A Case Study Analysis of the Impacts of Microfinance upon the Lives of the Poor in Rural China

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**Abstract**

This study used a case study approach to investigate the impacts of microfinance upon the lives of the poor in rural China. Field research was undertaken in a poor central-Chinese village in which a microcredit program has been operating for seven years. The socio-economic changes that had taken place in this village were contrasted with those of a nearby non-program village.

The study found that participation in the program had led to several positive impacts in the lives of borrowers, in particular in terms of self-satisfaction and economic security, with villagers commonly expressing a sense of enhanced confidence in themselves and their ability to manage their own economic affairs. While incomes are increasing for most of China’s rural population, the village-based incomes of regular borrowers were found to have increased more than three times faster than those of non-borrowers. In contrast with common findings and perceptions, in this case it was the poorer borrowers whose incomes were rising the fastest, while those of better off borrowers were increasing the slowest in relative terms. This indicates that the program has contributed to a reduction in relative wealth disparities among borrowers. Investment in, and stabilisation of income sources was a high priority for borrowers, in particular for poorer borrowers who reinvested the greatest proportion of their profits back into income-generating activities.

Follow-on impacts that were identified in the study included improved living conditions, increased spending on education and health, and an enhanced sense of well-being. Village-wide impacts, both social and economic, were also identified. These included a reduction in the phenomenon of villagers leaving the village to find outside work, leading to a reduced burden on the women who would otherwise be left behind and enhanced opportunities for social interaction within the family and village. There were visible signs of higher wealth levels within the village, and villagers reported fewer incidences of negative social
behaviour, which they attributed to people being less idle as a result of greater economic activity within the village.

The study concludes by challenging the common perception that microcredit programs need to tailor repayment regimes to individual borrowers’ income profiles, especially when dealing with those middle or upper poor who have sufficient ready cash, support networks, and readily convertible assets to make regular repayments from non-loan financed sources - as is the case in much of rural China. It is argued that microfinance programs in China should be tailored to the unique socioeconomic characteristics of Chinese villages, in particular by making use of existing social networks, in order to optimise program effectiveness.
Microcredit program borrower with grandchild in the store-room of her small road-side general store that was partially financed by project loans
Acknowledgement

My sincere gratitude is extended to the people of Ying Shan village for their hospitality, time, thoughtful contributions, patience and good humour during the course of my research. I would also like to thank the staff of the Funding the Poor Cooperative at the Chinese Academy of Social Sciences, and in particular the staff at Nanzhao County branch and Xiaodian Township sub-branch for making this study possible.
Table of Contents

ABSTRACT.................................................................................................................................1
ACKNOWLEDGEMENT .................................................................................................................. ERROR! BOOKMARK not defined.
LIST OF TABLES ........................................................................................................................ VI
LIST OF FIGURES ........................................................................................................................ VII
ABBREVIATIONS ....................................................................................................................... VIII
CONVERSIONS .......................................................................................................................... VIII

1. INTRODUCTION ....................................................................................................................... 1

2. LITERATURE REVIEW ............................................................................................................ 5
   THE IMPACTS OF MICROFINANCE .................................................................................... 5
   MICROFINANCE IMPACT IN THE CHINESE CONTEXT .................................................. 11

3. RESEARCH SETTING / CONTEXT ......................................................................................... 20
   BOX 3.1 THE FUNDING THE POOR COOPERATIVE ......................................................... 21
   FIELD STUDY SITE ............................................................................................................... 24
   BOX 3.2 SILK RUG PRODUCTION – A TYPICAL COTTAGE INDUSTRY ............................ 29

4. METHOD / APPROACH .......................................................................................................... 35

5. FINDINGS ............................................................................................................................. 46
   INDIVIDUAL-LEVEL IMPACTS ......................................................................................... 46
   HOUSEHOLD-LEVEL IMPACTS ....................................................................................... 49
   COMMUNITY-LEVEL IMPACTS ....................................................................................... 58
   LOAN METHODOLOGY ...................................................................................................... 61

6. DISCUSSION ........................................................................................................................ 63
   INDIVIDUAL-LEVEL IMPACTS ......................................................................................... 63
   HOUSEHOLD-LEVEL IMPACTS ....................................................................................... 64
   COMMUNITY-LEVEL IMPACTS ....................................................................................... 67
   LOAN METHODOLOGY & SOCIAL CAPITAL .................................................................. 68

7. CONCLUSION ......................................................................................................................... 71

REFERENCES .............................................................................................................................. 74

APPENDIX 1 A - BORROWER SURVEY .................................................................................... 79
APPENDIX 1 B - NON-BORROWER SURVEY .......................................................................... 83
APPENDIX 2 - TREATMENT OF RESEARCH RISKS ............................................................... 85

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## List of Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Extent of rural poverty in China</td>
<td>31</td>
</tr>
<tr>
<td>4.1</td>
<td>Current wealth distribution of villagers and borrowers</td>
<td>38</td>
</tr>
<tr>
<td>4.2</td>
<td>Breakdown of current borrowers according to wealth group and loan purpose</td>
<td>40</td>
</tr>
<tr>
<td>4.3</td>
<td>25% sample of borrowers based on proportional representation</td>
<td>41</td>
</tr>
<tr>
<td>5.1</td>
<td>Acquisition of skills – borrower responses</td>
<td>47</td>
</tr>
<tr>
<td>5.2</td>
<td>Changes to self – borrower responses</td>
<td>48</td>
</tr>
<tr>
<td>5.3</td>
<td>Changes to village-based IGA incomes</td>
<td>49</td>
</tr>
<tr>
<td>5.4</td>
<td>Regression coefficients and significance levels</td>
<td>50</td>
</tr>
<tr>
<td>5.5</td>
<td>Changes in household income from village-based IGAs according to 1995/96 wealth groups</td>
<td>58</td>
</tr>
<tr>
<td>5.6</td>
<td>Village changes according to borrower survey responses</td>
<td>60</td>
</tr>
<tr>
<td>5.7</td>
<td>Borrower preferences for frequency of repayment</td>
<td>61</td>
</tr>
</tbody>
</table>
### List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 3.1</td>
<td>Image: Staff at the Xiaodian Township sub-branch office of the Funding the Poor Cooperative</td>
<td>24</td>
</tr>
<tr>
<td>Figure 3.2</td>
<td>Map: Sketch map of Ying Shan administrative village</td>
<td>26</td>
</tr>
<tr>
<td>Figure 3.3</td>
<td>Pie Chart: Primary income-generating activities among surveyed borrowers</td>
<td>33</td>
</tr>
<tr>
<td>Figure 4.1</td>
<td>Image: Researcher with Centre Leader and family</td>
<td>37</td>
</tr>
<tr>
<td>Figure 5.1</td>
<td>Image: Interview with representative of ACWF</td>
<td>46</td>
</tr>
<tr>
<td>Figure 5.2</td>
<td>Graph: Percentage changes to mean village-based IGA incomes over successive two-year periods</td>
<td>51</td>
</tr>
<tr>
<td>Figure 5.3</td>
<td>Graph: Percentage changes to mean village-based IGA incomes over time – disaggregated by wealth groups</td>
<td>52</td>
</tr>
<tr>
<td>Figure 5.4</td>
<td>Diagram: Impact pathway diagram</td>
<td>56</td>
</tr>
<tr>
<td>Figure 5.5</td>
<td>Image: Impact pathway card-sorting exercise</td>
<td>56</td>
</tr>
<tr>
<td>Figure 5.6</td>
<td>Image: Interview in family home</td>
<td>62</td>
</tr>
<tr>
<td>Figure 6.1</td>
<td>Image: Discussing survey results with Director of Nanzhao County branch of FPC</td>
<td>70</td>
</tr>
</tbody>
</table>
Abbreviations

AIMS Assessing the Impact of Microenterprise Services (funded by USAID)
AusAID Australian Agency for International Development
CASS Chinese Academy of Social Sciences
CGAP Consultative Group to Assist the Poorest (World Bank-supported microfinance group)
DFID British Government Department for International Development
EDIAIS Enterprise Development Impact Assessment Information Service (funded by DFID)
FPC Funding the Poor Cooperative
GDP Gross Domestic Product
IFAD International Fund for Agricultural Development (United Nations agency)
IGA Income Generating Activity
RCC Rural Credit Cooperative (Chinese financial institution, not technically a cooperative)
SEEP The Small Enterprise Education and Promotion Network
USAID United States Agency for International Development

Conversions

Area 15 mu = 1 hectare
Money RMB 5.6 (yuan) = AUD$1 (at September 2003)
RMB 8.3 yuan = US$1
1. Introduction

Microfinance involves the provision of financial services to the poor, in particular those who are unable to access the services of conventional banks. Microcredit, the provision of small loans, is without doubt the most common form of microfinance and is the central component of most microfinance programs. The attention of the international development community was drawn to microfinance after landmark experiments in Bangladesh in the late 1970s proved that the poor were indeed bankable, and could benefit from such services. Since then microfinance programs have become a popular form of development assistance and spread rapidly throughout the developing world.

Successful microfinance can be defined by three main characteristics: sustainability, outreach, and impact (Holcombe, 1997). Sustainability refers to the ability of a program to continue over time, preferably without ongoing subsidies. Outreach refers to the number of clients reached and targeting of the poor. Impact refers to the ability of a program to assist poor households and individuals to move out and remain out of poverty, and is the ultimate objective of microfinance provision.

Over the past decade impact assessment has become increasingly important as aid donors have sought to ensure that their funds are being well spent. As a result of this increased interest in impact, a number of programs have arisen in recent years that look specifically at the impact of microfinance and microenterprise programs. These include the USAID-funded SEEP/AIMS program, the Ford Foundation-funded Imp-Act action research program, and the British DFID-funded EDIAIS program. A large section of the CGAP-supported Microfinance Gateway is also devoted to assessing the impact of microfinance. However, very little of this work has explored the impact of microfinance in China.
With a population living in poverty estimated to number between 30 - 100 million,¹ and where the demand for small loans, both from poor and less poor households, far exceeds supply (Holcombe, 1997), China is undoubtedly one of the world’s greatest potential markets for the promotion of microfinance.

The first microfinance programs began to be implemented in China the 1980s, but despite considerable interest from the donor community and experimentation on the part of the Chinese government, progress has been slow. With repressive registration processes and official interest rate caps set at levels that are too low for microfinance programs to recover costs, no program has yet proved to be financially sustainable (Wu, 2002). While the Chinese government has adopted some basic microfinance principles and applied them in its subsidised loan program to poor farmers, this has been done in a haphazard way that some microfinance commentators say has done the industry more harm than good (Tsien, 2002). As a result of these major stumbling blocks, academic debate on microfinance in China invariably centres upon these issues of government policy and regulation. While this debate addresses important and immediate issues facing the development of microfinance in China, it fails to address one of the most fundamental aspects of development practice – that of impact. A solid understanding of impact is essential to developing quality interventions in any sphere of development. Indeed, the need to conduct more thorough assessments of the impact of microfinance in China has been emphasised by researchers (Holcombe, 1997). In order to begin to address this void of understanding and information, this study focuses explicitly upon the impacts of microfinance upon the lives of the poor in rural China, with a specific focus on social and economic impacts. The emphasis here is on credit, as the program studied provided only credit services, however the demand for, and attitudes towards other financial services is also explored. In addition,

¹ The figure of 30 million is a Chinese government figure calculated in 2001 based on a poverty line of 625 Chinese yuan (US$75) per person per annum. In 1998 (no more recent figures were available) the World Bank estimated the figure to be 106 million using its standard US$1 per day (based on 1985 purchasing power parity).
the study undertakes a critical analysis of the lending methodology used, and explores the appropriateness of the Grameen Bank methodology\textsuperscript{2} in the Chinese context.

**Research Question and Purpose**

This research uses a case study approach to analyse the impacts that microfinance has upon the poor. The central research question is: In what ways does microfinance impact upon the lives of the poor in rural China? Since the stated objectives of most microfinance programs focus upon economic and social goals, these are the key focal areas of the study, however an open net was cast and an attempt made to reveal any significant impacts that the intervention has upon the lives of the poor (including psychological, political, cultural impacts etc.).

The study is concerned with microfinance in China and not only the particular village being studied. It is hypothesised that the processes through which impact occurs are generalisable to theory that can be applied to the broader context of microfinance in China. The research adopts a realist philosophy that attempts to determine broad impacts rather than using an instrumentalist approach that is interested only in impact upon certain specified indicators. The research question focuses more upon explaining processes than determining variance (although this too plays a part). Quantitative analysis has been used to measure impacts (as defined by beneficiaries), but this has been complemented by qualitative techniques that attempt to explain the processes through which impacts actually occur.

The research draws upon knowledge from a variety of sources, in particular from those seen as being ‘closest’ to the specific issue. While the theoretical approach taken with respect to the academic aspects of impact analysis is grounded in the existing body of academic knowledge on this subject, knowledge in terms of what constitutes an important impact and how this should be measured is

\textsuperscript{2} Established in Bangladesh by Professor Mohammed Yunus in 1976, the Grameen Bank is widely regarded as the pioneer of the new generation of microfinance institutions that have emerged over the past 20 years.
defined from a beneficiary perspective. This latter aspect of the research draws heavily upon
ethnographic approaches. This study looks in detail at the impact of microfinance upon a single
program village, with cause and effect partly implied through attribution by respondents and key
informants (i.e. those who are closest to and have the most intimate knowledge of the situation) and
partly through comparison with a non-program situation. The research involved an iterative process
whereby the beneficiary conception of impact and the processes by which it occurs were elicited,
refined and then analysed in the context of wider academic approaches to impact assessment and
analysis.

The purpose of this research is not to produce an exhaustive array of impacts resulting from
microfinance service provision, rather it looks at the impacts resulting from a specific program and
then attempts to theorise about the processes by which microfinance impacts upon the rural poor. It is
my hope that this information will add to the existing body of understanding on how microfinance
impacts upon the poor, with a specific focus upon the Chinese context, and that this will ultimately
make some contribution to the development of best practice models for microfinance in China.
2. Literature Review

There exists a vast body of literature on the impacts of microfinance - much of it published over the past decade. A great deal of this literature focuses upon issues such as why impact assessment is important and how it should be carried out. This study shall not delve into these areas, but rather will focus upon the actual impacts (whether predicted or determined) of microfinance upon people and the environments and social systems in which they live. This section is broken up into two parts: the first dealing with microfinance impact generally, and the second focusing specifically upon microfinance impact in the Chinese context.

The Impacts of Microfinance

Internationally, knowledge about the impacts of microfinance is only partial, and remains contested (Hulme, 2000). While many studies argue that microfinance can be used as an effective tool to fight poverty (e.g. Hulme & Mosley, 1996, Latifee, 1997), some are less optimistic about the potential of microfinance and point to the negative impacts that microfinance sometimes has (Rogaly, 1996). This section looks in turn at each of the main areas of impact identified in the contemporary literature.

Physical Capital – Income and Assets

Muhammud Yunus, founder of the Grameen Bank has been quoted as saying that microfinance leads to poverty reduction through a virtuous circle comprising: ‘low income, credit, investment, more income, more credit, more investment, more income’ (Hulme & Mosley, 1996). Indeed, many studies have found that well-designed lending programs can improve the incomes of poor people and for a proportion of cases can move the incomes of the poor above official poverty lines in large numbers (Hulme & Mosley, 1996, Mosley, 2001). Further, several studies have found evidence that the impact of a loan on a borrower’s income is directly related to the level of income, with the ‘middle’ and ‘upper’ poor more likely to benefit than the ‘core’ poor. The justification given is that those with
higher incomes have a greater range of investment opportunities, more information about market conditions, and can afford to take on more risk than poorer households (ibid.).

While some studies have found evidence of diversification of income sources among poor clients (Mosley, 1996), others have found that clients tend to specialise in more productive activities (Montgomery et al., 1996). One theory posits that poorer clients seek to diversify in order to protect their income while clients who are better off are better able to assume the risks associated with specialisation (Sebstad & Chen, 1996).

While there appears to be general consensus on the ability of microfinance to raise incomes in at least some cases, it is uncertain whether such improvements can be sustained over time. In one study it was found that incomes tend to plateau after an initial increase, and that few long-term borrowers are able to continuously achieve income growth (Hulme & Mosley, 1996).

Many studies have found evidence of increased incomes leading to asset accumulation among program participants (Sebstad & Chen, 1996). In a study conducted in Bangladesh it was found that successive loans led to a build-up of assets over time, and that the structure of assets tends to favour productive assets, suggesting an emphasis among borrowers on securing income (Montgomery et al., 1996).

**Human Capital – Education, Health & Well-being**

A study of six microfinance programs in Africa found substantial qualitative evidence that targeting microcredit to the poor, and to poor women in particular, enhances human capital through increased expenditure on consumption and education and related improvements in health. In all the cases studied microcredit was found to have had a positive impact on measures of welfare, with women beneficiaries tending to attach a higher value to the concept of well-being (Mosley, 2002).
While several studies indicate positive impacts of microfinance upon school enrolment levels, school attendance or educational attainment (Sebstad & Chen, 1996), a large cross-regional study found no evidence of any impacts upon children’s education (Peace & Hulme, 1994), indicating that impacts on education have been mixed.

A study of the health impacts of microfinance found that microfinance participation led to increases in women’s own demand for formal healthcare (Nanda, 1999), and a study of the BRAC program in Bangladesh found better child survival and nutritional status in households served by the program (Chowdhury & Bhuiya, 2002). These findings are moderated by those of a separate review of three studies that looked at impacts of microfinance upon health and nutrition levels and found some evidence of improvements in these areas but concluded that these linkages were not strong or direct (Sebstad & Chen, 1996).

Several studies have found evidence of participation in microfinance programs as leading to increases in household consumption, and some have found that increases in non-food consumption have outpaced increases in food consumption, reflecting a shift in concern beyond immediate survival (Sebstad & Chen, 1996).

**Social Capital**

Social capital refers to the internal social and cultural coherence of a society, the norms and values that govern interactions among people and the institutions in which they are embedded (Merek, 2002). A study conducted in Africa found substantial informal evidence to support the finding that microfinance to the poorest increases their risk management capacity through the enhancement of social capital (Mosley, 2002). In all of the cases studied, male and female beneficiaries who were members of farmer groups and/or business associations shared information on markets, prices and
technology and cut costs by pooling resources for transporting goods to and from markets and by sharing storage facilities. Members’ contributions were also drawn on in times of need.

**Women**

It is commonly argued that by targeting women microfinance can improve both the economic standing of women within the household and their social standing in the wider community. A study from Bangladesh found improvements in women’s physical mobility, economic security, ability to make own purchases, freedom from family domination and violence, political and legal awareness, and public participation (Schuler & Hashemi, 1994). However, Hulme & Mosley (1996) argue that while these impacts may be quite pronounced in Bangladesh, where the social position of women is particularly low, these impacts are minimal in environments where the social gap between men and women is less extreme. They found that credit programs can reduce the relative isolation of women, but urge caution in assuming that loans made to women improve their economic or social position.

While some studies have found evidence of empowerment of women, it has also been found that a significant number of loans given to women are actually controlled by their husbands or other male family members (Hulme & Mosley, 1996). It is argues that this can have negative implications for women since they carry responsibility for repayment of loans that are not under their control (Goetz & Gupta, 1996). It has also been found that even those loans that are controlled by women tend to be used on traditional ‘women’s activities’, serving to reinforce existing conceptions of the economic role of women (Hulme & Mosley, 1996).

Aside from empowerment objectives, many commentators support a focus on the targeting of women due to the common finding that income under the control of women is more likely to be spent on family welfare than that under the control of men (Holcombe, 1997; Sebstad & Chen, 1996).
Impacts on the Poorest

Hulme & Mosley (1996) argue that the Grameen model, upon which the majority of microfinance programs are based, is not effective in working with the core poor, and advocate the development of a range of microfinance models suited to local conditions.

Highlighting the differing experiences of impacts upon extreme or ‘hard core’ poverty is a review of 32 studies which found that while in some cases the well-off appeared to have experienced greater proportional impact from participation in microfinance programs, there were also cases where there was no clear difference between wealth groups, and at least one case where there was found to be a greater proportional impact upon the poorer borrowers (Sebstad & Chen, 1996).

Closely related to the issue of the impacts of microfinance on the poorest is the issue of access by the poorest to microfinance services. Hulme & Mosley (1996) found that the poorest of the poor are often excluded from credit programs in one or more of three ways:

- self-exclusion, in which the poorest perceive the risks associated with taking a loan as being unreasonably high;
- social exclusion, in which program participants are not willing to form groups with those they see as being potential defaulters; and
- exclusion by program staff, who prefer to deal with less risky clients in order to meet performance targets.

A report to an Imp-Act working group advocated a need to consider different country contexts when talking about the effectiveness of microfinance when dealing with the poorest, emphasising that the defining characteristics and lived realities of the poorest varies significantly across countries (Roper, 2002). A useful definition states that the core poor are those who have not crossed a ‘minimum economic threshold’ that is defined by characteristics such as the existence of a reliable income, freedom from pressing debt, sufficient health to avoid incapacitating illness, freedom from imminent
contingencies and sufficient resources to cope with problems when they arise (Hulme & Mosley, 1996). This definition of core poverty draws heavily upon the concept of vulnerability.

**Vulnerability**

The concept of vulnerability of the poor was explored by Hulme & Mosley (1996), who found evidence that microfinance had made only a limited contribution to reducing the vulnerability of poor households to a sudden dramatic decline in income and consumption levels, and even found evidence of borrowers having become worse off because of borrowing. An assessment of a program in Zambia also found significant evidence of borrowers having become worse off as a result of participation in the program (Copestake et al., 2001). However, Hulme and Mosley concluded that although there are a minority of cases in which credit may have increased the vulnerability of poor borrowers, there was little to suggest that, on average, the poor are made worse off by credit. They argue that while promotional strategies (which focus on raising incomes) may be effective for the middle and upper poor, protectional strategies (which focus on stabilising incomes and reducing vulnerability) need to be developed when dealing with the core poor.

**Sociocultural and Political Impacts**

Kabeer (2002) argues that in those societies where the exclusion of women from the monetary economy is particularly severe, providing women with access to financial services entails a redefining of the role of these women from being economic dependants to being economic actors, thereby redefining traditional conceptions of the role of women. She cites evidence of women becoming more socially and politically active in the sense of being able to go to the authorities that hold power at the local level and make demands (ibid.).

In India it has been found that self-help groups established by microfinance programs can enhance public participation in the political process. It was found that as group members’ capacity for
collective action increases the nature of their preferences changes towards more collective benefits, leading to a corresponding increase in the volume and clarity of citizens’ demands on government to realize collective community benefits (Dash, 2002).

Contrasting this, Hulme & Mosley (1996) concluded that there has been a gross exaggeration in published literature on credit schemes about their ability to stimulate dramatic social and political change, and that there is minimal evidence of such changes as having occurred as a result of participation in a credit program.

**Broader Economic Impacts**

There is little evidence of any broad economic impacts of microfinance beyond participating households or villages. This relates to findings that microfinance is limited in its ability to overcome traditional economic constraints, with studies showing that for most institutions, and the vast majority of borrowers, seasonal problems of low demand for labour, products and services have not been reduced by the provision of financial services (Hulme & Mosley, 1996). It has been found, however, that microinsurance can stabilize the income not only of clients, but also of an entire region, provided that clients constitute ‘a good proportion’ of a local population (Mosley, 2002).

**Microfinance Impact in the Chinese Context**

The vast majority of academic writing on microfinance in China focuses upon institutional sustainability of microfinance programs and the various aspects of government policy that impact upon this. With the exception of only a few studies, the only writing on impact of microfinance is in the form of reports written by either microfinance program implementers themselves or the donors supporting them. Not surprisingly, most donor/implementer reporting tends to lack critical objectivity. This is compounded by Chinese cultural norms that dictate that results be portrayed in a positive light - admittance of failure to achieve an objective is a rare thing in China. The inherent problems
associated with self-reporting were highlighted by one commentator who claimed that donor staff interviewed about a program admitted that the program was not actually as successful as reported in its “glossy” annual report (Tsien, 2002). There are very few cases of formal impact assessment having been carried out in China, with most of the available literature on impact stemming from anecdotal observation. In a country that is experiencing rapid economic growth it is particularly difficult to determine the specific causes of economic and social change, and virtually none of the studies mentioned below have convincingly been able to attribute the changes identified as being the result of participation in microfinance programs. For these reasons many of the claims cited in this section should be regarded with a healthy degree of skepticism.

**Incomes & Employment**

Several reports indicate that microfinance has led to increases in the incomes of participants (Bai, 2001; Gurung et al., 1997; Holcombe & Xu, 1997; Liu & Zhang, 1997; McLean, 2003; Yan, 1997; Yan & Wang, 1997; Zuo, 2000). An IFAD (the United Nations International Fund for Agricultural Development - one of the largest international funders of microfinance in China) evaluation conducted in 2002 stated that borrowers’ poverty levels (defined by income levels) reduced by between eight and 20 percent over four years (IFAD, 2002). A separate study found that returns on investments funded by microcredit ranged from 24-52 percent per annum, leading to per capita income increases of 4-13 percent (Zuo, 2000).

One study found that in addition to income increases, participation in a microcredit program enabled some women to become small entrepreneurs, moving beyond micro-projects to establish small enterprises such as chicken farms and rug-making operations that created employment for others (Holcombe & Xu, 1997).
The difficulties associated with measuring income change were highlighted by Liu & Zhang (1997) who found that farmers often tend to underreport their income. Since incomes vary year-on-year depending on climatic and other factors they stress a need for studies to look at income changes over a period of several years.

A proxy indicator for income effects used in a study in Hebei province was the number of people who had to leave the village to find work. The study found that the program had led to more employment within the village and a corresponding reduction in the annual number of cases of villagers engaging in migrant labour from 310 to 50 in two years (Yan & Wang, 1997).

**Impacts on the Poorest**

Most of China’s microfinance programs are located in the mountainous west, where a large proportion of the poorest of the poor live (Cheng, 2003). Despite this, several reports indicate that in practice, microloans tend to reach the richer and not the poorer areas of poor counties, and wealthier rather than poorer clients (Holcombe & Xu, 1997). This has been attributed to loans to poor farmers being considered high risk and as generating comparatively low returns, meaning that farmers have difficulty competing for scarce capital (ibid. p.31).

In its own review IFAD found that its microcredit programs in China have had difficulties reaching the poor, with most borrower households being relatively well-off (IFAD, 2002). A review of government-run Rural Credit Cooperative microcredit also found that these loans were not reaching the hard-core poor (Zuo, 2000).

Several studies have found that in Chinese villages savings groups are formed through exclusion of those deemed unreliable, and these tend to be the poorest who have limited productive investment opportunities owing to their lack of education, training, experience and other assets (Zuo, 2000;
Cheng & Nguyen, 2000). However, one review found that in at least some cases where attempts had been made to include these people it was found that they were indeed able to participate successfully in the program, and the review concluded that the program should gradually experiment in reaching out to the ‘reliable’ hard core poor (Zuo, 2000). Other evidence of microfinance reaching the poorer members of society is cited in a recent study of the Qinghai Microcredit Program which found evidence of even the extreme poor becoming actively involved in improving their economic circumstances through access to microcredit (McLean, 2003).

In the Chinese context as in the international context, diversification of income sources has been identified as being an important means of reducing vulnerability to economic shocks (Liu & Zhang, 1997), and evidence has been found of microfinance programs in China having contributed to income diversification through facilitation of new income generating activities (McLean, 2003). In programs in Yunnan and Sichuan provinces it was found that borrowers commonly used loans for more than one income-generating activity (IGA), which may be seen as a way of spreading risk and of having investments that generate small amounts of income at different times (Holcombe & Xu, 1997).

**Women**

Like much of the developing world, women in poor areas of China have been found to be disadvantaged in terms of social status, economic welfare, educational opportunities and decision-making power (Cheng, 2000). In terms of consumption levels and access to resources, women in China are regarded as the poorest among the poor (Feng, 1997), and studies have shown a higher incidence of ill-health leading to poverty among females than males (Zhao, 1997). Several reviews have indicated that participation in microfinance programs has led to increases in women’s social status (Bai, 2001; Yan & Wang 1997) as well as an enhanced sense of personal responsibility and capacity among poor women (Zhang, 1997).
As has been found to be the case in other parts of the world, women in China are regarded as usually being more honest and reliable than men in dealing with money, and it is more likely that the whole family, especially children, will benefit when the mother manages money rather than the father (Cheng & Nguyen, 2000). However, the effectiveness of gender targeting has also been questioned in China, where evidence has been found that a focus on achieving targets relating to female participation has had negative consequences for some female clients, since they are responsible for repaying loans that are in some cases not under their control (McLean, 2003).

**Human Capital – Education, Health & Well-being**

Unexpected health crises have been cited as being the most common cause of debt in rural China (Holcombe, 2002), demonstrating the strong link between health and economic security. Studies in China have found evidence of microfinance contributing to improved health and increased expenditure on nutrition and health care (Bai, 2001; Yan, 1997).

With respect to education, there is some evidence of program involvement being associated with higher school enrolment rates, which in one case was attributed to the inclusion of a women’s education component in a microfinance program (Yan & Wang, 1997). One study found that inclusion of a training component led to acquisition of new skills among 70% of participants (Yan, 1997) and another found that participation had led to an increased motivation amongst farmers to learn new skills (Yan & Wang, 1997).

In Qinghai province evidence has been found of microfinance leading to welfare benefits, particularly in times of emergency. Seventeen percent of loans were found to have been used for welfare needs, thereby providing consumption smoothing and emergency funds (McLean, 2003). Claims have also been made of program participation leading to improved standards of living (Bai, 2001).
Social Capital

It is commonly thought that the more a community is intra-related through kinship ties or a shared history, the more social capital is likely to exist. However, in a study of microfinance programs in south-west China, one researcher discovered a village that had a long shared history and close kinship ties but a deeply rooted history of social discord that had led to a negative social dynamic (Tsien, 2002). In such cases, it was found that microfinance runs the risk of actually exacerbating these tensions by increasing income inequalities and wealth differentials. The researcher concluded by arguing that microfinance should make use of local social cohesion systems, but in cases where social cohesion is lacking microfinance is not likely to be effective.

A study of the Qinghai microcredit program found that the group liability system did not work as envisaged because of a reluctance among participating households to repay loans for others in the same group despite having signed a joint liability statement (Cheng, 2000). A separate study of the same program also found no evidence of group solidarity, but did indicate an improvement in social position among those previously regarded as “bad borrowers” who had successfully participated in the program (McLean, 2003). In contrast to this are reports containing anecdotal evidence of mutual support among group members contributing to enhanced social capital (Bai, 2001; Holcombe & Xu, 1997).

Housing

Participatory poverty assessments in poor areas of southwest China have emphasised the multiple roles that housing plays in village life (Zheng, 2001). It was found that for poor villagers a house is not only a place to live, but also a place to store livestock and food, and a place to work in the evenings. Housing was also found to be an important indicator of social standing in the community that to some degree determined marriage opportunities of sons and daughters. In addition, housing was found to contribute to a sense of emotional well-being, and as having a significant impact upon
health (ibid.). Other researchers have noted that when the incomes of poor Chinese farmers begin to rise the first thing they tend to spend their money on is improvements to their housing conditions (Liu & Zhang, 1997).

**Other Impacts**

Evidence has been found of microfinance having led to fewer cases of high-interest moneylending (Yan & Wang, 1997), and in programs where microfinance has been combined with environmental goals, lending has been found to have positive impacts on environmental conservation (Bai, 2001; Gurung et al., 1997; Yan & Wang, 1997)

**Methodological Issues**

Most microfinance programs in China are basically Grameen Bank replications, and several commentators argue that this model of microfinance, in its original form, is not appropriate in the Chinese context. One argument focuses on the incompatibility of the Grameen group/centre approach and the political/administrative structure that exists in the Chinese countryside. A perceived limitation of the group/centre approach is that local government and officials are sensitive to the organisation of social groups which are not in strict government line (Cheng, 1997). While the Grameen structure has a 30-person centre as the fundamental organisational unit, in China the lowest organisational level acceptable to government authorities is the village level. In China’s first and most well-known Grameen replication, the Funding the Poor Cooperative, it was found that weekly centre meetings were in some cases attended by the whole village, which enabled village officials to become involved in the program, but also meant that it took on an official tone and thus soon lost its appeal (Sun, 2002). The difficulties of holding unofficial 30-person centre meetings meant that the practice of holding regular meetings soon died out in many program areas.
Other perceived limitations of the Grameen Bank model in China have included an unwillingness among borrowers to accept group guarantees or contribute to group funds (Liu & Zhang, 1997). This apparent aversion to communal activities may be a result of the sometimes disastrous consequences, in particular in rural areas, of socialist experiments conducted between the 1950s and 1970s (Holcombe & Xu, 1997). Despite these apparent limitations, a potential advantage of the solidarity group model is the role they play in peer selection, as all clients essentially undergo a mutual screening process before receiving a loan (Tsien, 2002). Another positive aspect of the group system that has been identified is that it facilitates technical skill transfer as well as marketing and employment information, which, it is argued, is particularly beneficial when dealing with the poorest (Cheng, 2000).

Another argument cites that the Grameen Bank methodology was developed for dense populations of landless peasants with small regular incomes who live in flat lowland areas of Bangladesh, while the poorest of China’s peasantry tend to live in low-density mountainous regions where they find it difficult to attend weekly meetings at busy times, have limited access to markets and, being farmers, have seasonal rather than regular income sources (Hickson, 1997). However, some studies have shown that even though many farmers have irregular incomes they do not appear to have difficulty in making small weekly repayments, which can be met by selling a small animal or vegetables, or through remittances from family members undertaking day labour or migrant labour (Holcombe & Xu, 1997). Evidence has been found that group members perceive an opportunity cost in attending weekly group meetings and requests have been made to hold meetings less frequently, with some programs obliging (Zuo, 2000).

Problems with Grameen replicates have been attributed to rigid application of the Grameen model, with loan products and delivery systems failing to meet client needs and local conditions. As a result, many programs have varied the Grameen approach to meet their specific needs and conditions (Cheng, 2003; Zuo, 2000). Some have emphasised that different villages have different production
patterns and caution against making generalisations or using standardised models (Zuo, 2000). It is commonly argued that a country as large and diverse as China needs more than one model of credit (Holcombe & Xu, 1997).

Other adaptations made to the Grameen model include allowing relatives to be members of the same group (considered essential given the agnatic structure of Chinese villages) and of allowing men and women to be in the same groups (Liu & Zhang, 1997).

In a study of the Qinghai Microcredit program it was found that village agents were more effective than township-level agents in the Chinese political / administrative system for several reasons: township level agents are more likely to be moved to other positions, there is a higher likelihood of government intervention in program activities if controlled at the township level (seen as a negative), and township agents have less of an understanding of the needs and lives of the rural poor than village agents (Cheng, 2000).

Several studies have stressed the importance of complementary agricultural training activities (Bai & Ge, 1997; Zuo, 2000), in particular when working with the poorest households (Tsien, 2002).
3. **Research Setting / Context**

While this study adopts a case study approach, it aims to contribute to the theoretical discussion of the role of microfinance in the broader Chinese context. The choice of village/program to be studied, therefore, was based upon criteria that maximised the validity, representativeness and generalisability of theoretical findings. The selection of a program to study was based upon the following criteria:

- Operates in an area considered to be broadly representative of social, economic & cultural aspects of rural life in China (to maximise generalisability)\(^3\)
- Has been in operation for five or more years (in order to allow sufficient time for impacts to have occurred)
- Satisfactory overall program management (to enhance the likelihood of impacts having occurred)
- Willingness of program management to cooperate with study
- Lending methodology consistent with common microfinance practice

On the basis of these criteria, the Funding the Poor Cooperative (FPC) microfinance program managed by the Rural Development Institute of the Chinese Academy of Social Sciences was selected as the host program. The program is generally regarded as being one of the better-managed microfinance programs in China, and being an academic institution, the Chinese Academy of Social Sciences was quite willing to cooperate with the study. Box 3.1 provides details on the FPC.

\(^3\) In a country as large and diverse as China it is problematic to talk about something as being ‘representative’ of the Chinese situation, however some social, ethnic, economic and geographic circumstances are more commonplace than others, and it is these more typical ones that this study attempts to focus upon.
Box 3.1 The Funding the Poor Cooperative

The FPC is one of the oldest and most well-established microfinance programs in China, having commenced lending operations in 1994. It replicates the Grameen Bank solidarity group lending methodology in three counties in central northern China.

The FPC mission is:

- to help the poorest and the poor with a primary focus on women
- to provide a model for microcredit institutions in China and offer recommendations for government policy
- to serve as consultants to other poverty alleviation programs in China to promote the expansion of microcredit through effective replication programs.

The loan delivery methodology at FPC is a replication of the Grameen solidarity group methodology modified as required by local circumstances and client preferences.

Clients organise themselves into groups of five persons, and about six to eight groups form a centre. This process takes about one month. Each group elects is leader and centre leader. Group members are responsible for mutually guaranteeing each other’s loan use.

The maximum size of the first loan is RMB 1000 (US$122), and the maximum size of subsequent loans is RMB 2000 (US$244). The loan term is one year, with a weekly repayment schedule that begins after a two-week grace period. Interest of 8% is deducted up-front (equating to an effective interest rate of 16% p.a.). An additional 5% is deducted up front
from the loan – 4% of which is returned to borrowers upon repayment of the loan, and a 1% centre fee which is not returned to borrowers.

Compulsory savings of 0.1% of the loan are collected every week. Interest on savings is paid according to the government-set interest rate for savings.

The frequency and requirements of centre meetings varies from branch to branch. FPC does not insist on the system of weekly centre meetings, but encourages meetings to be held every 2-4 weeks, depending on the local seasonal schedule and demands of clients. Some other Grameen policies have not been adopted in full, such as the reciting of slogans and Grameen-style ‘decisions’ made during meetings.

The FPC program does not provide training or other business or community development services.

Each of the three branches achieved operating self-sufficiency by 1997. Basic statistics and financial ratios (based on the SEEP framework) at the end of 2000 were as follows:

- Number of branches – 3
- Number of sub-branches - 9
- Number of staff - 78
- No. of active loans – 14,032
- Total outstanding loan balance – US$1,466,500
- Percentage of female clients – 98%
- Portfolio in arrears – 2%
In initial discussions with FPC management, we decided that I would undertake the investigation in Nanzhao project site in Henan province. This site was regarded by senior management as being the best managed of the three project counties, and had been implementing program activities since 1997, thereby meeting the selection criteria listed above.
Field Study Site

Henan province is located in central China, where the bulk of the nation’s 1.3 billion population reside, and with a population of 70 million it is the most populous province in China. The FPC program operates in Nanzhao county in the southwest of Henan province. This county was originally selected to participate in the FPC program because of its dual status as one of 27 provincially designated poverty counties (of approximately 500 counties within the province) and one of the 592 nationally designated poverty counties (of more than 5000 counties nationwide). Although these designations were made in the late 80s/early 90s, the county remains one of the poorer areas of rural China.
The FPC program has a branch office at the county centre of Nanzhao, and under this are three sub-branch offices at the township level. In initial discussions with Nanzhao branch staff I asked them to rank these three sub-branches in terms of poverty levels. I then selected the poorest of these sub-branches, Xiaodian township, as the location for my field research. Under Xiaodian sub-branch are 34 ‘centres’. Each centre is located in a separate village and is comprised of a minimum of eight groups of five borrowers per group. I asked program staff to assist me in selecting a centre/village that was broadly representative of program villages within the township, in terms of poverty levels, agricultural & economic structure, ethnic composition and social structure. On this basis, Ying Shan administrative village was selected to be the site of my investigation.

**Ying Shan Village**

Ying Shan administrative village has a population of 2825, comprising 750 households (average household size is 3.8 members). The population is comprised entirely of Han Chinese (China’s dominant ethnic group). As is the case in most villages in the region, this population is dispersed among a large number of small hamlets, or natural villages. Ying Shan village comprises more than 50 of these hamlets, which range in size from several households up to approximately 50 households, with an average size of around 30 households. For details, refer to the Sketch Map at Figure 3.2

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4 The Chinese administrative structure from top down comprises 6 levels: central, provincial, prefectural, county, township & village (the village level is not considered to be a formal level of government but does have administrative functions and government-paid staff).

5 Throughout this document the *pinyin* phonetic system is used to represent Chinese language. In this system ‘X’ is pronounced as ‘sh’, and so ‘Xiaodian’ is pronounced as ‘sheow de-en’

6 Here I had to rely upon the judgement of the program staff, as even if I had sought outside opinion in selecting a village restrictions on the activities of foreigners in China meant that I still would only be able to work in areas sanctioned by program staff and local government officials.
Figure 3.2 Sketch Map of Ying Shan administrative village. The field study area (Upper Wang Zhuang and Lower Wang Zhuang hamlets) is circled in the lower-right portion of the diagram.
The village has an agnatic structure, with village males finding brides from neighbouring areas and bringing them into the village. Likewise village girls move out of the village upon marriage. Given the large size of Ying Shan village, on occasion endogamy is practiced in marriage (people marrying within the village), but this is the exception rather than the norm. Agnatic family groups are usually clustered together in small hamlets, or natural villages (zhuang). Each hamlet tends to be comprised, either entirely or primarily, of a dominant agnatic family group. Villagers claim that the village has a history of over 1000 years, and that a nearby temple dates back to the Tang Dynasty (A.D 618-907). When questioned about his family lineage, my host somewhat ashamedly admitted that his family’s history in the village only dated back to the 19th century.

A typical village dwelling comprises a square, walled compound with two or three separate single-storey structures surrounding a central courtyard. One of these structures contains the living and sleeping quarters, one the kitchen, and the other may be another bedroom, workshop or storage room. Generally when a son marries he and his new bride will move into a separate dwelling and a portion of the family land allocation will be given to them. 7

Surrounding each natural village is the land upon which most villagers’ livelihoods depend. Given the very high population density in the region, the amount of land available to each family is very small, typically two to three mu per family. Almost all families in the village grow their own food crops, which consists primarily of corn and wheat, and some vegetables. These tend to be sold only when there is an excess or when the family is in need of cash. The main cash crop is peanuts, although revenues from peanut sales are small. Within the family dwelling a typical family would raise one or two pigs, and perhaps some chickens. Again these are primarily for consumption but on occasion are sold to meet household expenditure needs.

7 Although land remains under the ownership of the government, in the early 1980s villagers were given individual allocations of land based on the number of members in their family. In Ying Shan village these allocations were revised in 1997 on the basis of 0.7mu per person (1 mu = 20 x 25 metres).
A typical family’s income from agriculture is usually not more than 1000 yuan per annum, which would barely be enough to purchase daily necessities, let alone provide for education or health needs, or other large expenditures such as the marriage of a son. Sons are highly prized for their ability to work the fields, bring in income to support their parents in their later years, and continue the family line, however a considerable investment needs to be made when finding a bride for one’s son. While the bride’s family will provide a small dowry, the groom’s family must provide a significant bridewealth to the bride’s family. This varies in amount, but tends to be in the order of 5,000 – 15,000 yuan, averaging around 10,000 yuan. In most cases money needs to be borrowed from relatives to cover this cost, and where a family has two or more sons of similar ages this can lead to severe debt.

In order to increase the family income many people leave the village to find temporary work in larger towns and cities. Since the modern era of economic reforms began in the late 70s/early 80s the southern Chinese provinces of Guangdong (Canton) and Shenzhen have been popular destinations for these migrant labourers, who often spend most of the year away and only return to the village to spend the Spring Festival / Chinese New Year with the family. Young unmarried men and women, as well as married men, tend to undertake this kind of migrant labour. They would typically bring back with them several thousand yuan in savings as well as gifts for the family. A failure to bring back money would be an embarrassment too hard to bear for most village folk, who would generally rather stay away and miss the all-important Spring Festival than bear the shame of returning empty-handed. Some labourers opt to travel less far afield, going to neighbouring towns for short-term work, which tends to range from a week to several months. The advantage of this type of work is that they are able to return to the village to lend a hand during the busy agricultural seasons.

Leaving the village to find work is not the preference for most people, but rather an economic need. While no doubt many young people would be keen to see the world outside their village, migrant workers in China lack legal protection and tend to be exploited, mistreated, and sometimes cheated.
out of their wages. Most people in the village expressed the opinion that they would prefer to stay and work in the village if there were sufficient opportunities to keep them busy and earning money. The tendency in rural China for males to leave the villages to find work also has meant that women are left with a greater burden in respect of agricultural work and child rearing. After more than 20 years of economic reforms it appears that villagers are gradually looking less to the cities for economic opportunities and are now more keen on finding ways to improve their local economy. This accords with the theory promoted by former Chinese president Deng Xiaoping at the beginning of the reform era, which stated that some regions with good economic prospects should develop first in order to gradually lift the rest of the country out of poverty. It appears that an understanding of the new market economy is slowly filtering down to the less-developed areas, and with it perhaps opportunities to enhance the local economy. While the central government is promoting a policy of gradual urbanisation in order to increase the national economy’s industrial base and reduce its reliance upon agriculture, peasants remain firmly rooted to the land of their ancestors. Indeed they carry a cultural legacy to take care of their ancestor’s graves, and so for many the prospect of moving out of the village is not even considered an option.

There are virtually no wage-labour options for those residing in the village. Apart from the few village officials, who are paid a small monthly wage for performing their village duties, only a handful of villagers have regular waged employment, generally comprising factory work in nearby towns.

Box 3.2 Silk Rug Production – A typical cottage industry

One popular form of cottage industry in Ying Shan village is silk rug making. Many families have a home-made frame assembled in one of their rooms where the women of the family spend hours at a time threading silk, strand-by-strand, to make rugs for sale at city markets (often for export abroad). Some families employ one or more workers to engage in this work.
(my host family employed up to 20 young girls at a time, aged 16-18 years, from neighbouring villages to work for them). This kind of work is long and hard, a typical day starting at 6am and ending around 9-10pm, with an hour or two for lunch.

The rug market was said to have suffered heavily from the impacts of the SARS epidemic in early/mid-2003, as foreign and domestic buyers had stopped coming to the markets to engage in trade (my host family was still producing, albeit on a smaller scale with only five workers, one of whom was their daughter).

Attempts to estimate per capita GDP in the village are fraught with difficulty. This information is held by the township government and is not publicly available. In any case village and township officials have no reliable means of knowing the actual income of village residents as their records are based on systems set up for recording revenues from grain yields - a legacy from the collective period. There is no effective taxation on those engaging in small business, trade or informal sector labour, and therefore real incomes are not known. Discussions with the village communist party secretary⁸ and village accountant yielded wildly differing estimates of per capita GDP over the past ten years. According to the Party Secretary this figure was approximately 800 yuan in 1993 and had risen to 1100 yuan in 2002, while the village accountant stated that the 1993 figure was in the order of 400-500 yuan and the 2002 figure was around 900 yuan. However, both agreed that the figure had steadily increased over the period, with a marked increase since 1990/91. This post-1990 increase was attributed to an increase in small business activity within the village, as well as to government investment in roads and water supply. Analysis of the household economic data gleaned from the

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⁸ In Chinese villages, the Party Secretary holds the most powerful position in the village, followed by Village Leader (elected through a quasi-democratic election process), then Village Accountant, then other Village Committee members, including a member of the All-China Women’s Federation.

A Case Study Analysis of the Impacts of Microfinance upon the Lives of the Poor in Rural China

Shane Nichols (M Soc. Sc.) RMIT 2004
A Case Study Analysis of the Impacts of Microfinance upon the Lives of the Poor in Rural China

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RMIT 2004

survey undertaken as part of this research reveals an average per capita cash income of 987 yuan in 1995/96 \(^9\) prior to program commencement.

Table 3.1 shows the number of rural poor in China according to both the Chinese national poverty line and the international standard of US$1 per day.

**Table 3.1  Extent of Rural Poverty in China**

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty Line</th>
<th>No. of rural poor (million)</th>
<th>% of population</th>
<th>No. of rural poor (million)</th>
<th>% of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>530</td>
<td>65</td>
<td>5.3 %</td>
<td>200</td>
<td>16.4 %</td>
</tr>
<tr>
<td>1998</td>
<td>635</td>
<td>42</td>
<td>3.3 %</td>
<td>106</td>
<td>8.5 %</td>
</tr>
<tr>
<td>2001</td>
<td>625</td>
<td>30</td>
<td>2.3 %</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

* the US$1/day standard is based on 1985 purchasing power parity

In 1995 the national poverty line was set at a per capita annual income of 530 yuan, under which approx. 65 million people fell (5.3% of the population). By 2001 the poverty line had risen to 625 yuan, with an estimated 30 million people (2.3% of the population) living below this level.

In Ying Shan village, 28% of survey respondents had per capita annual incomes below the poverty line in 1995/96,\(^{10}\) reducing to 7% falling under the 625-yuan poverty line in 2001/02. Ying Shan village was considered by program staff to be slightly poorer than the average village in Henan province, which itself is broadly representative of conditions in central China where the bulk of the

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\(^9\) This figure is based on cash income only and does not account for consumption of home-grown grain, vegetables and meat or other in-kind income.

\(^{10}\) Calculated by averaging the 1995 poverty line of 530 yuan and the 1996 poverty line of 580 yuan to produce a 1995/96 proxy poverty line of 555 yuan.
rural population lives. These villagers may therefore be regarded as being slightly poorer than the average rural Chinese family, but not among the poorest. If assessed against the international standard of US$1 per day they would certainly be regarded as poor.

Village output was roughly estimated by the village accountant to fall into the following proportions:

35% - traditional agriculture and animal raising (pigs, goats, grain)
30% - innovative cash crops (trees, peanuts, watermelon, other fruits etc.)
20% - small business (rug making, trade etc.)
15% - small transportation business (primarily transporting products to market)

The above estimate does not include extra-village income (such as that from migrant labour) as village officials have no means of quantifying this income source. The household income profile figures cited below suggest that the figure for cash crops cited above is somewhat exaggerated, while those for small business and trading are underestimated.

An analysis of household economic profile (taken from the survey data) reveals that average household income is broken down into the following proportions:

29% - cottage industry (mainly production of rugs, oils, foodstuffs etc.)
24% - animal raising
16% - trading
10% - migrant labour
9% - traditional agriculture
7% - transportation businesses
5% - cash crops

It should be noted that the list above refers to cash income sources only. Almost all village households engage in farm-based agriculture and animal-raising, but this tends to be done primarily for...
consumption purposes. Most households derived some income from animal-raising, and around half derived some cash income from traditional agriculture. Poorer households tended to be more dependent upon agriculture and animal-raising for income than better-off households. Households averaged 2.3 income-generating activities (IGAs) each.

A breakdown of the primary income-generating activities of surveyed borrower households is provided in Figure 3.3. This includes loan-financed and non-loan financed activities.

**Figure 3.3 Primary Income-Generating Activities among Surveyed Borrowers**

It can be seen from Figure 3.3 that the most common primary income source is cottage industry (37% of households). Equal second are trading and animal raising (20% each), followed by migrant labour (13%), transport (7%) and cash crops (3%). None of the surveyed households derived their primary income from traditional agriculture.
The vast majority of program loans disbursed in Ying Shan village (approximately 90%) went to families living in Upper Wang and Lower Wang hamlets. The field research was therefore primarily conducted in these two hamlets.
4. Method / Approach

In an important paper on impact assessment methodologies for microfinance David Hulme (2000) notes that over the last decade impact assessment studies have moved increasingly away from single-method approaches towards multi-method or pluralist approaches. Hulme recommends that for relatively low-cost, simple studies the best approach to ensuring the validity of findings is through triangulation and using a mix of small-scale survey, qualitative and participatory techniques. The paper notes that for smaller studies the basic measurement unit used is usually the household, while larger studies sometimes assess impacts at a number of levels.

Sebstad & Chen (1996) emphasise the importance of research designs that separate effects of credit from other factors, and stress the importance of contextual information, ethnographic data, and in-depth case studies in interpreting quantitative data.

This research project adopted a participatory research action approach in which key stakeholders were involved in an ongoing iterative process of shaping and reshaping the research. An attempt was made to closely involve program staff in the study in order to encourage greater awareness of program impacts and impact assessment techniques. To date the program had not carried out any regular form of impact assessment, and it was hoped that this study would encourage an appreciation of the value of impact assessment in understanding and improving program operations.

The first stage of research involved a series of key informant interviews with program staff at each of three levels: Beijing head office, Nanzhao branch office, and Xiaodian sub-branch office. Staff at each of these levels were interviewed about their experience and thoughts about what kinds of

11 It should be noted that a large-scale baseline household economic survey was being carried out over the course of 2003, but this did not capture qualitative information or information about social impacts or program processes.
impacts the program had upon participants and their communities. Women staff members were separately questioned about how the program had specifically impacted on women, and upon gender relations in program villages. This information was to provide a frame of reference for guiding focus group discussion at the community/client level. Staff members were also involved in the selection of the research site.

The second stage of research involved several days of orientation and information gathering within the village. During the course of the field research I lived within the village in the house of the centre leader and her husband. The aim of this phase was to develop an understanding of the social, cultural and economic context in which the program operates, and to conduct some preliminary investigation into the types of impacts that had occurred. Semi-structured focus group interviews were held to elicit villagers’ opinions on program impacts as well as general background data. Three group interviews (2-5 members) were held with borrowers, another three with non-borrowers, and one with former borrowers. In addition, key informant interviews were held with each of the two centre leaders, the village Party Secretary and the village accountant. All discussions were held in Mandarin Chinese, and were facilitated by myself together with an assistant (a local program staff member) who was conversant in the local dialect and thus able to clarify any language queries. In addition to these, informal discussions were held with many villagers over the duration of my stay in the village. The information gleaned during this process enabled me to hone in on key impact issues and develop a draft survey that would enable more rigorous exploration of these themes.

12 In accordance with the Grameen model, borrowers form mutual liability groups of 5 members. A ‘centre’ comprises eight or more five-member groups. Most program villages have one centre and one centre leader, however Ying Shan village had two centre leaders, one responsible for upper Wang hamlet area and one responsible for Lower Wang hamlet area. I stayed with the centre leader in Lower Wang hamlet.

13 The local Henan dialect of Mandarin Chinese contains certain words, phrases and accents that are different from standard Mandarin (putonghua), however it is not so different as to be unintelligible. In cases of uncertainty my assistant was able to provide clarification.
In this second stage a participatory wealth ranking exercise was conducted. Interview respondents were asked to estimate the percentage of villagers that fell into each of three wealth groups, represented by $ for the poorest group, $$ for the middle group, and $$$ for the better-off group. It was left up to the respondents themselves to determine how to classify each of these three groups. They were then asked to estimate the percentage of borrowers that fell into each of these wealth groups. Responses were fairly consistent across respondents and produced the average breakdowns cited in Table 4.1. The breakdowns were similar for both the village as a whole and among borrowers, suggesting that loans were not being strongly targeted to any particular wealth group.

Figure 4.1 Standing with the Centre Leader, her husband and daughter outside their family home where I stayed during the course of the field research
Table 4.1  Current Wealth Distribution of Villagers and Borrowers

<table>
<thead>
<tr>
<th>Wealth Group</th>
<th>$</th>
<th>$$</th>
<th>$$$</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of village</td>
<td>24%</td>
<td>59%</td>
<td>17%</td>
</tr>
<tr>
<td>% of loans</td>
<td>25%</td>
<td>55%</td>
<td>20%</td>
</tr>
</tbody>
</table>

A draft survey was developed during the third day in the field and was trialled on the fourth day.

Three trial interviews were held, after which some modifications were made to the survey. The survey comprised four sections:

Section 1, Borrower Data and Economic Background, elicited basic personal information as well as loan history and income & expenditure patterns using recall data. Data was collected for each of four two-year periods (spanning 2 years prior to program commencement and six years since). Children’s ages and the number of children in various levels of school were used to facilitate recall for each period. The year of program commencement was remembered clearly by most respondents and also helped to facilitate recall. For each two-year period respondents were asked to list the types of income-generating activities undertaken, to identify those funded wholly or in part by project or other loans, and to estimate the average net annual income from each. They were then asked to estimate average annual income figures for the household (which were triangulated against individual activity income figures) as well as average monthly household expenditure on consumption (including education and health). Purchases of major assets and use of any profits were also recorded.

Section 2, Program Impacts, questioned respondents about changes to themselves, their family and their community since the program commenced. Differences between borrower and non-borrower households were elicited, as well as between program villages and non-program villages. For each type of impact respondents were asked to assess the degree to which the program had influenced these changes.
Section 3, Impact Pathway, used an interactive card-sequencing method to identify, based on respondents’ own experiences, the sequence by which various impacts had occurred. Respondents were also asked to identify the points in this pathway that they felt to be the most important.

Section 4, Lending Methodology, elicited borrower feedback on various features of the loan program. Questions investigated any difficulties in making weekly repayments, coping mechanisms employed, appropriateness of loan term, and elicited borrower preferences as well as any other general comments on the program.

An English translation of the final version of the survey is attached at Appendix 1A. In total the survey took approximately 45 minutes to administer.

The survey was conducted on days five and six. Four interviewers assisted with the administration of the survey. I coached my assistant in interview techniques during the trial of the survey, then each of the other interviewers sat in on one or more of her interviews as a learning experience. They were also provided with instruction by myself, which stressed the voluntary nature of participation by respondents, the confidentiality of information provided, the fact that this survey was being conducted for research purposes and would not impact upon respondents’ ability to access future loans, and the need to elicit accurate information rather than that which simply glorifies the program. The latter was a risk as the interviewers were, except for one, all program staff. It was decided that the benefits of involving staff in participatory research action outweighed the risk inherent in this approach. A summary of research risks and their treatment is provided in Appendix 2.

14 The husband of one of the staff members
The survey was conducted upon a semi-random stratified sample. First, all current borrowers\textsuperscript{15} were grouped by poverty level. This grouping was done by the centre leader together with the responsible program staff member, both of whom had an intimate knowledge of borrowers’ situations. In doing this they were asked to bear in mind the proportional wealth group breakdowns that had been elicited during the participatory wealth ranking exercise conducted during stage 2.\textsuperscript{16} Borrowers were also classified by loan use, since stage 2 had revealed that the majority of borrowers tended to use loans for the same activities year after year. Classifying by loan use enabled any differential impacts by loan use to be proportionally reflected in the sample. A sample of 30 borrowers was then randomly selected within wealth rankings and loan use categories, with the number of respondents from each category determined to be proportional to those in the overall group. See Tables 4.2 and 4.3 for details.

### Table 4.2 Breakdown of Current Borrowers according to Wealth Group and Loan Purpose

<table>
<thead>
<tr>
<th>Wealth Group</th>
<th>Animal raising</th>
<th>Cottage industry</th>
<th>Trading</th>
<th>Transport business</th>
<th>Cultivation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$$$</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>$$</td>
<td>50</td>
<td>16</td>
<td>8</td>
<td>3</td>
<td>9</td>
<td>86</td>
</tr>
<tr>
<td>$</td>
<td>13</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>66</td>
<td>26</td>
<td>14</td>
<td>4</td>
<td>10</td>
<td>120</td>
</tr>
</tbody>
</table>

\textsuperscript{15} No list was available of all historical borrowers so the list of current borrowers was used

\textsuperscript{16} The resulting distribution placed a larger percentage of borrowers in the middle wealth group than had been estimated by borrowers themselves, but this posed little risk to the research and therefore this breakdown was used for sampling purposes.
Inevitably some of the selected respondents were not available on the interview days. In these cases other borrowers were randomly selected from within the same wealth group/loan use categories.

**Use of Control Group**

In order to enable comparative analysis of program impacts, it was decided to select a control village to act as a ‘without program’ comparison. The difficulties associated with attribution of village-wide impacts are appreciated, particularly given the small size of this study. However, the use of randomly selected respondents from the control village to act as individual ‘without program’ cases can be justified when respondents from the two villages can be considered to represent the same population group. Non-borrowers in the program village would not have provided an adequate basis for a ‘without program’ comparison for two reasons: firstly their non-participation may have been a result of them having a different socioeconomic situation to the borrowers, and secondly because in initial focus group discussions many respondents suggested that the program had had village-wide impacts, and that even non-borrowers has been impacted by the program.
The control village chosen was a nearby village that was judged by program staff to have a similar socioeconomic structure to the target village. This assessment was based on the following factors: size of village, agricultural and economic structure, distance from township centre, and wealth levels at program commencement in 1997. In reality the village that was selected for me was significantly further from the township centre (7.5 km as opposed to 2.5 km for the program village), and had a slightly different economic profile and size. Program staff expressed the view that village distance from township centre was not a strong indicator of the degree of wealth or economic activity of a village, and that the village selected was appropriate for comparison purposes. Both villages had received limited government support, and beyond this had received no significant external investment other than the microcredit activities in the program village.

On day seven a non-borrower version of the survey (refer Appendix 1B) was conducted with 12 respondents in this control village. Selection of respondents was semi-random. An attempt was made to find respondents who represented a range of wealth levels (using housing as an indicator) and of ages approximately matching those of the borrower group.

Survey results reveal that the mean 1995/96 income figures (with standard deviations cited in parentheses) for the target and control groups were 3059 (2037) yuan and 2700 (1010) yuan respectively. A comparison of means revealed that this difference is not significant ($T_{37}=0.531$, df=35, $p>0.05$). This suggests that these two groups can be considered to be comparable in terms of 1995/96 income figures. Given the similar village characteristics, the fact that the microfinance program constitutes the only significant external investment in either of these villages over the study period (1995-2002), and the absence of any other significant economic events over this period, for the purpose of analysis residents of these two villages can be considered to represent the same socioeconomic population, and can therefore be contrasted in order to investigate differential impacts.
**Measurement of Income Impacts**

Rather than focus on absolute income change over the eight-year survey period it was decided that the study would use percentage income change as the primary basis for measuring impact on incomes. This was done for two reasons. Firstly, some respondents found it somewhat difficult to estimate annual income with any level of certainty, and in some cases those with higher incomes appeared reluctant to let their actual incomes be known. However, most felt more comfortable and confident talking about relative changes in income over time, suggesting that percentage change, rather than absolute figures, would be a more accurate basis upon which to assess impacts upon income. Secondly, if absolute figures were used to assess aggregate income change then changes to those with larger incomes could overshadow changes to those with lower incomes. Use of percentage change means that each respondent can be compared equally, and contributes equally to an overall assessment of income change.

**Migrant Labour Income vs. Village-based Income**

Amongst the target population, migrant labour incomes tend to distort regular family income patterns, as such income tends to be sporadic (it may be a significant source of household revenue one year but not the next). An occasional good year can have a significant impact on overall household income figures. Migrant labour income is heavily influenced by such factors as a child leaving school and entering the migrant labour workforce, or a child being married and that income source being lost to the family unit. Village-based activities are not prone to such severe fluctuations. It was therefore decided that the analysis of income change patterns would focus upon village-based IGA incomes, with migrant labour income being considered separately. The opinion expressed by most respondents was that migrant labour was a last resort, and that their village-based labour activities were of primary importance to them. This, and the fact that there was no indication of respondents having used their
loans to support migrant labour activities (as has been found in some other programs\textsuperscript{17}) supports a specific focus on village-based IGA incomes within this study.

For the purposes of the following analysis of incomes, village-based IGA incomes shall include activities such as small trading businesses in which family members may leave the village in order to sell their wares (such as timber, coal, or animal products). This is intrinsically different to migrant labour as it involves investment in and ongoing management of a small business. Loans are sometimes used to support such activities.

Survey data from three respondents has not been included in the analysis of income change. One was young and unmarried without an income at the time of program commencement. Another reported large variations in annual income year on year, which would distort analyses based on point-in-time assessments. The third case involved a respondent who reported an exceptional ten-fold income increase over the 8-year period as a result of the success of their oil processing business. This was such an extreme case that it was treated as a statistical outlier and not included in any of the statistical analyses, but it has been included in other analyses.

All interviews were conducted during the beginning of the harvest season in September, and thus at a busy agricultural time. All interviewees were paid a small fee\textsuperscript{18} at the end of the interview as partial compensation for their time.

**Wealth Ranking**

In order to look at differential impacts across borrowers in the three wealth groups it was necessary to undertake a post-hoc wealth ranking exercise to determine wealth rankings prior to program

\textsuperscript{17} For example, as identified in the August 2003 appraisal of the Qinghai Microfinance Project

\textsuperscript{18} A sum of 5 yuan was paid to each interviewee (equivalent to approx. AUD$1). This amount was determined in consultation with program staff.

*A Case Study Analysis of the Impacts of Microfinance upon the Lives of the Poor in Rural China*  
Shane Nichols (M Soc. Sc.) RMIT 2004
commencement (unlike the wealth ranking exercise done to facilitate sampling of borrowers, which assessed current wealth levels). In order to do this I have broken the sample group down into three wealth groups using 1995/96 annual per capita income estimates gleaned from the survey.¹⁹

The three wealth groups are classified on the following basis:

- group A = per capita income greater than 1500 yuan (7 cases)
- group B = per capita income range 555 – 1499 yuan (13 cases)
- group C = per capita income below the poverty line of 555 yuan (7 cases)

This breakdown retains the middle wealth group as the largest group while providing a sufficient number of cases in the other groups to allow for some comparative analysis.

¹⁹ Per capita income figures have been used in order to conform with national poverty-ranking practice. This enables group C to represent those that fell below the national poverty line in 1995/96. A proxy 1995/96 poverty line of 555 yuan was calculated by averaging the 1995 and 1996 figures of 530 and 580 yuan respectively.
5. Findings

The findings presented below refer to changes that were found to have occurred over the period from 1995/96 to 2001/02. In the interests of brevity this time period has not been explicitly stated for each variable/finding, and so unless otherwise stated all changes cited below refer to changes that occurred over this time period. Findings from interviews and surveys have been integrated and are presented below for each domain (individual, household and village levels) and each variable/topic within these domains.

Individual-Level Impacts

Self-Confidence

In group discussions female program loan officers asserted that participation in the program had increased the confidence levels of women borrowers. Women borrowers interviewed also stated that
participation in the program had led to an increase in their confidence levels, saying that they now felt more capable, busier, and had an enhanced capacity to control their own futures.

Of 30 borrowers surveyed, 25 said that their level of self-confidence had increased, and 23 of these (77% of respondents) said that participation in the program had influenced this increase. These results were consistent across wealth groups.

**Skills**

In focus group discussions some borrowers indicated that they had acquired new skills as a result of participation in the program. An open-ended question on skill acquisition was therefore included in the survey to further explore this phenomenon. In the survey, half of the 30 borrower respondents said they had acquired new skills since program commencement, of whom all but one (47% of respondents) said that this skill acquisition had been influenced by the program. All wealth groups showed similar results. These skills are listed in Table 5.1.

**Table 5.1 Acquisition of Skills – Borrower Responses**

<table>
<thead>
<tr>
<th>Skill</th>
<th>Number of cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rug making</td>
<td>3</td>
</tr>
<tr>
<td>Animal husbandry</td>
<td>3</td>
</tr>
<tr>
<td>Small business operation</td>
<td>2</td>
</tr>
<tr>
<td>Vehicle driving</td>
<td>2</td>
</tr>
<tr>
<td>Hairdressing</td>
<td>1</td>
</tr>
<tr>
<td>Tailoring</td>
<td>1</td>
</tr>
<tr>
<td>Carpentry</td>
<td>1</td>
</tr>
<tr>
<td>Bread-making</td>
<td>1</td>
</tr>
</tbody>
</table>
Other changes

The borrower survey asked an open-ended question about any changes to oneself. Table 5.2 lists responses. Of the 25 respondents who identified a change, 24 said participation in the project had influenced the change.

Table 5.2 Changes to Self – Borrower Responses

<table>
<thead>
<tr>
<th>Change</th>
<th>Number of cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working harder / busier / more enterprising</td>
<td>10</td>
</tr>
<tr>
<td>Happier / feel better about self</td>
<td>10</td>
</tr>
<tr>
<td>More courage</td>
<td>4</td>
</tr>
<tr>
<td>Improved quality of life</td>
<td>1</td>
</tr>
<tr>
<td>Increased Knowledge</td>
<td>1</td>
</tr>
<tr>
<td>Healthier</td>
<td>1</td>
</tr>
<tr>
<td>More concern for health</td>
<td>1</td>
</tr>
<tr>
<td>No change</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>33*</td>
</tr>
</tbody>
</table>

*total is 33 because three respondents identified two changes
Household-Level Impacts

Incomes & Expenditure

Table 5.3 summarises village-based IGA income change statistics for borrowers and non-borrowers. Borrowers appear to have had higher increases in household incomes (111%) over the 8-year period from 1995 to 2002 than non-borrowers in the control village (48%), however individual figures varied significantly - as indicated by the large standard deviations.

Table 5.3  Changes to Village-based IGA Incomes

<table>
<thead>
<tr>
<th></th>
<th>Borrowers</th>
<th>Non-borrowers (control village)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of cases</td>
<td>27</td>
<td>12</td>
</tr>
<tr>
<td>Mean Income Change (%)</td>
<td>116</td>
<td>48</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>113</td>
<td>70</td>
</tr>
</tbody>
</table>

Statistical analysis of the survey data reveals that there is no significant relationship between participation in the program and the percentage increase in village-based IGA income (r=0.30, p>.05). However, the inclusion in this analysis of borrowers who have taken only few or occasional loans would serve to mask any differences between regular borrowers and non-borrowers (30% of borrowers surveyed had taken three or fewer loans out of a maximum of six). It is therefore useful to look at the relationship between the total value of loans taken and the percentage increase in village-based IGA income. Here we see that the relationship is positive and significant (r=0.40, p<.05).

Regression analysis shows that the baseline increase in annual village-based IGA income over the 6-year period from 1995/96 to 2001/02 was 49%, and every 1000 yuan borrowed was associated with an additional 9% increase in annual income over this 6-year period (beta=0.40, p<.05, ref. Table 5.4).
Thus, a client who has borrowed the maximum amount available every year since the commencement of the program (total of 11,000 yuan: first loan of 1,000 yuan in 1997, and five subsequent loans of 2,000 yuan) can be expected to have an average 2001/02 annual village-based IGA income that is approximately 150% higher than their corresponding 1995/96 income, while those taking no loans would be expected to have an approximate 50% increase in such income over this same period.

Table 5.4 Regression Coefficients and Significance Levels

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>48.847</td>
</tr>
<tr>
<td></td>
<td>total value of loans</td>
<td>8.956</td>
</tr>
</tbody>
</table>

a. Dependent Variable: change in IGA income

Annual inflation levels (consumer price) were at 8.3% in 1996, dropping to 2.8% in 1997 and remaining close to zero (slightly positive or slightly negative) during the period 1998-2002, leading to prices at the end of 2002 being 8.9% higher than those at the end of 1995. The real baseline increase in villagers’ incomes over the survey period is therefore around 40%.

In terms of the number of IGAs undertaken, 37% of borrowers surveyed had increased their number of IGAs while 10% had decreased their number of IGAs. There was no net change amongst non-borrowers - 17% had increased their number of IGAs and 17% had decreased their number of IGAs. There was no evidence of differential changes among wealth groups.

Most borrowers (63%) invested successive loans in a single activity, while 37% of borrowers used successive loans to finance different activities.
A breakdown of average IGA income change between each successive two-year time period is provided in Figure 5.2\textsuperscript{20}. The figure shows that borrowers experienced large and consistent IGA income changes over the periods 95/96 to 97/98 (53%), and 97/98 to 99/00 (52%) - i.e. in the early years after program commencement. Since then incomes have continued to rise but at a slower rate (the 01/02 figures averaged only six percent higher than the 99/00 figures). While high inflation rates in 95/96 may have made some contribution to early increases in incomes, they do not explain the magnitude of the increases or the fact that these increases were sustained through to 99/00. IGA income changes for non-borrowers were variable and positive, and of a lower magnitude than those of borrowers (mean increases over successive two-year time periods range from four to 35%).

\textbf{Figure 5.2 Percentage Changes to Mean Village-based IGA Incomes over Successive Two-Year Periods}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure5.2.png}
\end{figure}

\textsuperscript{20} One additional case (a Group C borrower) has been removed from this analysis because of a very large income increase in the period 95/96 to 97/98 (an increase of 620%) that would have distorted the data. The case was treated as a statistical outlier and removed from this analysis, but it has been retained in other analyses based on comparison of 95/96 vs. 01/02 figures, since the magnitude of change over this longer period is less extreme.
Figure 5.3 reveals that it was the poorest borrowers (Wealth Group C) who experienced the highest initial increases in incomes, but these increases, as was the case for other borrowers, tapered off over time. There was no evidence of any relationship between the degree of income increases and the types of IGAs undertaken by borrowers.

Figure 5.3 Percentage Changes to Mean Village-based IGA Incomes over Successive Two-Year Periods – Disaggregated by Wealth Group

Expenditure

All borrowers interviewed indicated that their average monthly non-productive expenditure had increased since commencement of the program. This included spending on such things as food, clothing, household goods, health and education.

The survey revealed that household monthly non-productive expenditure increased by an average 167% among borrowers, however among the lowest wealth group the increase was only 93%. Among non-borrowers the average increase was 128%. An analysis of means reveals that this difference in
expenditure between borrowers and non-borrowers is not statistically significant (r=0.72, p>.05).

These high figures suggest that all members of the community are experiencing improved standards of living. The areas of health and education have been highlighted, both in the literature as well as by borrowers and program staff, as specific areas in which microcredit may have impacts. The survey therefore looked in greater detail at these two areas.

**Health**

In focus group discussions many borrowers indicated that their household spending on health had increased. A common example was that spending on medicine had increased significantly over the past eight years. Of 30 borrowers surveyed, 25 indicated that their spending on health had increased, of whom 19 (63% of borrower respondents) said that participation in the program had influenced this increase. These results were consistent across wealth groups. Only four out of 12 respondents (33%) in the control village said that their spending on health had increased.

**Education**

During focus group interviews respondents said that while all village families could afford to send their children to primary school, a small number could not afford to send their children to middle school (around 10%) and a significant number (around 40%) could not afford to send their children to high school. They said that this was an improvement over the situation eight years before, and they attributed this improvement to rising incomes in the village.

Survey questions further explored this issue of education spending. Of 30 borrowers surveyed, 19 indicated that their spending on education had increased, and 15 of these (50% of borrower respondents) said that participation in the program had influenced this increase. This proportion was consistent across wealth groups. Only four out of 12 respondents (33%) in the control village said that their spending on education had increased.
Family relations

When asked whether or not the program had impacted upon their family life, several women said that rising incomes had led to greater family harmony as they had now had less financial woes and this had contributed to a greater sense of well-being and contentedness. This matter is further explored in the impact pathway analysis below.

Among the 30 borrowers surveyed, 22 said that their family situation had improved in terms of family harmony, unity and relationships, and 18 of these (60% of respondents) said that participation in the program had influenced this change. Results were consistent across wealth groups.

Migrant Labour

In focus group sessions several women mentioned that access to loan funds enabled them and their husbands to engage in productive activities at home rather than them having to leave the village to find work. All people interviewed indicated that their family members would only leave the village to work if they did not have enough work within the village or if the financial returns on village-based work were not commensurate with those elsewhere. When family members leave the village this increases the burden on those who remain, usually women, who are left to care for domestic matters as well as undertake the agricultural/farm work. Women interviewed said that this phenomenon made their lives hard, but were resigned to this as being the fate of Chinese women. The survey therefore included a question on changes in the amount of time per year that family members spent working outside the village, and elicited reasons for any differences.

Among the 30 survey respondents in the program village, eight families had members who undertook migrant labour in the past year. Three families claimed to have reduced the amount of time that family members spent on migrant labour (of whom two said that participation in the program had influenced
this change) while another two said they had increased the amount of migrant labour (one said that they needed fast cash to support a new baby while the other claimed not to have any skills to undertake new village-based IGAs). There was no evidence of differential impacts across wealth groups.

In contrast, in the control village five of 12 families surveyed had members who undertook migrant labour in the past year. All five families said that this was an increase, citing a lack of funds and opportunities for village-based IGAs as the reason for leaving the village to look for work. None of the families said they had reduced the amount of migrant labour they engaged in over the survey period.

**Housing**

Of the 30 borrowers surveyed 17 (57%) indicated that they had upgraded their housing, and all of these indicated that an increase in income resulting from participation in the program had influenced this change. This proportion was consistent across wealth groups. A similar proportion of respondents in the control village (58%) had also upgraded their housing during the same period.

**Impact Pathway and Priorities**

When questioned further about how loans had led to the various impacts they had identified, almost all borrowers interviewed said that the most immediate impact had been an increase in income. When asked how they had used their surplus income, most respondents (71%) said that their first priority was to re-invest in IGAs. Second priority was housing improvements, followed by investment in education and then investment in health. This pathway is represented in Figure 5.4. Again, there was no evidence of differential impacts among wealth groups.

Most respondents cited household harmony as being most important to them, but the majority felt that
this could only be achieved once they had improved their income, housing, education levels and health.

**Figure 5.4 Impact Pathway Diagram**

![Impact Pathway Diagram](image)

**Figure 5.5 Respondent places cards in sequential order in the Impact Pathway exercise**

*A Case Study Analysis of the Impacts of Microfinance upon the Lives of the Poor in Rural China*

Shane Nichols (M Soc. Sc.) RMIT 2004
Differences between Borrower and Non-Borrower Households

In focus group discussions borrowers stated that there were clear differences between borrowers and non-borrowers in terms of productivity, rate of income increase, and the resulting benefits from increased income such as improved housing. They also said that non-borrowers had benefited from the program because the results of the initiative shown by borrowers had influenced them to become more economically active. In discussions with non-borrowers, some claimed that borrowers had improved their living standards faster than non-borrowers while others said that there was no clear difference between the two groups.

In the survey, 82% of borrowers claimed that in general borrowers were now better-off than non-borrowers who were previously of the same income level, and all attributed this change to participation in the program. The types of differences they mentioned were: better overall living conditions, better housing, increased income, increased expenditure, more or larger IGAs, more money to invest, and more initiative.

Differential Income Impacts across Wealth Groups

In focus group and key informant interviews a majority of respondents expressed the opinion that the microfinance program had benefited the middle wealth group the most. There was a common expectation that some people were too poor and lacked the skills and education required to undertake a small business activity or otherwise make good use of the loans, while others who had higher incomes would not benefit significantly from a small-value loan. It is interesting therefore to test this assumption that the middle group have fared better from program participation than the upper or lower groups. Average income changes across these three groups are listed in Table 5.5.
Table 5.5 Changes in Household Income from Village-based IGAs according to 1995/96 Wealth Groups

<table>
<thead>
<tr>
<th></th>
<th>Group A (&gt;1500 yuan)</th>
<th>Group B (555-1500 yuan)</th>
<th>Group C (&lt; 555 yuan)</th>
<th>Non-borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of cases</td>
<td>8</td>
<td>12</td>
<td>7</td>
<td>12</td>
</tr>
</tbody>
</table>
| Mean Income Change (%)
| 23                | 107                  | 240                   | 48            |
| Standard Deviation | 41                   | 52                      | 136                  | 70            |

An analysis of means reveals that the difference in mean income change between non-borrowers and Group A is not significant at the .05 level, while the differences between all other groups are significant at the .05 level. Therefore Group C has seen significantly larger increases in IGA incomes than Group B, which has seen significantly larger increases than Group A and non-borrowers.

It therefore appears that the poorest borrowers (Group C) benefited most in terms of relative IGA income increases, while those of the better off borrowers (Group A) improved the least. For poorer (Group C) households this corresponded to a leap from an average per capita annual income of 351 yuan in 95/96 to 1068 yuan in 01/02, well surpassing the national poverty line of 625 yuan.

**Community-Level Impacts**

**Economic Impacts**

In focus group and key informant interviews several people (including the village accountant) said that the program had helped to boost the village economy. It was said that there was a greater degree of entrepreneurship and initiative, with more people engaging in small business. The village
accountant identified a lack of investment funds as being the major constraint to village development, and said that the investment the village had received in the form of loan funds had undoubtedly contributed to the overall economic development of the village.

**Social Impacts**

Several focus group participants indicated that there were fewer incidences of fighting and gambling in the village now that people were busy with work and earning money. Other people mentioned that villagers were “less lazy”, or generally busier and making better use of their time. There does not, however, appear to have been any increase in solidarity among borrowers, as is often claimed in microfinance programs. Focus group discussions revealed no evidence of solidarity amongst borrower groups or borrowers, with most people stating that they mainly discussed their IGAs with family members.

**Environmental Impacts**

Some borrowers indicated that in the past they had primarily used wood for cooking (sourced from around the village), but now most people used coal, as this had become more readily accessible after some villagers had set up small coal-trading businesses. This is likely to have contributed to a reduction in deforestation around the village. While it is not possible to attribute this to the program, the fact that some borrowers have used loan funds to establish coal-trading businesses suggests that the program has indirectly contributed to the adoption of coal for household fuel purposes.

**Living Standards**

Many respondents suggested that living standards in the village had increased significantly because of rising incomes. The most common examples given related to the number of new houses, colour televisions, motorbikes, washing machines and telephones. Not only are these status symbols, some (television, telephone, motorbike) enable enhanced communications with the outside world, while
others (washing machine, motorbike) free up more time for productive labour. Table 5.6 lists village changes as identified by survey respondents

Table 5.6 Village Changes according to Borrower Survey Responses

<table>
<thead>
<tr>
<th>Change</th>
<th>Number of cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better or more stable economy, less unemployment</td>
<td>13</td>
</tr>
<tr>
<td>Better living standards</td>
<td>9</td>
</tr>
<tr>
<td>More community spirit, cooperation</td>
<td>7</td>
</tr>
<tr>
<td>Better housing</td>
<td>5</td>
</tr>
<tr>
<td>Better transport (more motorbikes, tractors)</td>
<td>4</td>
</tr>
<tr>
<td>Village safer</td>
<td>3</td>
</tr>
<tr>
<td>No obvious change</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47</strong>*</td>
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</tbody>
</table>

*Total is 47 because many respondents cited more than one change

Of the 24 respondents who cited changes to the village, 23 said that the program had influenced these changes.

**Difference between Program Village and Non-Program Villages**

Participants in focus group discussions suggested that the program village was developing more quickly than other villages in the area and many attributed this to the program. This matter was further explored in the survey, where 68% of respondents indicated that the program village had a better economy and higher living standards than comparable non-program villages that were at the same economic level prior to commencement of the program. All 68% attributed this change to the program.
Loan Methodology

Repayment

Thirty-seven percent (37%) of borrowers surveyed cited having experienced problems making weekly repayments, however only one borrower said that she had regular repayment problems. When asked about their coping strategy, all said that they would borrow from relatives or friends in order to make the repayment. Only one person said that she would borrow from a member of her five-person solidarity group. Several said that they would sometimes sell courtyard produce (chickens, eggs) in order to raise a small sum to make the repayment.

Despite 37% of respondents having experienced repayment problems, the majority stated that they liked the weekly repayment schedule. Most stated that they liked this repayment regime because it was not difficult to come up with small amount required each week, whereas it would be difficult if they were required to put aside a larger amount less often. Several stated that they had found weekly repayments troublesome at first but that they were now used to it. Those who preferred longer repayment schedules said that weekly repayments were bothersome, particularly during busy agricultural periods. These results were consistent across wealth groups. Preferred repayment schedules are listed in Table 5.7.

<table>
<thead>
<tr>
<th>Preferred repayment frequency</th>
<th>Number of cases</th>
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<tr>
<td>Weekly</td>
<td>18</td>
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<tr>
<td>2-weekly</td>
<td>3</td>
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<tr>
<td>Monthly</td>
<td>6</td>
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<tr>
<td>6-monthly or annual</td>
<td>3</td>
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<tr>
<td>Total</td>
<td>30</td>
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</table>
Loan term

The program only issues 12-month loans and the vast majority of borrowers were satisfied with this loan term. Of 30 respondents five said they would prefer a longer term, while only one borrower said that they would prefer a term of less than 12 months.

Figure 5.6 Interview in family home in Lower Wang Zhuang hamlet
6. Discussion

Among the three domains considered in this study (individual, household, and community levels), it appears that the most significant impacts have occurred at the household level. This is not surprising given that the bulk of the literature on the impacts of microfinance refers to household-level impacts, and most discourse on Chinese social systems tends to emphasize the household as being the dominant social unit. Beyond this, significant impacts were also revealed at the individual and village levels, and these are also discussed below.

Individual-Level Impacts

It was discovered during the field research that villagers do not view the program as being a women’s program, despite a strong awareness that loans can only be given to women. There is some evidence to suggest that this requirement is indeed enforced (all women asked claimed that they themselves had taken the loan, and one man interviewed indicated that his family had been forced to drop out of the program after his wife had passed away). Men were in most cases well aware of loan use, and most women said that decisions relating to loan use had been made jointly by themselves and their husbands rather than solely by themselves. Most women interviewed indicated a feeling that they had equal standing in the household, but at the same time were reconciled to a tough life as a Chinese woman. Women do carry a disproportionate amount of the domestic and agricultural workload in rural China, and the Confucian ethic of women’s subservience to men continues. Individual-level impacts therefore were not only applicable to women. In some cases husbands also reported changes in confidence and the learning of new skills as a result of participation, reflecting their view of participation as being a collaborative endeavour.

The program has led to increased levels of confidence and well-being among borrowers, and this appears to be a result of greater satisfaction among clients about their ability to improve their family’s
economic situation. Borrowers generally stated that the additional pressure resulting from the need to meet weekly repayments was good for them and had improved their self-discipline - something they felt they could be proud of.

While there is some evidence of the learning of new skills as a result of participation, this aspect is not as strong as has been found in some other programs. Most loans were used to support traditional IGAs, and although these were sometimes new to the family, very few were new to the village. Most new skills that were cited were those that were already commonly found within the village. One skill area in which the program may have had a significant impact is household financial management skills. This was not specifically addressed, and does not appear to have been considered by respondents, however comments relating to improved self-discipline and industriousness, and a greater sense of control over the household economy, indicate that enhanced financial management capacity may well have been a consequence of program participation.

**Household-Level Impacts**

The program has had a positive impact upon household incomes, with the rise in village-based IGA incomes being directly proportional to the total value of loans taken. Those who have loaned the full amount available every year since the program commenced in 1997 have seen their village-based IGA incomes increase more than three times faster than those who have not participated.

The first use that this additional income was put to was reinvestment in IGAs in order to create stable, and growing, income sources. Approximately one-third of survey respondents had diversified their income sources by increasing their number of IGAs since the program commenced. This suggests that borrowers see income diversification as a means of spreading risk, and this is consistent with findings from other programs.
After reinvestment in IGAs, the next priority for most borrowers was to improve their physical living conditions. A house provides shelter not only for the family but also for produce, and the flat-roof houses that had become popular in the village enable grain to be dried on the roof. A house therefore can be viewed as a productive asset. As elsewhere it is also a visible display of one’s wealth and thus carries with it social status. It is possible that the high importance borrowers attach to housing is associated with the Chinese concept of ‘face’, or appearance, which is of primary importance in Chinese society.

Once borrowers have improved their economic base and housing, the next priority is education. Most children in the village would finish middle school (ninth grade), with some continuing on to complete high school. While education was seen as a priority by most families, the cost of school and boarding fees and the need for an extra pair of hands to bring in much-needed income meant that some families were unable to send their children to middle or high school. An increase in borrowers’ incomes meant that some families were able to overcome these barriers and keep their children in school, however the number of such cases has not been quantified in this study.

After education the next priority for investment was health. Borrowers indicated that with higher incomes their spending on health had increased. Typically this meant increased spending on medicine, and a greater likelihood of seeing a doctor if a family member fell ill.

A large proportion of respondents identified improved family harmony and a greater sense of well-being as having been a direct result of their improved income and gradual rise out of poverty. Well-being and family harmony were cited as being of the highest importance to villagers.

There is evidence to suggest that while participation in the program led to initial large improvements in borrowers’ incomes, these large increases were not sustained, and have tended to gradually diminish over time. This may be related to the fact that most IGAs undertaken with loan funds were
not new to the village, and so markets for some of these traditional products and services may have become saturated after the initial void was filled. Under such circumstances, training activities can be a valuable means of introducing borrowers to new products and markets, and may enable them to sustain income increases over the longer term.

Most predict that loans are best suited to the middle and upper poor, and this perception was shared by those in the program village. It is particularly interesting therefore that the data indicates that incomes among the lower wealth group have increased the fastest. Analysis of relative income change across wealth groups shows that the village-based incomes of poorer borrowers have increased faster than those of middle-level and better-off borrowers, with better-off borrowers having experienced the slowest increases of the three groups. Nevertheless, some poorer households that, it was claimed, lacked the capacity to engage in small business or to make weekly repayments, appear to have been excluded from the program. It would appear that these people are being left behind as the rest of the village develops. The program boasts a 99.8% repayment rate, and no evidence of default was discovered during the field research. This suggests that there is scope for the program to concentrate more upon the poorer members of the village. There remains a huge demand for credit in rural areas, and better-off people who would not normally be interested in microloans are taking up the loans in the absence of any other convenient source of credit. Because these people are seen as less risky than poorer villagers loans are inevitably directed their way. The result is that loans are being provided to the majority of residents of the centre leader’s natural village (estimated by the centre leader at 100% of Lower Wang and 80% of Upper Wang), while natural villages further afield (but still within the same administrative village) are receiving little, if any, credit. This is perfectly rational behaviour from the perspective of loan officers and centre leaders, but in terms of the poverty agenda of the program there does remain scope for the program to focus more upon the poorer members of the community.
Villagers had seen their non-productive expenditure rise considerably over the survey period, however these increases were found to be lower among poorer borrowers, despite them having experienced the largest relative income increases. This is likely a reflection of the priority that these poorer borrowers place upon stabilising their income sources (by reinvesting a larger proportion of their income in IGAs).

**Community-Level Impacts**

Village leaders and villagers themselves emphasised the lack of outside investment in the village as being a major constraint to village development, and were very appreciative of the program’s investment in the form of loan funds. Signs of increasing wealth within the village were clearly evident – there were many new houses, many new motorbikes and farm machinery, and more people connected to telephone lines. While such changes are taking place throughout the Chinese countryside, it appears that better access to credit enables these changes to occur more quickly.

Borrowers certainly appeared to have benefited from the program, and many claimed that this has had follow-on impacts for the wider community. Perhaps foremost was the growing sense of control over one’s own destiny. Many borrowers cited a change in their way of thinking - whereas once they would sit around waiting for something to happen now they were busy making it happen. People enjoyed being busier and having a greater sense of purpose, and seeing one’s neighbours improving their lot was motivating others to do the same. Increased levels of activity meant that less time was spent gambling, and some claimed that the incidence of fighting had decreased as people were more concerned with getting on with their work.

With the village-based IGA incomes of poorer borrowers rising at a faster rate than those of better-off borrowers, the relative distance between different wealth groups appears to be decreasing, leading to a more equitable distribution of wealth within the village. In addition, the existence of enhanced
economic activity within the village has helped to reduce the phenomenon of villagers leaving the village to find work. This helps to keep families together, reduces the vulnerability of those that would otherwise be open to exploitation as migrant workers, and also reduces the burden on women who are usually left behind to care for family and farm in the absence of their husbands or sons.

**Loan Methodology & Social Capital**

As is the case in most Chinese villages, it was found that Ying Shan village has deeply rooted social networks that are based primarily upon kinship ties. This has implications for microfinance delivery, in particular that based upon a group lending methodology. It was found that in most cases in Ying Shan village there was very little interaction between members of the five-person borrower groups, despite the fact that they had signed mutual loan guarantees. Most borrowers who found themselves unable to make a weekly repayment would turn to their traditional kinship networks for assistance rather than a turning to a member of their loan group. Loan groups tended to be formed based on temporal factors, whereby those needing a loan at a particular time would join together to form a group in order to satisfy program requirements. There was some evidence of a screening process taking place at this stage, with some borrowers saying certain people were not fit to take loans, suggesting that they would not be willing to have them as a group co-member.

The other way in which groups worked together was in that borrowers would sometimes deliver weekly repayments on behalf of their fellow group members, thereby reducing transaction costs by saving time, in particular during the busy agricultural seasons. Discussion about IGAs, where this existed, tended to be among family members and neighbours rather than among group members. In cases where sufficient social capital already exists therefore, as was the case in Ying Shan village, it seems appropriate that loan repayment and information-sharing be achieved through the use of indigenous social networks, with the real value of groups being in the screening of applicants and reduction of transaction costs when making weekly repayments.
It may be the case that the provision of loans is not appropriate for some of the poorest members of the program village, however, given the program’s very high repayment rates there is room for the program to experiment more with lending to these people, rather than simply assuming that they cannot repay. Not only are there social and psychological barriers to such experimentation but also institutional barriers within the program. Firstly, loan officers are threatened with a reduction in salary if their portfolio repayment rate falls below 97%. Secondly, the centre leaders sometimes receive a bonus for good performance, and this too is based on repayment rate. Such incentive structures are common to many microfinance programs and are grounded in good (financial) sense. However, these structures also act as a barrier to innovation and experimentation, and as a disincentive to engage in riskier lending. While a bank will always aim to minimise lending risk, a microfinance program that has social objectives and a focus on the poor needs to balance risk with social considerations.

Programs should therefore give consideration to how they can best achieve this balance, and design incentive structures that promote this.

Another equity issue is that relating to the concentration of loans within kinship networks. China has a long tradition of kinship-based lending networks and business networks, and there is a strong cultural expectation that those in positions of power will support their kin before all else. It is therefore virtually inevitable that centre leaders will favour their own relatives in the provision of loans. Despite there being equity issues here, this focusing of support on family groups should not be seen as being negative, indeed it can be considered advantageous as it builds on existing social networks. One benefit is that a centre leader will usually have a good appreciation of their relatives’ capacity to repay, and another is the reduced administrative burden when lending to those that live in one’s own natural village. Program designers should therefore give consideration to these matters when designing microfinance delivery systems.
There is much discussion in the literature, both internationally and within China, about the need to match repayment regimes with a borrower’s income profile. However, among those interviewed, even those who said that at times they had difficulty making weekly repayments indicated that they preferred a weekly repayment regime to other options. They valued this for the small amounts involved, which enabled them to make repayments from household savings. Several respondents indicated that they would have difficulty finding the money to make repayments of large sums at less regular intervals, and that this involves greater risk. With repayments coming from household savings, the risk of default due to IGA failure is reduced. It does appear therefore, that in the particular cultural and economic context studied, small regular repayments are preferable to those that are matched to income profiles. This approach is unlikely to be appropriate for the poorest of the poor who do not have sufficient spare change to make repayments, but it would appear to be appropriate for the bulk of China’s potential microfinance market, who tend to fall into the ‘medium poor’ category. In addition, a standardised repayment regime is administratively easier to manage than one tailored to individual borrower needs, and so is more affordable for microfinance programs to implement.

Figure 6.1 Discussing survey results with the Director of Nanzhao County Branch of the Funding the Poor Cooperative
7. Conclusion

This study has found that the provision of microcredit has had a range of positive impacts on a poor community in central China. Two immediate and closely related impacts - that according to borrowers own perceptions stood out as being most vivid - were an enhanced sense of industriousness and self-satisfaction, and increases in family incomes. Other impacts were found to have flowed on from these two primary impacts.

Many borrowers reported a greater sense of self-contentment as a result of being more economically active. Some evidence was found of increases in skills and confidence levels, among both women and men, and many stated that they enjoyed being busy and felt an enhanced sense of responsibility for improving their own lives. Many claimed that microcredit had provided the impetus for promoting industriousness throughout the wider village. This enhanced industriousness also led to social benefits at the wider village level as, it was claimed, people were now less idle and so less inclined to engage in such activities as gambling, fighting, and theft.

While incomes have been increasing throughout the Chinese countryside as the benefits of macroeconomic reforms have filtered down to the local level, borrowers incomes from village-based activities were found to have increased more than three-times faster than those of non-borrowers. There is some evidence, however, that the rate of increase tends to taper off after an initial surge, suggesting a need for investment in new markets beyond those traditional activities in which most borrowers were engaged.

Income impacts were found to have several flow-on effects. The first was a stabilisation of income through reinvestment in income-generating activities and diversification of income sources. Following this, in order of borrower priority, were: improvements in living conditions, increased spending on education, and increased spending on health. All of these were identified by borrowers as contributing
to an enhanced sense of well-being and family harmony, which borrowers viewed as being of primary importance in their lives.

A common social phenomenon in rural areas of China is the out-migration of villagers to larger cities to find seasonal employment. Villagers in the program village expressed a preference for working within the village rather than outside where they have less social support and are much more vulnerable to exploitation. The incidence of such out-migration was found to have reduced slightly among borrowers and increased among non-borrowers, suggesting that the provision of microcredit played a role in reducing levels of seasonal out-migration. A flow on effect from this is a reduction in the burden on women, who are usually left to look after both farm and family when their husbands or sons leave the village to find work.

China has unique social structures that revolve primarily around kinship networks, and it is important for microfinance programs to make the best use of these existing forms of social capital. The use of existing kinship networks can reduce the burden of establishing and maintaining solidarity groups, and can help to exploit local sources of knowledge on borrower behaviour. When promoting the use of existing social and kinship networks, however, equity considerations should be given careful attention.

A sizable proportion of the literature on microfinance concerns itself with the poorest of the poor. That microfinance can and does assist these people is of immense importance, however it is also important not to lose sight of the fact that the bulk of potential microfinance clients in China fall into the ‘middle poor’ category. For these middle poor, it was found, it is not always necessary or preferable to match repayment regimes to income streams from loan-financed activities, since most are able to make small regular (weekly or other) repayments from household savings or other sources, thereby reducing risk for both borrower and lender.
While most borrowers in the program village could be broadly categorised as being ‘middle poor’, wealth differentials did exist in the village. Common belief amongst borrowers was that it was the middle group who benefited most from the provision of microcredit, however an analysis of income patterns revealed that poorer borrowers had experienced the largest proportional increases in village-based incomes with better off borrowers showing the smallest relative increases. The provision of microcredit therefore led to a reduction in income inequalities among borrowers. This, together with the fact that there was no evidence to date of loan default, suggests greater scope for the program to focus upon the poorer members of the program village.
References


Appendix 1 A - Borrower Survey

Section 1 – Borrower details and economic history

Name of respondent: ______________ Group No. _______
Sex of respondent: Male / Female Age of respondent: ___ years
Head of household: Male / Female / Both Age of children: ___, ___, ___, ___.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of children in school</th>
<th>Income generating Activities</th>
<th>Project loan – amount (RMB)</th>
<th>Other loan – amount (RMB)</th>
<th>Average annual profit / activity</th>
<th>Assets purchased</th>
<th>Non-prd expend. (RMB / month)</th>
<th>How did you use any profits?</th>
</tr>
</thead>
<tbody>
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<td>95/96</td>
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* School key: 1=primary school; 2=middle school; 3=high school; 4=university
Section 2 – Life changes since participating in project

1. Since 1995/96:
   a) has your level of confidence changed?
      i) no change   ii) slight increase   iii) large increase   iv) decrease

   b) have you learnt any new skills? Y/N
      If yes, what skills?

   c) has you monthly sending on education or health changed? Y/N
      If so how?

   d) in 1996 what kind of house did you live in?:
      mud & grass / mud & tile / brick & tile / brick & concrete,

      and today?: mud & grass / mud & tile / brick & tile / brick & concrete
      (circle most appropriate response)

   e) in the two years before the program started (1995/96) did any members of your household leave the village to find work? Y/N

      If yes, on average how many months per year? ____ months

      And in the last 2 years (2002/2003)? Y/N

      If yes, on average how many months per year? ____ months

      Please explain reasons for any changes.

   f) are there any differences today between borrower and non-borrower households who were of the same wealth levels in 1995/96? Y/N
      Please explain any differences.

   g) are there any differences today between natural villages participating in the program and those not participating who were of the same wealth levels in 1995/96? Y/N
Please explain any differences.

h) describe any other changes to yourself over this time:

i) describe any changes to your family situation over this time:

j) describe any changes to your community over this time (give examples):

2. For each of a) to j) above, indicate the degree to which participation in the project led to this change (circle most appropriate response):

a) confidence: i) no influence  ii) slight influence  iii) large influence

b) skills: i) no influence  ii) slight influence  iii) large influence

c) ed / health: i) no influence  ii) slight influence  iii) large influence

d) housing: i) no influence  ii) slight influence  iii) large influence

e) outside work: i) no influence  ii) slight influence  iii) large influence

f) differences between participating and non-participating households: i) no influence  ii) slight influence  iii) large influence

g) differences between participating and non-participating natural villages: i) no influence  ii) slight influence  iii) large influence

h) self: i) no influence  ii) slight influence  iii) large influence

i) family: i) no influence  ii) slight influence  iii) large influence

j) community: i) no influence  ii) slight influence  iii) large influence
**Section 3 – Impact pathway**

Please place the cards in chronological order according to your own experience of changes in your life (discard any that are not relevant to you). Indicate which of these you consider to be the most important.

7 cards:
take a loan; invest in income-generating activity; invest in health; improve housing conditions; invest in education; increase income; better household harmony;

**Section 4 – Loan methodology**

1. If you stopped borrowing at any time since taking your first loan, why did you stop?

2. Over the time that you have borrowed loans, have you had any trouble making weekly repayments?  Yes / No
If yes, how did you cope?

3. Would you prefer another repayment schedule? Yes / No
If yes, how often would suit your needs?

4. Does the current 12-month loan term suit your needs, or would you prefer other terms?  prefer 12 months / prefer other term
If you would prefer other terms, what term(s) would suit your needs?

5. Do you have any other comments or suggestions on the program?

Thank you for participating! : )
### Appendix 1 B - Non-Borrower Survey

#### Section 1 – Personal details and economic history

Name of respondent: ______________
Sex of respondent: Male / Female  Age of respondent: ___ years
Head of household: Male / Female / Both
Age of children: ___, ___, ___, ___.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of children in school</th>
<th>Income generating Activities</th>
<th>Any loans taken – amount (RMB)</th>
<th>Average annual profit / activity</th>
<th>Assets purchased</th>
<th>Non-prd expend. (RMB / month)</th>
<th>How did you use any profits?</th>
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* School key: 1=primary school; 2=middle school; 3=high school; 4=university
Section 2 – Life changes since 1995/96

1. Since 1995/96:
   a) has your level of confidence changed?
      i) no change    ii) slight increase   iii) large increase   iv) decrease
   
   c) has you monthly sending on education or health changed? Y/N
      If so how?

   d) in 1996 what kind of house did you live in?:
      mud & grass / mud & tile / brick & tile / brick & concrete,
      and today?: mud & grass / mud & tile / brick & tile / brick & concrete
      (circle most appropriate response)

   e) in 1995/96 did any members of your household leave the village to find
      work? Y/N
      If yes, on average how many months per year? _____ months
      And in the last 2 years (2002/2003)? Y/N
      If yes, on average how many months per year ?_____ months
      Please explain any changes.

   g) are there any differences today between natural villages participating in the
      program and those not participating who were of the same wealth levels in
      1995/96? Y/N
      Please explain any differences.

   h) describe any other changes to yourself over this time:

   i) describe any changes to your family situation over this time:

   j) describe any changes to your community over this time (give examples):

2. For question g) above, relating to differences between participating and non-
   participating natural villages, indicate the degree to which participation in the
   project led to this change (circle most appropriate response):

   i) no influence   ii) slight influence   iii) large influence
## Appendix 2 - Treatment of Research Risks

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<tr>
<th>Risk</th>
<th>Treatment</th>
<th>Comments</th>
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</thead>
<tbody>
<tr>
<td>1. Research situation not relevant to microfinance practice elsewhere in China</td>
<td>Site selected to be broadly representative of socioeconomic conditions for rural Chinese, use of selection criteria</td>
<td>Village selected was broadly typical of conditions for rural poor in central China</td>
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<tr>
<td>2. Program staff choose better-off village in order show borrowers with relatively good standards of living</td>
<td>Undertook wealth ranking of sub-branches and villages within sub-branches, site selected so as to be lower-middle poor</td>
<td>Follow-up analysis of income figures revealed that a significant proportion of borrowers fell below the poverty line in 1995/96, and so poverty criteria were met</td>
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<td>3. Control village not comparable to program village</td>
<td>Verified 1995/96 wealth levels using recall data, investigated socioeconomic conditions (over past 8 years) in discussions with village leaders and villagers, sought range of opinions on validity of comparison</td>
<td>Analysis of 1995/96 income figures revealed comparable incomes in the two villages, no other significant economic events in either village; similar environmental conditions, difference in distance from township centre but advised this is not a strong indicator of wealth levels</td>
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<td>4. Survey questions inappropriate for local situation</td>
<td>Survey was designed after initial information-gathering period and based on focus group feedback, survey trialled and modified</td>
<td>Borrowers were able to understand the survey and did not experience any significant problems responding to questions</td>
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<td>5. Villagers too busy to participate in interviews</td>
<td>Field research brought forward to be conducted early in harvest season when villagers still had some free time, stressed voluntary nature of participation</td>
<td>All survey respondents were paid a small sum in compensation for their time.</td>
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<td>6. Language / communication difficulties between researcher, assistant, interviewers &amp; respondents</td>
<td>Research assistant conversant in local dialect, standard mandarin, and English. Interviewers conversant in local dialect as well as standard mandarin.</td>
<td>I am conversant in standard Mandarin. The local Henan dialect is not so different from standard Mandarin as to be unintelligible. Whenever in doubt I asked.</td>
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<tr>
<td>7. Survey respondents unaware of purpose of study, answer in such a way as to glorify the program</td>
<td>Purpose of study explained to all respondents, respondents encouraged to be frank, attempted to elicit specific responses to questions (including examples where appropriate), comments sought from non-borrowers, triangulation of data</td>
<td>Respondents were generally quite frank and responses were reasonably consistent, suggesting credibility of data</td>
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<td>8. Villagers not able to recall past situation with respect to incomes and living conditions</td>
<td>Used program start-up as well as children’s ages and number of children in school to facilitate recall for each 2-year time period; Analysis based on relative changes in income rather than absolute change</td>
<td>In interviews most villagers did not have too much trouble approximating their past incomes, and were reasonably well aware of relative income changes over time</td>
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<td>9. Survey respondents not willing to disclose incomes</td>
<td>Analysis based on relative changes to incomes rather than absolute figures</td>
<td>More a risk for larger income earners, analysis based on relative changes to incomes serves to reduce or cancel out this risk</td>
</tr>
<tr>
<td>10. Interviewers elicit or record answers that paint program impacts in an overly positive light</td>
<td>Purpose of study explained to interviewers during training, encouraged to elicit real situation to maximise value of study, interviewers periodically monitored, survey response data checked for interviewer effects</td>
<td>All interviewers had some relationship to the program, analysis of survey results showed no indication of interviewer bias</td>
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