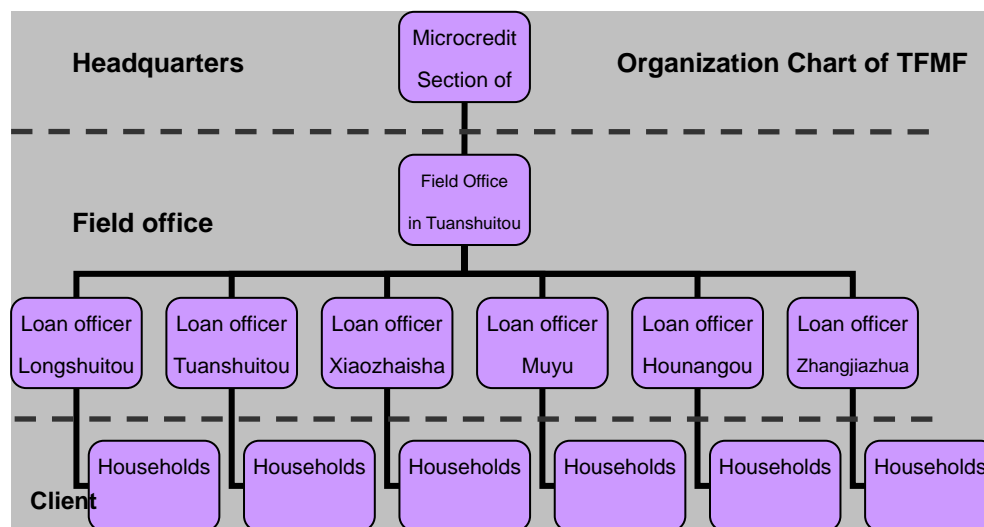
### *5.53 Structure*

Harassed by the lack of legal endorsement from official regulatory authority, TFMF was run as a program under FDI instead of an independent corporation. However, the status definitely could not meet TFMF's viability and ambition for scaling up, which became the critical structural obstacles against TFMF's capacity development in long term view.

At present TFMF constituted three structural layers, namely the microcredit section in FDI's headquarters in Beijing, the field office in Tuanshuitou town and the client households (see Figure 5). The Beijing office constituted one office chief and two staff; field office included one chief credit supervisor, one part time accountant and one part time cashier, as well as five fully time loan officers with each taking care of one village (Tuanshuitou village was directly in charged by chief credit supervisor) (TFMF 2009:3). This was a new layout validating from 2009. Before 2009 there were 14 part time loan officers which currently were downsized to five full time ones. In case the officers' workloads were too heavy, from 2009 each village would invite one volunteer to work as coordinator assisting the loan officer for household investigation

and appraisal, loan monitoring as well as community works (ibid:8-9). The revision was made after years of community development during which villagers' participatory awareness to community activities were step by step intensified. TFMF believed the revision would enable a more "cost-effective" and "dynamic" structure (interview to Li N.W. and Li L.S. 2008). Whether the structure was more robust was subject to the future verification, but it did imply TFMF's capability to adapt to and make use of local advantages.

Figure 5



Source: Drafted by the author after TFMF Manual 2009 and data from interview with Li N.W. and Li L.S. 2008

### 5.54 HRM

TFMF's staff were all locally employed, even the chief in Beijing office was promoted from local office after working for 10 years in the field, therefore all staff were very familiar with the field people and circumstance. Loan officers were required to be graduates from at least junior middle school and would be sent to Beijing headquarters to receive professional training in turn.

TFMF also undertook merit-based incentive by linking staff's performance with remuneration, which was divided into basic salary plus performance bonus and annual

bonus in light of loan portfolio and repayment rate. The basic salary for chief credit supervisor, accountant, cashier and loan officer were respectively \$117, \$88, \$73 and \$88 (interview to Li Naiwei 2008). There would not be any bonus if the repayment rate could not reach 99%. The largest human resource challenge was to find qualified loan officers and management talent to meet the need of scaling up. According to Li Linshun (2008), many educated youth preferred to look for jobs in the nearby county or cities, particularly when the payment to loan officers did not appear much more competitive compared with the opportunity to work as jobbers or migrant workers. For example a storekeeper working in county manufactory could earn a monthly wage of \$117, with less workload than loan officers. It was even harder to hunt supervisors having financial or microcredit experience given wage and fringe benefit incomparable to RCC or banks, let alone TFMF was not a legally recognized institution, which further counteracted the attractiveness to talents in the field.

## **5.6 Similarity and Difference**

### Similarity:

**Strength:** Although the strategies of the two institutions were different, they were clearly defined and the short term mandates were consistent with their long term goal. Efforts had been made to improved cost effectiveness by increasing loan officers' productivity and controlling expenses. Indigenous human resources were prioritized which brought win-win benefit to local employment market as well as to institution itself since locals were more familiar with environment and people and adapted to the harsh living conditions. The performance-based incentive undertaken by both institutions was good at stimulating staff's enthusiasm.

**Weakness:** Both institutions were beset by the ambiguity of legal status which not only severely undermined organizations' capacity in attracting commercial funding but also induced ownership confusion and management attrition within the organizations. The input insufficiency in turn offset efforts made by the organizations

towards outreach and financial self-sufficiency. Limited by the input, there was little possibility to upgrade the hardware and software of technical deployment, which currently could not match with the information management and evaluation demand. Following institution scaling up human resource deficiency turned out to be a crucial challenge confronted by both institutions due to legal status perplexity and uncompetitive income and welfare treatment given cost control and input shortage.

**Culture:** Culture was not separately analyzed in the two cases since it was presumed to be relatively uniform to all rural residents in national level. Traditionally borrowing and lending had been taken as a matter of course by Chinese who admired the creditworthiness of repayment by describing it in a proverb of “repay the loan if you owe as give your life if you kill<sup>29</sup>”. Currently in rural financial market lending behaviors via informal sources were overwhelming formal sources of banks, RCC or PSB. A survey sampling 3000 rural households across 10 provinces released informal lending accounted for 70% of loan behaviors (Li and Zhu 2006); another report presented by Central University of Finance and Economics in 2006 implied the informal borrowing exceeded 55% in all lending resource in rural area (Li 2006). In any case it justified informal lending behaviors was psychologically accepted and popularly practiced by Chinese rural households across the country.

Difference:

**Strategy:** FPC’s strategy was single and concentrated only on microcredit while TFMF adopted a “microcredit plus” strategy integrating microcredit target with community buildup.

**Lending system:** FPC duplicated the typical group-based lending system from GB whereas TFMF relied only on household credibility without joint-liability. As a component of the group-based system, members of FPC were compelled to pay small and fixed amount of savings. Scrupling the risk of offending the law FPC did not

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<sup>29</sup> Originated from “What Donggu Sees” by Li Zhiyan, Song Dynasty.

provide unlimited saving service to members. In contrast TFMF provided normal deposit service to all members in an interest rate higher than commercial banks, which brought in substantial input as well as great risk to TFMF.

**Structure:** FPC had five organizational layers and TFMF had three, which was in related to the scale and coverage of the two institutions. Even though, there was room for FPC to flat its structure and decentralized the power to field branches since to certain extent the multi-layer hierarchical structure hindered information flow and increased management cost.

### **5.7 Obstacles Identified**

The similarity and difference analysis indicated that obstacles spring from both GCIs themselves as well as from input and external environment. The latter even held particular weight. In the difference identified, the discrepancy of development strategies and lending system were proved not to be the inducement triggering outcome pitfalls since regardless of the discrepancies, they both performed positive results. FPC's multi-layer hierarchical structure was one of the internal obstacles affecting its management and cost control efficiency. Other than that, the weak capacity to tap new commercial funding, the incapable technological deployment and the insufficient human resource were three obstacles fundamentally born out of the binding of external laws and institutions even though they eventually functioned to affect the organization from inside. The presence of the three obstacles was in line with the finding from other researches which realized their common occurrence in many GCIs (Du 2007:19-22; Cheng & Xu 2007: 102-104).

The weak capacity to tap commercial funding was largely due to the ambiguity of legal status which threatened donors and investors away as well as the deposit constraint which deprived MCIs of authorization for mobilizing savings. The legal status dilemma could not be unlocked as long as relevant regulatory authority of the



state, namely the central bank and CBRC remained indifference and unconcern for acknowledging the legal status and engaging with the setting of the regulatory rules aimed at NGO-run GCIs. Currently many GCIs were run in the name of programs instead of independent institutions as what TFMF did, which definitely counteracted the expansion and viability of GCIs in long term view (Cheng & Xu 2007:102; Ren 2007:81). Deposit constraint on non-officially run financial institutions was another external obstacle further compressed GCIs' surviving space. TFMF was an exception that dared to rival the constraint, even though it faced great risk. Its boldness was mostly owing to the founder's remarkable fame in society, which however was an unduplicated case. The human resource deficiency also had large to do with the two GCIs' ambiguous legal status which diminished organization attraction to interested talents who might otherwise choose to work for them. Thus lack of legal status was rendered as the harshest external obstacles staggering the groundwork of GCIs from multi-respects. At the same time the willingness to increase staff income and renovate technological deployment were both depressed by the input insufficiency, which originally was linked to the weak capacity to tap commercial funding source. The two external obstacles and three internal obstacles were causally interrelated and their synergy directly delayed institution expansion, impeded deposit and other financial service as well as the approach for financial self-sufficiency.

## **6 CONCLUSION**

In response to the two research questions, the outcome assessment revealed positive signals showing the two GCIs' social performance were quite acceptable even they still could not live without donor support. By and large it denied the suspicion that the GCIs' status quo was owing to their poor performance. The organizational capacity analyses identified three internal obstacles and two external obstacles which were causally interrelated and synthetically interacted to lead to the outcome deficiency. It was believed that the five obstacles could be generalized to at least some other GCIs based on the representativeness of the selected cases and the essence of the obstacles

which were largely provoked by external institutional environment (and hence could potentially be applied to other GCIs).

It was noted none of the five obstacles could be removed without an enabling microcredit-friendly environment to call for government concern and commitment for modification of incompatible institutions and laws. Going back to the open system theoretical model, the intervention crux therefore should be laid in input and environment component to first and foremost eradicate two external obstacles whereby the GCIs could revitalize themselves in an optimized context if administrative modification was undertaken to authorize the legal status of NGO-run GCIs; legislative modification was undertaken to lift ban on deposit mobilization to permit GCIs for provision of saving and other financial services; regulatory modification was undertaken to adequately loosen financial control on loan interest rate and simplify procedures for foreign exchange settlement. Actions could be taken progressively: for instance, it might be a good idea to separate the credit-deposit GCIs from credit-only GCIs to place the former under prudential regulation and the latter under non-prudential ones (Chia and Counts 2006). If GCIs could make effort to digest the three internal obstacles by synchronizing their steps with the enabling of external environment, they were hopefully to overcome current outcome drawbacks and make big stride towards the fulfillment of twofold mission.

There is a flash of hope ahead since at the end of 2006 the central government started to relax the conditions of entry for banking institutions in rural areas and allow investors to set up new types of rural financial institutions such as township and village banks, loan companies and rural mutual cooperatives (RMCs) (CBRC 2006). In spite of this, it still was extremely difficult for GCIs to legalize themselves by transforming or merging into village banks or loan companies due to the entry thresholds and the divergence of operating mandates. The township and village banks were still subsidiary companies overwhelmingly controlled by holding commercial banks within which other shareholders' stake were not allowed to exceed 10% (CBRC

2007). It meant that even if GCIs were accepted as stakeholders they would lost the ownership, let alone the village banks were suspected to be subject to the same fate of withering as the commercial banks did in rural area (Cai 2009). The loan companies, similar to village banks were constrained to be funded by commercial banks and RCC. Moreover, as profit-making institutions their running philosophy and goal was entirely different from GCIs (CBRC 2007).

The RMCs seemed to be the only one offering potential for GCIs' development orientation since its bottom line for registration was comparatively low<sup>30</sup>. Zhou Xueren (2009), the Yixian bureau chief of FPC released the plan to test the feasibility of transforming the bureau into RMC by launching experiment first in one town. However he also confessed "it will definitely take a long time as we need to seek support from local government". Another concern was the "mission drift" since essentially RMC was not obligated to target the poor as the GCIs did. Chu's (2008) remarks perhaps pointed out the crux: "the best way is to enable environment that will provide strong support aimed at GCIs directly, other alternatives are all second means", which precisely summarized what this study verified and demonstrated.

To sum up, the study contributes to give insight into GCIs' implementation status quo in the Chinese context and systematic identification of obstacles impeding the implementation. It pinpoints a baseline for relevant researches aimed to address specific obstacles. Potential research may be developed to thoroughly discuss how to eliminate any obstacles, such as policy research in terms of the revision and improvement of regulatory laws on MCIs.

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<sup>30</sup> The registration requires only 10 rural shareholders with total registered capital not less than ¥100 thousand in village level and ¥300 thousand in town level (CBRC 2007)

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## **APPENDIX 1 Features Displayed by GC**

- a) It promotes credit as a human right.
  
- b) Its mission is to help the poor families to help themselves to overcome poverty. It is targeted to the poor, particularly poor women.
  
- c) Most distinctive feature of Grameencredit is that it is not based on any collateral, or legally enforceable contracts. It is based on "trust", not on legal procedures and system.
  
- d) It is offered for creating self-employment for income-generating activities and housing for the poor, as opposed to consumption.
  
- e) It was initiated as a challenge to the conventional banking which rejected the poor by classifying them to be "not creditworthy". As a result it rejected the basic methodology of the conventional banking and created its own methodology.
  
- f) It provides service at the door-step of the poor based on the principle that the people should not go to the bank, bank should go to the people.
  
- g) In order to obtain loans a borrower must join a group of borrowers.
  
- h) Loans can be received in a continuous sequence. New loan becomes available to a borrower if her previous loan is repaid.
  
- i) All loans are to be paid back in installments (weekly, or bi-weekly).
  
- j) Simultaneously more than one loan can be received by a borrower.

- k) It comes with both obligatory and voluntary savings programs for the borrowers.
- l) Generally these loans are given through non-profit organizations or through institutions owned primarily by the borrowers. If it is done through for-profit institutions not owned by the borrowers, efforts are made to keep the interest rate at a level which is close to a level commensurate with sustainability of the programme rather than bringing attractive return for the investors. Grameencredit's thumb-rule is to keep the interest rate as close to the market rate, prevailing in the commercial banking sector, as possible, without sacrificing sustain-ability. In fixing the interest rate market interest rate is taken as the reference rate, rather than the moneylenders' rate. Reaching the poor is its non-negotiable mission. Reaching sustainability is a directional goal. It must reach sustainability as soon as possible, so that it can expand its outreach without fund constraints.
- m) Grameencredit gives high priority on building social capital. It is promoted through formation of groups and centers, developing leadership quality through annual election of group and centre leaders, electing board members when the institution is owned by the borrowers. To develop a social agenda owned by the borrowers, something similar to the "sixteen decisions", it undertakes a process of intensive discussion among the borrowers, and encourage them to take these decisions seriously and implement them. It gives special emphasis on the formation of human capital and concern for protecting environment. It monitors children's education, provides scholarships and student loans for higher education. For formation of human capital it makes efforts to bring technology, like mobile phones, solar power, and promote mechanical power to replace manual power.

Source: Yunus, M. (2009) "What Is Microcredit"

[http://www.grameen-info.org/index.php?option=com\\_content&task=view&id=28&Itemid=108](http://www.grameen-info.org/index.php?option=com_content&task=view&id=28&Itemid=108)

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## **APPENDIX 2 Six Dimensions of the Outreach Framework**

**Worth** is defined as clients' willingness to pay. Worth hinges on the terms of the financial contract and on the tastes, constraints, and opportunities of clients;

**Cost** is the sum of price costs and transaction costs. *Price costs* are direct cash payments for interest and fees, which are revenue for the microfinance organization. *Transaction costs* are non-price costs for both *non-cash opportunity costs*—such as the time to apply for a loan—and *indirect cash expenses* for such things as transport, documents, and taxes needed to use a financial contract. Transaction costs borne by clients are not revenue for the microfinance organization. Combining both worth and cost gives *net gain*, or a measure of value added to clients;

**Depth** is the value that society attaches to the net gain of a given client. In welfare theory, depth is the weight of a client in the social-welfare function;

**Breadth** is the number of clients. Breadth matters because of budget constraints; the wants and needs of the poor exceed the resources earmarked for them;

**Scope** is the number of types of financial contracts supplied. Scope between products might mean both loans and savings services. Scope within a product might mean loans to both groups and individuals. Furthermore, scope within a product means contracts with different terms;

**Length** is the time frame of the supply of microfinance. Hence within the “double bottom line framework” it falls mainly under financial rather than social performance. The profits of the organization are one proxy because, in the absence of guaranteed donations, these profits signal some ability to buy resources on the market and thus offer some hope to survive if donors leave (Schreiner 2002, 2003; Copestake 2003).

### APPENDIX 3 Locations of Field Offices of Two Selected GCIs



Source: Marked by the author in google map.

Note:

The red pin refers to TFMF's field office in Linxian county, Shanxi province, which is around 700km away from Beijing.

The four blue pins refer to FPC's branch offices in Yixian and Laishui counties in Hebei province as well as Nanzhao and Yucheng offices in Henan province. The two offices in Hebei province are about 200km away from Beijing; Nanzhao and Yucheng offices are about 1000km and 900km away respectively from Beijing.

All five counties are listed as provincial or national level poverty counties by the local and central government.



## APPENDIX 4 Layout of the Case Study Design

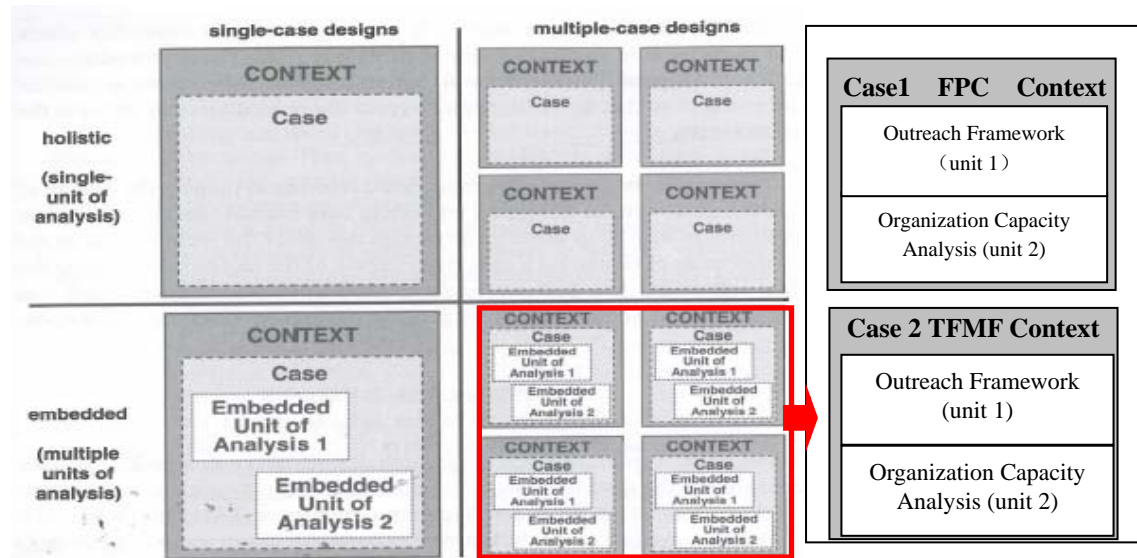


Figure 2.4 Basic Types of Designs for Case Studies  
SOURCE: COSMOS Corporation.

Source: the left part is from Yin 1993:40 after COSMOS Corporation

## APPENDIX 5 The Semi-Structure Questionnaire

### Semi-Structured Survey of Yixian County Microcredit Program, FPC 易县扶贫社小额贷款项目半开放式调查问卷

#### Part I- Basic Information of Household 第一部分-家庭基本信息

Last Name 姓: \_\_\_\_\_ First Name 名: \_\_\_\_\_ Age 年龄: \_\_\_\_\_ Gender 性别: \_\_\_\_\_

How many lineal household members do you have? (Only limited to parents and offspring)  
请列出您的直系家庭成员数 (只限计算父母子女): \_\_\_\_\_

How many children do you have? 请列出您的子女数: \_\_\_\_\_

#### A. Housing 居住条件

1. How many people/per room do you have? 您家每间房的居住人数是
- A. Less than one 少于1人 B. 1 person 1人  
C. 2 person 2人 D. 3 and above 3人以上

#### B. Access to public services 公共设施使用

1. How do you access the source of water? 您家使用的水源来自
- A. Piped water 自来水 B. Well 井水 C. River or lake 河水或湖水 D. Other source 其他渠道

2. Do you use indoor toilet or outdoor toilet?
- A. Indoor 屋内厕所 B. Outdoor 屋外厕所
- If it's outdoor toilet, it is about \_\_\_\_\_ kilometer away from your home  
如果是屋外厕所, 离您家大概\_\_\_\_\_公里

3. Is electricity available for your household? 您家通电吗?
- A. Yes, it is steady 是, 电源稳定 B. Yes, but sometimes it suspends 有时停电  
C. No 不通电

4. What fuel is used for cooking at your home? 您家做饭用
- A. Wood 柴禾 B. Coal gas or natural gas 煤气或天然气  
C. Coal 煤 D. Others 其他燃料 \_\_\_\_\_

#### C. Education

1. The average education level of couples 夫妻平均教育水平
- Husband : \_\_\_\_\_ years Wife : \_\_\_\_\_ years The average is (husband + wife)/2=\_\_\_\_\_years  
丈夫: \_\_\_\_\_ 妻子: \_\_\_\_\_ 年 平均水平为 (丈夫+ 妻子)/2=\_\_\_\_\_年

2. Percentage of children to go to school at your home 家中孩子入学比例  
A. 100% B. 75% C. 66% D. 50% E. 33% F. 25% G. 0

**D. Access to health services 卫生服务**

1. Is there pharmacy and clinic in the town? No.否 Yes.是 It is \_\_\_away from home 最近的药店和诊所离家  
A. 1-3km 公里 B. 4-6km 公里 C. 7-9km 公里 D. 10km and above 10 公里以上
2. Is it affordable for household members to go to see doctor normally? 通常家里人能支付得起看病的费用吗?  
A. Yes B. Sometimes can not afford C. Not at all

**E. Household labor and income 家庭劳动力和收入**

1. In your family, you and your husband/wife 在您家, 您和您的丈夫/妻子  
A. are making living by farming 都以种田为生  
B. one is farmer and another is migrant worker or self-employed 一个种田另一个打工或做小买卖  
C. both are working as migrant workers or self-employed 两个都打工或做小买卖
2. What is your household income by the end of 2008? 截止 2008 年底您的家庭年收入总额是  
A. ¥4,001-¥6,000 B. ¥6,001-¥8,000 C. ¥8,000-¥10,000 D. Over ¥10,000 以上

**Part II Questions related to microfinance service 小额贷款相关服务信息**

**A. Worth to client 贷款人获益**

1. How many times have you applied and received loans in the past 8 years? 过去的 8 年里您借过多少次款?  
A. 1-5 B. 6-10 C. above 10 10 次以上
2. The largest sum of loan you used to receive is up to 您的最大借款额为  
A. ¥1001-¥3000 B. ¥3001-¥5000 D. ¥5000 above ¥5000 以上
3. The term of your loan maturity is 您的借款期限为  
A. 9 Months 9 个月 B. One year 一年期 C. I used to applied for both 两样都申请过

**B. Cost to client 贷款人成本**

1. How long does it take from your home to the fund office 从您家到贷款办公室要多长时间?  
A. Less than half hour 半小时以内 B. 0.5-1hours 半小时-1 小时 C. 1-2hours 1-2 小时
2. Which way do you use to go to the fund office?  
A. On feet 走路 B. By bicycle 骑自行车 C. By motorcycle 骑摩托车

3. What evidence/documents/license is needed in order to get the loan? (Multi-choice) 申请贷款需提交的材料包括 (多选)
- A. Application form, ID card, registered residential certificate 信息登记表, 身份证和户口本
  - B. Evidence from hospital and school 医院或学校开具的证明
  - C. Evidence for business or investment 创业或投资的证明
  - D. Other materials 其他材料 \_\_\_\_\_

**C. Depth 深入度**

1. What do you use the loan for? 你申请贷款的目的是
- A. Farming and husbandry 种植业
  - B. Small business 小商业
  - B. Transportation or processing 运输加工业
  - D. Other business 其他行业 \_\_\_\_\_
2. Has the loan bring any change to your household? (Multi-choice) 贷款是否给您家带来任何变化? (多选)
- A. Household income sources were diversified 增加了家庭创收手段
  - B. Household anti-risk capacity was strengthen 家庭抗风险能力增强了
  - C. Household income increase 家庭收入增加了
  - D. There is little changes 基本没有变化

**D. Scope 服务品种**

1. Is the loan based on group-liability or collateral or just household credibility? (Multi-choice) 贷款需要小组联保或者抵押担保吗? 还是只是基于家庭信誉? (多选)
- A. Group-liability 小组联保
  - B. Collateral 抵押担保
  - C. Household credibility 家庭信誉
2. Is current loaning and paying procedure convenient? 现有的借贷和还款程序是否方便?
- A. Very convenient 非常方便
  - B. Need to be improved 有待提高
  - C. Not convenient 不方便
3. Can current loan meet your quantity demand? 现有贷款额度是否能满足您的需要?
- A. Yes 是
  - B. Not enough, I need 不够, 我需要¥ \_\_\_\_\_
4. Are you satisfied with current service categories? 您对目前小额贷款项目提供的服务种类是否满意?
- A. Satisfied
  - B. Not satisfied

Open Q 1: Have you ever used other lending sources? If not for what reason did you choose FPC's microcredit service over other sources, e.g. RCC or private moneylenders? 你曾经向农信社或高利贷者借款吗? 如果不曾, 为何要选择扶贫社借款而不是其他渠道?

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Open Q 2: Please fill in your suggestions on current microcredit service:  
请把您目前小额信贷项目的建议填写在下面:

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## Semi-Structured Survey of Tuanshitou Fuping Microcredit Fund 湍水头富平小额贷款基金项目半开放式调查问卷

### Part I- Basic Information of Household 第一部分-家庭基本信息

Last Name 姓: \_\_\_\_\_ First Name 名: \_\_\_\_\_ Age 年龄: \_\_\_\_\_ Gender 性别: \_\_\_\_\_

How many lineal household members do you have? (Only limited to parents and offspring)

请列出您的直系家庭成员数 (只限计算父母子女): \_\_\_\_\_

How many children do you have? 请列出您的子女数: \_\_\_\_\_

#### A. Housing 居住条件

1. How many people/per room do you have? 您家每间房的居住人数是

- A. Less than one 少于1人 B. 1 person 1人  
C. 2 person 2人 D. 3 and above 3人以上

#### B. Access to public services 公共设施使用

3. How do you access the source of water? 您家使用的水源来自

- A. Piped water 自来水 B. Well 井水 C. River or lake 河水或湖水 D. Other source 其他渠道

2. Do you use indoor toilet or outdoor toilet?

- A. Indoor 屋内厕所 B. Outdoor 公共厕所

If it's outdoor toilet, it is about \_\_\_\_\_ kilometer away from your home

如果是屋外厕所, 离您家大概\_\_\_\_\_公里

3. Is electricity available for your household? 您家通电吗?

- A. Yes, it is steady 是, 电源稳定 B. Yes, but sometimes it suspends 有时停电  
C. No 不通电

4. What fuel is used for cooking at your home? 您家做饭用

- A. Wood 柴禾 B. Coal gas or natural gas 煤气或天然气  
C. Coal 煤 D. Others 其他燃料 \_\_\_\_\_

#### C. Education

3. The average education level of couples 夫妻平均教育水平

Husband : \_\_\_\_\_ years Wife : \_\_\_\_\_ years The average is (husband + wife)/2=\_\_\_\_\_years  
丈夫: \_\_\_\_\_ 妻子: \_\_\_\_\_ 年 平均水平为 (丈夫+ 妻子)/2=\_\_\_\_\_年

4. Percentage of children to go to school at your home 家中孩子入学比例

- B. 100% B. 75% C. 66% D. 50% E. 33% F. 25% G. 0

**D. Access to health services 卫生服务**

1. Is there pharmacy and clinic in the town? No.否 Yes.是 It is \_\_\_\_away from home 最近的药店和诊所离家

A. 1-3km 公里 B. 4-6km 公里 C. 7-9km 公里 D. 10km and above 10 公里以上

4. Is it affordable for household members to go to see doctor normally? 通常家里人能支付得起看病的费用吗?

A. Yes B. Sometimes can not afford C. Not at all

**E. Household labor and income 家庭劳动力和收入**

3. In your family, you and your husband/wife 在您家, 您和您的丈夫/妻子

A. are making living by farming 都以种田为生

B. one is farmer and another is migrant worker or self-employed 一个种田另一个打工或做小买卖

C. both are working as migrant workers or self-employed 两个都打工或做小买卖

4. What is your household income by the end of 2008? 截止 2008 年底您的家庭年收入总额是

A. ¥4,001-¥6,000 B. ¥6,001-¥8,000 C. ¥8,000-¥10,000 D. Over ¥10,000 以上

**Part II Questions related to microfinance service 小额贷款相关服务信息**

**A. Worth to client 贷款人获益**

4. How many times have you applied and received loans in the past 8 years? 过去的 8 年里您借过多少次款?

A. 1-5 B. 6-10 C. above 10 10 次以上

5. The largest sum of loan you used to receive is up to 您的最大借款额为

A. ¥1001-¥3000 B. ¥3001-¥5000 D. ¥5000 above ¥5000 以上

6. The term of your loan maturity is 您的借款期限为

A. half year 半年期 B. one year 一年期 C. I used to applied for both 两样都申请过

**B. Cost to client 贷款人成本**

4. How long does it take from your home to the fund office 从您家到贷款办公室要多长时间?

A. Less than half hour 半小时以内 B. 0.5-1hours 半小时-1 小时

C. 1-2hours 1-2 小时

5. Which way do you use to go to the fund office?

A. On feet 走路 B. By bicycle 骑自行车 C. By motorcycle 骑摩托车

6. What evidence/documents/license is needed in order to get the loan? (Multi-choice) 申请贷款需提交的材料包括 (多选)
- E. Application form, ID card, registered residential certificate 信息登记表, 身份证和户口本
- F. Evidence from hospital and school 医院或学校开具的证明
- G. Evidence for business or investment 创业或投资的证明
- H. Other materials 其他材料 \_\_\_\_\_

**C. Depth 深入度**

3. What do you use the loan for? 你申请贷款的目的是
- A. Small business for self-employment 自主创业 B. For children to go to school 孩子上学
- C. Seeing doctor 看病 D. Other purpose 其他目的 \_\_\_\_\_
4. Has the loan bring any change to your household? (Multi-choice) 贷款是否给您家带来任何变化? (多选)
- A. Household income sources were diversified 增加了家庭创收手段
- B. Household anti-risk capacity was strengthen 家庭抗风险能力增强了
- C. Household income increase 家庭收入增加了
- D. There is little changes 基本没有变化

**D. Scope 服务品种**

5. Is the loan based on group-liability or collateral or just household credibility? (Multi-choice) 贷款需要小组联保或者抵押担保吗? 还是只是基于家庭信誉? (多选)
- A. Group-liability 小组联保 B. Collateral 抵押担保 C. Household credibility 家庭信誉
6. Is current loaning and paying procedure convenient? 现有的借贷和还款程序是否方便?
- B. Very convenient 非常方便 B. Need to be improved 有待提高 C. Not convenient 不方便
7. Can current loan meet your quantity demand? 现有贷款额度是否能满足您的需要?
- A. Yes 是 B. Not enough, I need 不够, 我需要¥ \_\_\_\_\_
8. Are you satisfied with current service categories? 您对目前小额贷款项目提供的服务种类是否满意?
- A. Satisfied B. Not satisfied

Open Q 1: Have you ever used other lending sources? If not for what reason did you choose FPC's microcredit service over other sources, e.g. RCC or private moneylenders? 你曾经向农信社或高利贷者借款吗? 如果不曾, 为何要选择扶贫社借款而不是其他渠道?

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Open Q 2: Please fill in your suggestions on current microcredit service:  
请把您对目前小额信贷项目的建议填写在下面:

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**APPENDIX 6 Interview List**

<b>Name</b>	<b>Title of Interviewees</b>	<b>Interview Time</b>
Ms. Chen Xiuling	Yixian Bureau Accountant	2009-1-8
Mr. Chu Yinghuan	President of the NSMD	2008-12-25
Ms. Jia Yanping	Qiaotou town loan officer, Yixian Bureau, FPC	2009-1-8
Mr. Li Lunshun	Chief Credit Supervisor in the field	2008-12-9—2008-12-11
Mr. Li Naiwei	Chief Officer of TFMF	2008-12-5 and 2009-1-12
Mr. Li Yiqing	Dean of the Microcredit Office of CASS, who is in charge of the execution of FPC programs	2008-12-24 and 2009-1-13
Mr. Mao Yushi	Director-General of FDI	2007-10-18
Ms. Sun Linlin	Teacher in Tuanshuitou Civil Primary School	2008-12-10
Ms. Zhao Huayan	Farmer in Tuanshuitou village, Tuanshuitou Town	2008-12-10
Mr. ZhaoYahe	Dongbaima town loan officer, Yixian Bureau, FPC	2009-1-8
Mr. Zheng Kai	Volunteer in library of Tuanshuitou Civil Primary School	2008-12-10
Mr. Zhou Xueren	Yixian Bureau Chief, FPC	2009-1-7—2009-1-9