

A Case for Successful Microfinance Programs in China

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Abstract

Finding ways of empowering the poor in the impressive growth process in China is of key importance. Following the trend started by non- governmental and multilateral organizations, government officials have put microfinance on top of their agenda. While this paper supports the view that China represents a potentially fertile soil for microfinance programs to succeed in their attempt at reducing poverty, it pins-down to a number of methodological difficulties due to a misleading replication of the Grameen system, which emphasizes the group lending methodology. Such difficulties have been exacerbated by the increased involvement of the government over the past decade. In particular, we argue that excessive government intervention has come at the expense of borrowers' discipline. It has also lowered the probability of government-sponsored microfinance institutions to succeed in becoming self-sufficient and thereby further attracting commercial loans and international aid. We spell out a few guidelines for an improved design of government support to microfinance in China. These guidelines can potentially apply to other developing countries and transition economies where financial markets are also weak.

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1. Introduction

In a pioneering World Development article, which appeared in 1990, Nobel Laureate Joseph Stiglitz has stated “the Grameen Bank of Bangladesh is a sophisticated institution”. In that same article he admitted that he was focusing on one, yet the most advertised, feature of the Grameen Bank, namely, on its group lending methodology. This methodology, now replicated in hundreds of countries, consists of requiring those participant borrowers form groups; and, that, within each group; borrowers hold themselves responsible for a loan. Such a joint responsibility default clause is known to mitigate adverse selection, moral hazard, and enforcement problems.¹ The focus on groups has held sway in China as well.²

While this paper supports the view that China represents a potentially fertile soil for microfinance programs to succeed in their attempt at reducing poverty, it pins-down to a number of methodological difficulties due to a misleading replication of the Grameen system, which emphasizes the group lending methodology. Such difficulties have been exacerbated by the increased involvement of the government over the past decade. In particular, we argue that excessive government intervention has come at the expense of borrowers’ discipline. It has also lowered the probability of government-sponsored microfinance institutions to succeed in becoming self-sufficient and thereby further attracting commercial loans and international aid. We spell out a few guidelines for an improved design of government support to microfinance in China. These guidelines can potentially apply to other developing countries, and transition economies where financial markets are also weak.

One main reason why the group lending methodology has become so popular among developing economies is that it takes advantage of existing networks of trust where informal finance involving groups of villagers has prevailed for centuries. And

¹ The literature on the virtues of the group lending methodology is abundant. See, for example, Varian (1990), Besley and Coate (1995), Ghatak – Guinane (1999), Armendariz de Aghion (1999), and Armendariz de Aghion – Gollier (2000).

² See Armendariz de Aghion – Morduch (2000), and Tsien (2000).

China is no exception.³ What we argue in this paper, however, is that institutionalizing the group lending methodology in a “one size fits all” fashion like China has done over the past decades may be potentially misleading, for at least two reasons. First, geographical dispersion may exacerbate the multidimensional difficulties which are often encountered when trying to induce villagers into forming groups. And, second, networks of trust and social cohesion may not prevail in some regions to begin with, and trying to impose the group lending methodology in this case may turn out to be counterproductive.

Local government intervention in microfinance, on the other hand, is generally perceived as beneficial in that it can provide a favorable climate for a financial activity, which has traditionally been controlled by non-governmental organizations (NGOs). But this is not the case in China where the government is directly competing against NGOs in the provision of credit to the poor. We shall argue that increased government intervention in the form of direct credit delivery may also be counterproductive. It may induce borrowers to request relatively lower interest rates and/or default on their loans thereby lowering the probability of microfinance institutions (MFIs) to become self sufficient.

If both, the group lending methodology and the way in which the government is intervening in microfinance are misleading, can microfinance succeed in reaching and empowering the poor in China? We shall argue in this paper that microfinance institutions in China can only succeed if they move away from group lending methodology, and if they emphasize instead other techniques, which is also part of the Grameen methodology. One such technique is progressive lending. This should be done on an individual basis like other institutions in transitional economies such as Russia and Albania, and like in many Latin American microfinance institutions operating under the umbrella of ACCION Internacional.⁴

We shall also question the extent and role of the government in the microfinance movement in China. If the government’s goal is to alleviate poverty, why doesn’t the government view poverty alleviation via MFIs as being compatible with such institutions becoming self-sufficient? We will argue that this may be misleading given China’s

³ Recent evidence suggests that family loans, Rotating Savings and Credit Associations, Pawn Shops and Trade Credit which date back to middle ages have prevailed and are widespread in China in spite of the communist regime (see, Tzien (2002)).

⁴ See Armendáriz de Aghion – Morduch (2000).

paternalistic record, and at odds with market-oriented trends. More generally, China seems to have deliberately stepped out of the international debate on self-sufficiency. Moreover, while government involvement in microfinance has increased, government officials do not seem to be forefront on the debate regarding other pressing issues either. These involve the need for creating a credit bureau, the need for providing a regulatory framework, and for inducing a partnership between MFIs and the commercial banks. We perceive China's self-exclusion from this debate as potentially dangerous for microfinance in China itself, and in the world.

The paper is organized as follows. In section 2 we analyze the traditional forms of credit in China and the role that microfinance can potentially play in relaxing the credit constraints faced by the poor. In Section 3 we will discuss the current lending methodology employed by NGOs and by the Chinese government officials, and argue against government intervention and current methods. In section 4 we provide some guidelines for an improved involvement by the Chinese government in microfinance. In section 5 we will spell out some concluding remarks and policy implications to other developing countries and transitional economies.

2. Traditional Finance and the Role of Microfinance in China

Credit institutions; have been around for a long time now.⁵ Historically, we encounter a litany of formal, quasi-formal, and informal credit organizations including loan societies, trade-specific credit, and mutual financing associations; the last of which include the well-known rotating savings associations (ROSCAs).

From a rural population perspective, however, China's financial market includes the government's Rural Credit Cooperatives, private money houses, pyramidal investment scams, and other institutions. A summary of contemporary China's rural-serving informal financial institutions organized by legality is lifted from the comprehensive work of Kellee Tsai and reproduced here:

⁵ This section borrows heavily from Tsien (2002)

Table 1. Traditional Credit Institutions in China

Legal	Quasi-legal	Illegal
Interpersonal Lending	Rural Credit Cooperatives (having replaced the Rural Cooperative Foundations)	Rotating Credit Associations (Although in some places they are legal)
Trade Credit		
Rotating Credit Associations (Although in some places they are illegal)	Cooperative Stock Enterprises	Professional Brokers and Loan Sharks
Pawn Shops (Although in some places they are illegal)	Financial Societies/Capital Mutual Assistance Associations	Private Money Houses
	Pawn Shops (Although in some places they are legal)	Pyramidal Investment scams

Source: Tsien (2002)

The fact that some of these credit organizations are quasi-legal or illegal is an indication that a handful of financial intermediaries have been tolerated under communist China. This creates a good benchmark for the flowering of MFIs, as villagers are already familiar with similar institutions such as Credit Cooperatives and ROSCAs. Moreover, the existence of these traditional institutions is of key importance in a growing economy like China where there is a wide scope for investment opportunities and where the provision of financial services is crucial.

The question, then, is that if traditional institutions have been around for so many years, and are still there, in China, what is the value added of having microfinance institutions in the first place? Recent literature highlights at least three reasons. First,

MFIs can potentially foster social capital⁶. Second, MFIs can promote mutual learning on investment successes and failures among participant borrowers. Third, MFIs can deliver an opportunity for poor individuals to build a credit history, which would enable them to eventually qualify for a commercial loan, and thereby join the modern economy.⁷

The scope for enjoying the benefits from social capital and mutual learning, however, heavily rely on MFIs adopting the group lending methodology. But this does not seem to be a problem. In China, most MFIs are often considered Grameen replications, precisely because they all seem to be group lending MFIs.⁸

A brief history of the microfinance movement in China illustrates this point. Microfinance first arrived in China in the early 1990s, through the Rural Development Institute of the Chinese Academy of Social Sciences (CASS). As a non-governmental academic endeavor within CASS, the Soviet-style state-run think tank for social sciences, the Institute was able to garner both government go-ahead and a unique autonomy with which it pioneered the Grameen approach in several poorer areas in provinces near Beijing. The research-practitioners named their program Funding the Poor Cooperative (FPC). Today, according to evaluation experts at Consultative Group to Assist the Poorest (CGAP, a branch of the World Bank, FPC is the leading microfinance institution in China with 12,700 active clients and solid operations at branch and sub-branch levels.

Soon after the inception of the FPC, the United Nations (UN) Development Program and its Chinese (governmentally linked) implementing agency, the China International Center, took up Grameen replication for Economic and Technical Exchange (CICETE). Other UN programs that joined the UNICEF, UNDCP, and UNFPA, each run through the Chinese government's counterparts. Often in the case of the UN, international methodologies were taught to Chinese nationals who went to various sites to train more trainers. The 'training of trainers' methodology resulted in a large number of

⁶ For more on microfinance and social capital, see Awala (2001), and Karlan (2001).

⁷ See Armendáriz de Aghion (2002).

⁸ Armendáriz de Aghion – Morduch (2000), for example, report that fourteen out seventeen microfinance programs in China employ the group lending methodology.

staff workers who were called Community Corp ... (CCCs). Also among those early involved, the World Bank had some early projects in Sichuan, Shaanxi, and other provinces.

Just about all of the above-mentioned microfinance programs follow the group lending methodology introduced by Grameen. As a matter of fact, in a recent Chinabrief study, which reports a survey on more than a dozen programs, one finds that as many as fourteen out of seventeen microfinance programs can be considered straightforward Grameen replications in that their lending methodology involves groups.

Thus, the picture that we have from China is that whilst adopting the group lending methodology, MFIs are potentially consolidating social capital and fostering mutual learning. This picture is however, at odds with the common wisdom: the virtues of the group lending methodology are not tangible unless population density is high, rural-urban migration flows are low, the degree of already existing social cohesiveness is high, and existing income levels of rural poor are exceedingly low.

Whilst no-one can deny that the number of exceedingly poor people –the number of individuals living under one dollar a day in China—is as high as 106 million in 1998 statistics. (Indeed, one of the highest numbers in the world.) Those poor individuals live in rural areas where: a) population density may be low, b) urban-rural migration flows by family members are on the increase, and, c) the degree of social cohesiveness is not high. In particular, in a recent study, Tsien (2002) provides anecdotal evidence from the Karst Mountains of the Yunnan Province. In this province, the rural poor live in geographically dispersed areas where the group lending methodology poses serious challenges. On top of facing astronomical transaction costs, bank managers of MFIs have difficulty gaining economies of scale. First, because the size of the groups is often small; and, second, because the frequency of peer monitoring and bank manager inspections is low relatively to more densely populated economies such as that of Bangladesh, the country from which Grameen methodology was imported. Moreover, there is some evidence on deep distrust

among community members from field visits to the village of Yaorenba, also in the Yunnan province.

This is not to say that overall, in China, geography and the lack of social cohesiveness plays against the group lending or the Grameen methodology. But field experience from Yunnan does give us some ground for questioning this methodology. Is it geography and the absence of population density, which has prompted other transitional economies, as well as other economies in Latin America and Africa to shy away from the Grameen methods? Or is it the lack of social cohesiveness, which is inducing poor people in those areas to select themselves out of a microcredit program that imposes the group lending? If it is indeed in geographically remote areas where a vast majority of China's 100 million people live, why adopt group-lending microfinance in China to begin with?

A short answer to these questions is that the exceedingly popular Grameen model, has been misread by donor agencies and government officials alike. In this respect, China is an exception when compared to other transitional economies such as Russia and Albania. Arguably, though, both Russia and Albania joined the microfinance movement much later when the Grameen methodology was already being questioned.

We argue that instead of focusing on group lending, replicators in China should have put more emphasis on progressive lending, another key component on the Grameen methodology as well as other methodologies. This mechanism allows for loans to increase over time. And under the incentive of accessing larger loans, borrowers repay. Repayment rates are high under both group lending and individual lending methodologies. In other words, incentives to repay triggered by progressive lending do not need groups. Bilateral (lender – borrower) contracts can potentially do the job.

We see at least two additional reasons as to why bilateral contracts with a progressive lending feature may be more adequate to the realities of China. First, the rural poor are generally time constrained. Women, for example, who are generally the main

beneficiaries of loans from MFIs, are forced to engage themselves in multidimensional activities from household and childbearing to petty trade and agriculture, each of which takes time. At exceedingly low levels of poverty, women can simply not afford to undertake a loan that involves monitoring others and attending bank meetings on a regular basis. (See, Tsien (2002) on Yunnan) as they have to concentrate on basic necessities.

Second, in an economy where growth rates are as high as eight percent per year, the incidence of rural – urban migration by potential borrowers and/or family members is high. And individuals may simply be reluctant to commit themselves to loan contract that involves frequent visits to the bank and/or other borrowers/family members. Again, at exceedingly low levels of income, individuals cannot afford to miss the opportunity of migrating to the city or taking on additional responsibilities on behalf of a migrating family member.

Whilst allowing for potential borrowers to voluntarily preserve their social networks, individual lending by MFIs can potentially allow for such borrowers to build a credit history, which would enable them to eventually obtain a loan from a commercial bank. This accords a lot better with an exceedingly dynamic economy such China, where individuals grow increasingly busy and are forced to be more mobile. In this regard, MFIs should make an additional effort for making it less restrictive for its borrowers to migrate and yet keep their credit records. Increased information amongst MFIs and between MFIs and commercial banks, for example, is desirable.

Disciplined, industrious and honest borrowers would want to be reassured on the fact that their efforts will pay off regardless of whether they decide to move or not. A credit bureau in the microfinance industry is thus becoming a pressing issue in a growing economy like China. We shall come back to this point in greater detail in section 5.

3. Government Intervention for Poverty Alleviation

No one can blame the Chinese government for its lack of concern vis-à-vis the poorest. This is true historically and it is true now (see Tsien (2002)). Historically, China has put poverty alleviation high up on the national agenda and in the psyche of the nation's people and its leaders for many years now. The concern for the poor dates back to the rural revolution of the Mao period has overtones that still extend into today's politics. The countryside is not always seen as an impotent region. Mao's Yanan militant movement, after all, sprung from the throes of the countryside, which was used a location for indoctrination through hard labor and thought reform. Ever since violent uprisings began to occur in some Western undeveloped regions (Xinhua 1996, O'Brian & Li (1996)) there is an awareness of the West as a potential powder keg. There is a need to keep poverty alleviation at the forefront of central rhetoric, let alone at the fore of policy implementation.

Our interpretation of the recent National Poverty Alleviation Plan is that the Chinese government is aggressively involved in microfinance as a poverty alleviation tool, because of two main reasons. One is that, along with the common perception among international donors in the 1990s, Chinese officials firmly believe that microfinance is the most effective way combating poverty. The other one may be that the government thinks that NGOs are not doing enough in a vast territory such as China.

Whatever the reasons, increased government involvement is reflected by the fact that, according to recent estimates, nearly one hundred percent of the funding of MFIs comes from Chinese government agencies. The Chinese Academy of Social Science Rural Development Institute reports that, in the year 2000 alone, the government had invested 775 million US dollars in microfinance enterprises in China. This figure contrasts with meager 30 million US dollars invested by international donors in that same year.⁹

Is such an unprecedented involvement from government officials in a transitional economy desirable? We do not think so. Our skepticism springs up from two well-

⁹ See Tsien (2001).

documented facts. On the supply side, whilst government officials in the rest of the world are reflecting upon the appropriate regulatory environment for a better functioning of MFIs, Chinese officials have not even raised the status of MFIs to that of “financial intermediaries”, let alone the need for regulating them. MFIs in China are largely perceived as poverty alleviation facilitators *only*. Not as financial institutions. Park (2000) elaborates on this. In this respect, China is lagging behind dozens of transitional and developing economies.

On the demand side, the mentality of the potential beneficiaries of microloans from government-sponsored MFIs in China is somewhat distorted. Expectations are that anything that comes from the government should come in the form of grants, not in the form of interest bearing debt. The following passage from fieldwork by Tsien (2002) illustrates this point:

When the lady detects the author as a loan-related person, she asks, “Do you represent another one of the government poverty alleviation programs? Great, just be sure to keep the interest rates low!” This is a clear example of how small-scale entrepreneurs have become accustomed to low-interest precedents set with the mentality that the poor need charity that they “can’t repay.”

Indeed, MFIs aim at lifting the credit constraints faced by the poor. But they are not charitable institutions. Instead, they aim at inducing investment, as well as building credit capacity, and credit history by the poor individuals who would otherwise be excluded from entrepreneurial opportunities in the growth process. With time, MFIs aim at becoming self-sustainable, that is, free of donors’ and local governments’ resources for covering operational costs and for meeting growing demands for loans. In this process, MFIs hope to contribute to a change in their borrowers’ mentality. As disciplined borrowers become wealthier, they move from a paternalistic to a more market-oriented mentality.

While this is the rhetoric harbored by NGO-sponsored MFIs, by focusing exclusively on poverty alleviation, the Chinese government seems to have gotten the wrong end of the stick. First, the government strictly limits the annual interest rates to 6 per cent on government-sponsored programs. This contrast with a figure of about 20 percent charged by Grameen programs in Bangladesh and in dozen other countries.

Second, while a large majority of NGO-sponsored microfinance institutions focus on training of bank managers and loanees before the program starts, and throughout the loan cycle, the Chinese government does not invest in training.

Third, the Chinese government is neither promoting a partnership between MFIs and commercial banks, nor investing in designing a legal framework for MFIs to flourish.

Exceedingly low interest rates are not conducive to MFIs achieving self-sustainability, and do not promote market-oriented mentality among the beneficiaries of the program. The lack of training in monitoring by bank managers can potentially lead to subsidizing consumption instead of profitable investment by potential borrowers. And the lack of borrowers' training does not support discipline and "on the job" skill acquisition by borrowers. Finally, the potential synergies between the nascent commercial system and MFIs are not there, because the government is reluctant to engage itself in such kinds of partnerships with the private sector. And because the government has not promoted a regulatory framework within which market-oriented MFIs can succeed.

Moreover, Tsien (2001) reports that, government-sponsored MFIs in China have moved away from those guidelines that are internationally considered to be the core elements of sound microfinance. In particular, government-sponsored MFIs have moved away from frequent training sessions, and from regular repayment meetings. MFIs have also moved away from their stringent focus on the bottom poor and no longer concentrating on women.

The training of MFIs managers is key. Managers need to identify themselves with the mission of the organization. They also need to be lectured on the difficulties that they are likely to encounter when banking for the poor. In this respect, the German consulting firm Interdisziplinäre Projekt Consult GmbH (IPC) can help. This firm has provided advice to successful bilateral lending contracts involving MFIs in Russia, Peru, El Salvador, Bolivia and Uganda (Churchill (1999)). Frequent training sessions of the bank managers and the borrowers are crucial in an industry that is changing ever so rapidly as microfinance.

Part of training the borrowers involves the notion that MFIs should focus on the poor for at least two principal reasons. These reasons go beyond the standard ethical rhetoric. First, the bottom poor are most likely to be credit constrained. Thus, poor individuals are more likely to attach a relatively higher value to the opportunity of being subjects of credit, and of realizing a profit from an entrepreneurial activity. Relatively to well off borrowers, the poor are also more likely to repay as they attach a higher value to their future access to credit and the “on the job skill acquisition”, which they can obtain through loans granted by MFIs.

Another key component of the microfinance movement worldwide is the gender bias in favor of women. Some empirical evidence from Bangladesh provided by Pitt and Khandker (1998) suggests that relative to men, microloans delivered to women have a higher impact on investment, and on children’s education. Qualitative analysis and anecdotal evidence point to the fact that women tend to have longer horizons, be less mobile, and tend to be more disciplined than men.

The focus on the bottom poor, and, on women is thus compatible with the poverty alleviation and self-sustainability goals. And as long this twin objective is in the back of the mind of trained MFI managers, repayment rates will remain high. After an initial subsidy period for start-ups, interest rates can be raised to more accurately reflect market rates. And for facilitating the passage of the borrowers from the MFIs to the commercial banking sector.

4. Redesigning Government Intervention

Our goal in this section is to provide concrete guidelines for improved government intervention in microfinance in China. Our focus is on eight pressing issues:

First, MFIs are, above all, financial intermediaries. Their principal role is to channel donors funds, community savings, and savings in commercial banks to the bottom poor, particularly women.

Second, whilst it is easy to invoke infant industry arguments in order to justify subsidies for start-ups, MFIs should aim at becoming self-sustainable. In order to achieve self-sustainability, MFIs need to constantly innovate so that they can more easily distance themselves from donors and the government. (Donors and the Chinese government typically provide resources at subsidized rates.) As mentioned above, government involvement in China is counterproductive, as it feeds the paternalistic mentality of the rural poor, and thereby prevents those individuals from joining the market-oriented drive led by the urban areas. Innovations for self-sustainability include, geographic diversification of risk, cross subsidization from urban to rural areas, and an increased scale and scope of MFIs operations in order to bring average cost on individual loans down.

Third, MFIs should seek further technical assistance from Grameen Trust Bangladesh, from IPC, and from ACCION International. A coordinated effort by these three organizations should deliver a common ground on the basic training that managers of MFIs in China are urgently needing.

Fourth, MFIs should invest more in information acquisition about borrowers' investment, and in record keeping on borrowers' credit histories. Every effort should be made for this information to flow across MFIs and between MFIs and the commercial banks. This is only possible under a centralized government as each individual MFI does

not have the incentive of disclosing information about its borrowers unless other MFIs do the same. Thus, the government has a crucial role to play as a coordinating agency.

Fifth, further training on information technology is needed for a more efficient data gathering by managers, and for facilitating mutually beneficial exchange of information among MFIs. Transfer of technology and technical assistance from multilateral organizations is required here.

Sixth, MFIs in China should be privatized. This will bring them closer to international best practices on the one hand, and will contribute to a much-needed change of mentality by the loanees. As long as MFIs are directly financed and controlled by the government, the paternalistic mentality of the loanees in poor areas will continue lagging behind that of market-oriented entrepreneurs in urban areas.

Seventh, MFIs should be regulated. The Chinese government should provide an adequate legal framework for competitive MFIs to operate and flourish along side a commercial banking sector. Unlike commercial banks, international guidelines for regulating MFIs do not exist. We do know, however, that regulation should not be too stringent as MFIs operate in a variety of environments and in a mosaic of cultures and traditions within China. On the other hand, we believe that the microfinance industry should be overregulated when it comes to intermediation of savings. Because, unlike the savings intermediated by the commercial banks, which are middle class' savings, savings that would potentially be intermediated by MFIs are poor peoples' savings.

Eight, financial liberalization is imminent as China is now part of the World Trade Organization (WTO). China's commercial banks cannot compete with Western-style commercial banks, some of which already have an important presence in neighboring Asian countries. We anticipate that, in the advent of competition from foreign banks, domestic banks in China would either disappear or increasingly become providers of products that are currently offered to the poor by MFIs. Eventually, the distinction between domestic commercial banks and MFIs will be so blurred that one

would not be able to tear them apart any more. In this respect, the Chinese authorities should be prepared to stand up that challenge. Some lessons from the ACCION-sponsored Banco Sol of Bolivia, and from Compartamos of Mexico could be useful here.

5. Concluding Remarks

In this paper we have argued that traditional finance, and the wide scope for investment opportunities in China provide a fertile soil for MFIs to flourish. However, we have highlighted a potential replication obstacle and a government intervention barrier.

By focusing on the group lending methodology, China has not adequately replicated the Grameen model. Instead, we find that bilateral (creditor –borrower) loans with a built-in progressive-lending device have better chances of success in dynamic and low density population environment such as the one we find in today’s rural China where a large majority of the core poor live.

While excessive emphasis on self-sustainability doctrine by MFIs elsewhere may be misleading in that it creates disincentives for managers to reach out the poorest of the poor, China seems to have completely disregarded the issue in the name of poverty alleviation. We have argued that, in a dynamic context, self-sustainability and poverty alleviation are not incompatible. Borrowers mature over the credit cycle, and they are increasingly able to undertake larger-sized loans, which offer handsome returns, as borrowers learn “on the job”. Consequently, MFIs can potentially free themselves from donors and government resources. MFIs should at the same time be capable of innovating for providing improved financial services, not just to matured borrowers, but also to new applicants whose wealth and human capital are relatively low. Innovation and learning from other MFIs worldwide is important here.

Government failures in microfinance in China are not confined to replication failures. An increased distance has accompanied its overwhelming presence in the provision of microfinance for the poor from international best practices. Chief among

those practices is, again, the issue of self-sustainability. By completely distancing itself from the self-sustainability debate, China is perpetuating a paternalistic mentality among the rural poor. We have argued that further dissemination of such mentality can only pull down the entrepreneurial spirit, and leave the rural poor further away from China's urban areas, which are, in turn, leading the growth process with a market oriented doctrine.

Redesigning microfinance in China involves other challenges, which are currently discussed in the international arena, from which China seems to voluntarily selected itself out. Principal among those issues is the necessity of elevating MFIs from being merely poverty alleviation conduits to the status of financial intermediaries. Investing in these intermediaries by the government should be directed towards training managers of MFIs, and potential loanees. It should also be directed towards training the managers in the adoption of information technology. Finally, we argue in favor of government intervention in the creation of a credit bureau, in the privatization of MFIs, and in the provision of an adequate regulatory environment.

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