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Banking for the Rich: A Case Study

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Introduction

Microfinance in China can be unexpectedly described by an old Chinese proverb that literally translates "*Dongshi*, the ugly maiden, furrows her brow." In this story, a famous Chinese beauty, *Xishi*, falls ill and as a result begins to clutch her stomach and furrow her brow in pain. Despite her sickness and her anguished expression, everyone continues to comment on her breathtaking beauty. One day her neighbor, another maiden named *Dongshi* who is known for her ugliness, notices *Xishi's* facial expression and, taking note of everyone's comments about her everlasting beauty, decides that in order to be beautiful she should imitate this expression. Not only is she unaware that *Xishi's* furrowed brow is the result of her illness rather than a fashion statement, but she also fails to realize that imitating this expression only makes her less appealing.

While I do not intend to peg China as *Dongshi,* the ugly maiden, in some ways the country's experience with microfinance resembles her plight; despite best efforts, not a few microfinance programs in China have gone straight for imitation and missed the practice's main objective of poverty alleviation. In particular, the Grameen Bank lending model popularized in Bangladesh served as the go-to example for almost all microfinance programs established in China starting in the 1990s. After years of experimenting with the methodology in China, microfinance experts have revealed the flaws of this imitation and compared the unique differences between China and countries in which the Grameen methodology is successful (see Park and Ren, 2000 and Jackelen and Mi, 1997). But imitation aside, the key is that most microfinance programs in China are largely missing the main goal of microfinance itself: banking for the poor, low-income, and those with limited financial access, in some cases women.

My findings from researching a program established by the United Nations Development Program (UNDP) in Malipo County, Yunnan illuminate an example of this “mission drift” and shed light on some of the most common challenges and successes of establishing microfinance in China. In this report, I will discuss my experiences observing this program, which I first learned of by reading a former student’s report on its situation ten years earlier in 2000 (Tsien, 2003). This paper is by no means intended to give an overall portrait of microfinance in China, but instead aims to discuss the experiences and issues of this particular UNDP-sponsored program in Malipo County, Yunnan Province. It is my hope that the cases and recurring themes that I encountered will provide further insight into the challenges microfinance faces in China and contribute to the broader discussion that surrounds the industry’s growth. Specifically, I hope to point out the changes that have occurred in the program since its establishment in 1996 and discuss which of these I feel to be detrimental to the broader goal of microfinance as a method for poverty-alleviation.

I will begin with a brief introduction of the development of the microfinance movement in China, highlighting where this program falls and its relation to the industry’s progression. This summary will be followed by a detailed description of the Grameen Bank lending methodology, which has been the model exclusively used for microlending in China. I will then give an overview of the early history of the case study program, focusing on its structure and initial goals. At this point I will go into my personal research of the program, introducing the geography and characteristics of the program site and discussing my findings regarding the program’s evolution, successes, and challenges. This discussion will include mention of themes I find unique to microfinance and rural finance in China, in addition to common problems I found among the program branches. I will conclude by presenting the implications of this type of program's development for the future of microfinance in China.

Microfinance in China: Development & Digression

Microfinance was first introduced to China in 1994 through experimental programs that were funded by international donors such as UNDP, United Nations Children Fund (UNICEF), and the United Nations Population Fund (UNFPA) and implemented with help from the Chinese Academy of Social Sciences (CASS) and the China International Center for Economic and Technical Exchanges (CICETE). These programs almost exclusively relied on international grants and loans and operated through quasi-official organizations or through the international NGOs themselves. The main objective during this period, which lasted about two years, was to test the feasibility of using the Grameen Bank methodology in China (China Association of Microfinance (CAM), 2008: 11).

By 1996, the Chinese government was satisfied with the promising results of some of these experimental programs and started introducing microfinance at the local level, supporting the initiatives with financial, human, and organizational resources. In particular, the government began to view microfinance as an effective poverty alleviation strategy that would contribute to the "8-7" National Plan for Poverty Reduction of 1994 (Planet Finance, 2004). In 1998, Chen Junsheng, the head of the national poverty alleviation project, stated in a national-level meeting that:

> "Microfinance in an effective tool to reduce poverty. We should experiment with microfinance projects in some areas and then spread these projects to other areas. The key characteristic of microfinance operations is that funds directly reach the poorest rural households and that the rate of repayment is high" (CAM, 2008: 4).

In a summary of the development of microfinance policy and legal framework in China, Prof. Du Xiaoshan of CASS, known as the "Father of Microcredit in China," attaches great importance to this comment. He explains that "as a result of [this] meeting, it was decided to give support to provinces in order to allow the commencement, or expansion of, pilot microfinance projects" (CAM, 2008: 4). This period of replication occurred roughly until 2000 and included government replication of established programs and their expansion to new regions.

From 2000 to 2005, formal rural financial institutions started to become involved in microfinance activities, in particular the Rural Credit Cooperatives (RCC). The RCCs quickly expanded programs and positioned themselves to be the main providers of microfinance in China in the future. According to the Chinese Association of Microfinance (CAM), this was when the previously-established programs started to disintegrate. At this stage, the central government became interested in the industry's regulation, which partially explains the increasing involvement of formal financial institutions.

The most recent development of the industry can be described by commercialization, as central regulatory departments encouraged non-governmental and international funds to engage in the experimental programs of commercial MFIs. Currently, these commercial MFIs include Microcredit Companies (MCCs) and newly formatted rural financial institutions established by the People's Bank of China and the China Banking Regulatory Commission. Currently, regulatory authorities are making efforts to facilitate international investment in these bodies to address their lack of funding (CAM, 2008: 12).

***Introduction of the Case Study Program*[1]**

The program I studied falls perfectly within this timeline of microfinance's development in China as an NGO-established program. The program site, Malipo County, became an official

[1] Unless otherwise specified, the information in this section is adapted from my personal translation of a document published in 2009 by the Malipo Foreign Aid Office outlining the development of the UNDP-established microfinance project. My translation of its title is "Foreign Aid Microfinance Poverty Alleviation on the Frontier."

"poverty alleviation county" in 1992 in preparation for implementation of the National 8-7 Plan. By 1993, the county had officially entered the ranks of the UNDP's long-term poverty alleviation strategy in the region, a main component of which was microfinance. After investigation of potential program sites, it was decided that the Grameen Bank lending methodology would be implemented. A set of methods and regulations were formed and a series of training classes were conducted.

Finally, in 1996, the villages of Songshan and Yingpan (in the village townships of Yangwan and Tiechang, respectively) were chosen as test sites. The program was gradually expanded in these areas as results continued to be positive. Due to the program's success, in 1997 the UNDP, International Fund for Agricultural Development (IFAD), Grameen Bank Foundation, and the Chinese Foreign Affairs Ministry invested capital in the program and it was expanded to be carried out in Yangwan and Tiechang village townships and Donggan town.

After barely one year of execution, the project was deemed to be a great success, reflected by both high rates of return and the enthusiastic response of the local community. Drawing the attention of the provincial government, in April of 1997 Malipo County was chosen as the site of a conference for all of Yunnan's microfinance programs. Leaders from around the province attended and visited Tiechang to observe implementation of the program. The county was named a model county for microfinance and the program was further expanded.

According to one of the original loan officers, the program's early success was disrupted by local government involvement only a few years after its establishment. Instead of UNDP management, employees from other government offices (namely the Poverty Alleviation Ministry) came to manage the program. This particular loan officer, who at the time was the head of the staff, advised the government staff to allow the program to continue as before; they apparently heeded his advice and the program returned to its former management.

Starting in 1998, however, the county government established the Rural Economic Development Association of Malipo County, Yunnan Province, of which "branches" were formed in Yangwan, Tiechang, and Donggan. This change most likely reflects the effort to transform the program from an international NGO project to a locally-managed project that could be managed by the local government. This association, while described as in official documents as a "humanitarian character NGO," effectively created a more formal work unit for the loan officers that later distinguished their salary and benefits from both official public servants and private sector workers. In 2000, this association came under the administration of Malipo County's Foreign Aid Office (*waiyuanban*).

The loan officers themselves are all residents in the townships (and town) they serve and are established, respected members of their communities. Before starting their work with the program, they served in varied professions such as local village committee leadership, forest rangers, and teachers. All were required to go through a recruitment process implemented by the county Foreign Aid Office, extensive training and oral examinations – either in Kunming or Malipo – before being assigned to their posts.

Upon the program's establishment, their salaries were 410¥ per month, which at the time was much higher than that of most public servant positions (the highest of which might reach 400¥ per month). In addition, they were provided with 16¥ per day of overtime pay (including a transportation stipend) when they visited the villages of their clients, which was required activity for at least 28 days each month. Officers also told me that at the program's inception, other benefits such as bicycles and motorcycles were provided to help ease the transportation difficulties.

In contrast with this initial situation, the current salaries of the program staff are approximately 1,000¥ per month, which includes a base salary of 700-800¥ with the addition of the "economic result" (*xiaoyi*) salary that is a reflection of each branch's economic success. In comparison with the current salaries of public servants in Malipo, which can reach upwards of 2,000¥ per month, this current salary level has not maintained its appeal in the context of local employment. The benefits accrued by the loan officers in their positions also differ from those of public servants in that they are provided with health insurance and the new Chinese version of social security ("yanglaobaoxian"), but not a pension.

Despite what could be called a difference in income status over the years, for the most part the loan officers seemed satisfied with their jobs because they were in most cases better than their previous profession. They placed special emphasis on the fact that if they run the program well, they can basically control their salary increases. I believe this to be an extremely important factor in the current program administration.

Currently, the program remains under the administration of Malipo's Foreign Aid Office.[2] As of 2009, the cumulative total of capital put into the program reached 5,909,800¥ (approximately US$882,060). With respect to the branches, Tiechang has the most annual loan capital at 1,261,400¥, while Yangwan and Donggan have 720,000¥ available each. I will go into the reasons for this difference later on in the report.

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[2] Although the project is now administered by the Malipo Foreign Aid Office (as explained above), throughout the rest of my report I will use the title "Malipo UNDP program" or "UNDP program" to avoid confusion with government-initiated microloan programs.

China's Love Affair with the Grameen Bank Methodology

Since the beginning of microfinance's popularity in the international development community, the Grameen Bank's work in Bangladesh and its lending methodology have been lauded as one of the foundations of successful banking to the poor. China is no exception in its positive reception of the model and its creator, Muhammad Yunus. The foundation of the model and microfinance is its principle of "social capital," the combination of personal relationships and social pressure that guarantee loans to poor borrowers and replace the traditional forms of collateral that they lack. Using this social capital, groups are formed to collectively guarantee the loans and decrease the bank's risk.

In the standard Grameen model, field managers seek groups of 15 to 22 villages where groups of five prospective borrowers are formed. Each group selects a chairperson and a secretary, and then all groups are federated into centers linked to Grameen Bank and later visited by credit officers at weekly center meetings. Only two of the five clients in each group are eligible to receive the first loans, and loans to the next two and the last client are dependent upon their timely repayment – this method is hence named the "2-2-1" strategy (Credit Lending Models). The chairperson and the secretary facilitate the timely collection of the loans and the procedure of meetings, but the loan officer maintains a crucial role and attends weekly meetings throughout the lending period (Churchill, 1999: 5).

Traditionally, Grameen Bank has deliberately sought homogeneous groups of borrowers. Specifically, they look for potential clients who are neighbors, but not family, and are of a similar age group, educational background, and socioeconomic level to encourage solidarity and strong community development (Project Dunggannon). The Grameen model also targets the poorest of the poor who lack traditional collateral and credit history, especially women, who comprise over 90% of Grameen's clients (Features…).

Loan sizes of this model start small at anywhere from US$12 to $40, but can be increased gradually based on repayment rates (Project Dunggannon). Loans are repaid directly to the credit officer in weekly installments over a period of 50 weeks; upon the successful repayment of the first two members, the next two are eligible. The interest rate on all Grameen loans is 16%, and clients are also required to save 5% of their loan as a form of "tax" (Features…). Clients can also save voluntarily, but the group does not have access to these internal accounts (Churchill 1999, 5).

Groups of the Grameen model are heavily dependent on the first two members who are granted loans, but these initial clients are screened by the Grameen means testing model, which includes a personal interview and home visit. Compulsory group training is also mandatory for all group members and an oral exam is administered to ensure understanding of rules and procedures. Finally, the loan proposal of each client must be approved by the group and eventually the loan officer (Project Dunggannon).

Compared to other microloan lending models, such as Village Banking, the Grameen model is especially well suited for communities with a high concentration of poor borrowers who could form a federation of groups. The heavily reliance on the loan officer requires that clients be relatively accessible so that it is somewhat efficient for him or her to make weekly collection trips. Both of these factors have led to the Grameen model's success in poor urban Bangladesh, and, as we will soon discuss, its relative failure in rural China.

With regard to clients, the Grameen model is well-suited for large populations of the poorest clients who are illiterate and have the least experience. This is in contrast to the Village

Bank model, which requires the client's self-administration of the village bank by relying on more educated and experienced borrowers in a diverse lending group. Finally, from a financial perspective, the Grameen model might be more cost-effective for MFIs beginning to lend in new countries or areas because the loans to the first two group members can provide small-scale feedback and warning signs about the lending climate. This aspect definitely proved valuable to the Malipo UNDP program as they experimented with the model during the first few years.

When microfinance was introduced in China, most programs followed this model as closely as possible, and the Malipo UNDP project was no exception. Loan officers looked for three to five borrowers who agreed to create groups within villages and subsequently formed group centers. One small issue during the process of group formation was that in some villages there were no more than one or two interested borrowers, so loan officers were forced to create groups that spanned villages. In addition, while in some locations the group itself elected its own chairman, in other areas the loan officers selected the leaders themselves because they deemed the group's choice unsuitable. For example, one loan officer told me that the groups in his branch would consistently choose the poorest borrower to be the group leader, so the position was reassigned.

While the program specifically sought out women clients, they preferred to refer to their borrowers as "households," a seemingly insignificant detail that nonetheless foreshadows the development of the loan program. They also followed the "2-2-1'' methodology to test the lending climate and held trainings and weekly meetings with clients to collect loans and help advise them on their investment projects. While the UNDP envisioned the interest rate at 8%, the program staff felt this was too high to start out and it was lowered to 6%. At that time, the largest loans were 1,000¥ or even 1,500¥ in some locations, but the members of most groups took out quantities of 500¥. According to the loan officers, at that time the program was very focused on the Grameen Bank ideology and working towards poverty alleviation, and they worked by the doctrine "lend to women, not men," (*dai nü, bu dai nan*) and "lend to the poor, not the rich" (*dai qiong, bu dai fu*).

According to an official history of the program's development, this model was very successful in the first years of the program, with "a high rate of capital reaching households, a high rate of return, a high rate of success, and a welcome reception by poor households" (Malipo Foreign Aid Office). It makes no mention, however, of the alterations that the program undergone from then until now, over ten years later. This was what I hoped to learn about during my time researching the program, and was my motivation for choosing this topic.

Research experience and methodology

I first found out about the Malipo UNDP microfinance program by reading the ISP of a former SIT student, Sarah Tsien, who lived with a host family in a village belonging to the Tiechang branch of the program. She presented a very thorough introduction to rural finance in addition to the role that the UNDP program had played in the community from its beginnings until 2000, the year of her research. After reading her report, I was immediately interested in going to Malipo to see if the program was still in operation and, if so, how it had developed and changed.

On a short initial trip to Malipo, I found the Foreign Aid Office that currently administers the program and a former loan officer with the help of local friends. They remembered Sarah and were enthusiastic about my visit and my interest in learning about the program. The Foreign Aid Office in particular was an extremely fortunate association to have because they are accustomed to receiving foreign visitors who fund poverty alleviation projects in Malipo County and come to

China to check up on their progress and results. As a mere undergraduate student, I was floored by the amount of time and help they gave me during the two and a half weeks I spent in Malipo. They gave me access to general materials about the program and also arranged for me to visit the branch sites and conduct interviews. This association at times had its disadvantages as well, especially after two straight weeks of being accompanied by mostly male loan officers everywhere I went, but I could never have learned about the program without their assistance.

Over the course of my research, I spent almost a week in Tiechang living in a village called Tuanshanbao with a host family who were former clients of the UNDP program. Tuanshanbao was one of the closest villages to the village township center at about a half-hour walk or a quick motorcycle ride away. My host mother, age 40, made tofu almost every day of the week to sell at the local market, and my host brother and his wife were also home with their two year-old because she had just given birth to a baby girl and was home resting for the month. My host father was a construction worker at nearby worksites and came home after dinner every night. It was a very warm and active household and I am eternally grateful to them for welcoming me into their family and helping me to further understand rural life in Tiechang.

I also spent 4 days each in both Donggan and finally Yangwan learning about the program's work there. In Donggan, I stayed with the loan officer's family to ease transportation difficulties, and in Yangwan I stayed by myself at a small restaurant/motel that was near the local government offices, since the loan officer himself lived in his dorm next to the offices during the week. All of the program's loan officers accompanied me at one point to visit different villages and interview clients. In Tiechang, I visited the home villages of all four loan officers (Tiechang is the largest branch) and the officers in Donggan and Yangwan took me to some exclusively minority villages and spots along the border with Vietnam. In total, I visited approximately 21 natural and administrative villages, village townships, or towns and conducted 52 interviews with clients, loan officers, and community members at all three branch locations. This field work was supplemented by a few formal interviews with academics and NGO workers once I returned to Kunming.

I relied on my intermediate Chinese conversation and reading skills throughout the entirety of the research process, translating documents about the program and building my microfinance vocabulary along the way. Although it would have been easier to use a translator for interviews, hiring someone from Malipo to accompany me would have been even more of a burden on the Foreign Affairs Office, and the loan officers were patient enough with my Chinese to slow down and explain new vocabulary to me. The questions I asked clients about the program were relatively simple and after a few interviews I felt comfortable enough with the vocabulary I could expect in questions and responses.

I did not attempt to conduct a formal survey and collect statistics when I visited clients, so the themes I pick out and assertions I make are in no way statistically supported. I have tried my best to identify common situations that I observed more than several times and highlight exceptional situations that I find relevant to the conversation of microfinance in China. My work and time staying in these villages was also given more context from the two summers I spent teaching English in impoverished villages in Jiangxi and Anhui Provinces and my childhood growing up in Beijing.

Introduction of the Program Site[3]

[3] Unless otherwise specified, these statistics and details are taken from Ed. Li, Jianhui. 2003. *The Poverty Alleviation Projects by the Chinese Ministry of Foreign Affairs in Yunnan Province.* Beijing: The Ethnic Publishing House.

A general introduction to the geography, population, and economic situation of Malipo County is crucial to understanding the challenges faced by the program and its position in the community. The county is located in the southeast of Wenshan Zhuang and Miao Autonomous Prefecture in Yunnan Province. In an official publication of the Foreign Aid Office, Malipo is described to have “great geographic advantages” and boast “biological, mineral, water, and tourist resources.” Evidence of these advantages can be seen in the county capital of Malipo itself, as many wealthy businessmen and entrepreneurs have made their fortune through the local mines, but the distribution of wealth in the county as a whole is expectedly unequal.

The fact that Malipo’s terrain is 99.9% mountainous is one of the main contributors to the area’s economic challenges, though luckily its subtropical temperate monsoon climate allows for decent crop growth on what little arable land can be found. The main crops of the area are corn, rice, and in some places tobacco. Almost every household raises hogs; chicken raising is also prevalent, along with cattle raising. It is said by the local government that “soil is as precious as oil” in Malipo, and in the late 1990s the government bought and delivered explosives to villages to help residents blast away rock and clear more land. That project’s target was to clear enough land to allot an average of 1.4*mu* (approximately 1/6 of an acre) per person. While the distribution of explosives was unequal among villages, the grain yield after that project went from 198kg to 263kg per capita.

Understanding the mountains is crucial to understanding Malipo: while Chinese farmers have dealt with mountains for centuries, whether your community is home to “earth mountains” (*tushan*) or “stone mountains” (*shishan*) is of crucial importance, since earth mountains can be considerably more terraced for farming. However, the soil of earth mountains, described by farmers as *datu* (*nitu* in standard Mandarin), which literally translates to “clay earth,” is severely disadvantageous during a dry season, such as the drought that Yunnan has suffered this year. During planting season, the clay earth is much more difficult to till than the *shatu*, literally "sandy earth" of stone mountains, even though there may be less of it in a stone mountain area. Both of these characteristics of the land constrain the development of Malipo's subsistence farmers, especially this year when crop yield has been drastically limited. In addition, due to the fact that most communities possess a mix of both stone and earth mountains, there are far-reaching implications of the land allocation that occurred during the agricultural reforms of the 1980s. While the average amount of allocated land is 1.4*mu* per person, this also varies by village, with some as little as 1.2*mu* per person and others as much as 2*mu* per person.

In total, there are 12 towns and 94 administrative villages in the county, which break down into hundreds of natural villages. 40% of the population is of an ethnic minority, the most numerous being Miao, Yao, Yi, Dai, Menggu, and Gelao people. The minority villages I visited were primarily Miao and Zhuang, especially since Donggan and Yangwan are so close to North Vietnam and the border, where there the Vietnamese Miao population is largest.

The Vietnamese border plays an important role in Malipo's economy and trade, especially in relation to the Miao population. Many markets are centers for Vietnamese and Chinese Miao exchange, and their minority language is the *lingua franca* as they buy and sell traditional clothing and other common market goods. Due to its significant role in border trade, Malipo has been designated "a precious place on the Southern border of China" and "an important county on the border." The county also boasts Tianbao port, 13 border trade centers, and 50 border entry points, which is crucial to local commerce.

In 2003, the per capita net income was reported to be 637¥, but in more recent statistics it has increased to an average to be 2144¥ per year between Tiechang, Yangwan, and Donggan. All of these characteristics of Malipo have had an influence on the implementation and success of the UNDP program and have led to its gradual transformation since its initial years.

A Tale of Imitation: The Program's Grameen Experience

Although the program was reported to be a great success in its first years, especially in its execution of the Grameen Bank lending methodology, the program that I encountered during my research was far from the idyllic description that had received such positive reports. Scholars of microfinance in China, such as Albert Park and Changqing Ren, have made well-supported arguments explaining why the Grameen model is not best-suited for poverty alleviation in rural China, and many of their reasons match well with the progression of the Malipo UNDP program.

First of all, Park and Ren point out the geographic characteristics that make rural China unique: they write that "the poor are increasingly concentrated in remote, mountainous regions where income-generating activities are more agricultural and less diversified than in more densely populated areas (e.g. Bangladesh, Indonesia)" (Park, et al., 2000: 41). This assessment is extremely relevant in Malipo, where I personally experienced the lack of adequate transportation during my research. Although Tuanshanbao, my host village during my time researching in Tiechang, was one of the closest natural villages to the village township center, it took me nearly 30 minutes to walk to my house, about 1 km away, due to steep, uneven roads made with a mix of mud and rocks. Most of the other villages I visited for interviews were equally difficult to access, even on a motorcycle, and paved or cobblestone roads were only a luxury for villages that happened to be along a main route to another prefecture or county.

Market day presents a new transportation obstacle to the village, as women carry sometimes as much as 50 lbs. of vegetables, tofu, beans, and other goods up the roads to sell. Residents in villages farther away can catch a ride if they are lucky enough, but if not they are forced to walk anywhere from one to three or four hours for the chance to buy and sell. Not only do these transportation difficulties impact access to the local marketplace, but the frequency of market fairs in the area heavily influences the opportunity for entrepreneurship. Villagers who live close to the village township center are also afforded more opportunity to sell their goods and don't have to wait exclusively for market day, such as my own Tiechang host mother, who sold tofu five out of every six days (due to the six-day market schedule). Of the three branches, Donggan by far had the best market access and activity – both of which are clearly related to its size and status as a town – as local entrepreneurs can take advantage of as many as six market days in the area.

Donggan's proximity to Vietnam also provides greater business opportunity, especially given the impoverishment in Northern Vietnam. I met many households who engaged in livestock businesses with either chickens or cows given the price difference across the border. I found that this was not only the case in Donggan, but also in Yangwan (which is in fact closer to Vietnam) and Tiechang as well. Due to limited resources in Northern Vietnam, one chicken trader told me "in Vietnam, they are so poor they can only raise chickens that are 1-2 *jin*, here we can raise them so they can reach 5-6 *jin*." This trader, like many others, takes advantage of this resource disparity and can sell chickens in Vietnam for as much as 15¥/*jin*, whereas in China the average price is 6-7¥/*jin*. This particular businessman takes the 2-hour trip to Vietnam (in this case, he lived in a village in Tiechang) up to three times a week after taking trips to local villages to buy healthy chickens. Cattle traders also take advantage of prices differences to purchase cattle in Vietnam and sell them at the local market for a price difference as great as 300¥. In Taiping especially, a group of villages in Tiechang, cows are crucial to the local economy and are bought and sold weekly at a local cattle market that was established by the government in the 1980s.

While these are a few examples of rural market opportunities in the area, they are mostly unavailable or hard to access for villagers without suitable roads or a means of transport. This situation starkly contrasts with that of urban, populous Bangladesh, and the loan officers of the UNDP program claimed that this was one of the main reasons why the Grameen model of microfinance was unsuitable for the Malipo location. They also used this issue of market access to describe why loan return periods could not be as short as in Bangladesh; for clients going to market only once every six days or raising pigs (which takes approximately six months), it is nearly impossible to make steady loan returns every 12 days.

Another key reason why frequent loan returns were deemed unsuitable for this community, and perhaps poor rural Chinese in general, is because of the overwhelming percentage of the population that goes out for migrant work in other cities or even other provinces. Since the growth of migrant work in the last fifteen years, many clients have started taking out loans for the transportation fee needed to travel to other provinces to the work site. In this case, the worker often doesn't receive pay for the labor for at least a few months or maybe even a year, since the site manager does not distribute payment in full until the project is completed. Given this situation, the branches have adjusted the repayment schedules for these clients so they can pay the loan in full as late as 12 months after taking it out.

Transportation difficulties and remoteness were also the program staff's justification for changing the program's original Grameen model of small groups and group centers, weekly meetings, and frequent client visits by loan officers. The groups were apparently useful at the beginning of the program for training and regulations, and in some cases produced successful clients. Initially, there were 200-300 small groups throughout the entire program area. Some groups took advantage of the combined quantity of their loans and the business relationship and collectively invested in businesses, such as a cattle and chicken trading business, which was quite profitable. In Tiechang in particular, the loan officers boasted to me about how their groups were the best operating, since over time there was a natural selection in the group formation that eliminated uncooperative members who failed to return their loans.

At the other branches in Donggan and Yangwan, however, the small groups were more of a problem, and during my interviews clients who had been involved in the early years of the program complained about their ineffectiveness. While the purpose of group lending was to collectively guarantee the loans, many past group members recalled how their fellow borrowers were never willing to back their loan if they were unable to pay the amount on a given week. They also complained that business was not as good back then with the circumstances of the economy, so the market also made it harder to repay loans. Finally, they expressed their dislike of the meetings because they were too time-consuming to travel to and tedious. Even the loan officers themselves expressed dislike for the small groups, telling me that as more people went out to work, it became harder and harder to find family members who would be home to participate in a group. For these reasons, the duration of the small groups varied greatly among the three branches; in Yangwan they stopped in 1998, in Donggan they started phasing out in 2002, and in Tiechang in 2004. According to Sarah Tsien's report on the project, the director of the Tiechang program hoped to implement the Village Bank lending methodology, a different strategy that involves fewer meetings and the clients' self-direction of the bank; he had applied for approval from the Beijing UNDP office, and hoped to implement the plan by 2001, but it never came to fruition.

These changes are proof that the Grameen methodology fails to be a "perfect fit" for Malipo and perhaps rural China in general, and they begin to touch on one of the most crucial necessities if microfinance is expected to succeed in China: the country needs its own model. Microfinance practitioners, in China and overseas, are now beginning to realize that the original fixation with the Grameen model might have been misdirected enthusiasm for just one type of microfinance. When the practice was being established in China, what was really needed was focused research on the characteristics of Chinese rural life that makes it distinct from other countries so that a tailored and more effective model could be put into place. With this hindsight, now some NGOs in China[4] are working to understand the needs and idiosyncrasies in the lives of the rural poor; this is the type of reworking and innovation that is needed in China's microfinance sector.

In the end, these changes in the program are not as significant as might be presumed; despite a slightly different shell, the core of the program might still be effective microfinance and poverty alleviation. Next, I discuss more changes from this angle to analyze the affect of the program's transformation on the core objectives of microfinance as a poverty alleviation method.

Beneath the Surface: Current Characteristics of the Program

Returning to Park and Ren's research, a second aspect of microfinance programs in China that they emphasize is the inherent influence of the local government. This is partially due to the current status of NGOs in China, which are required to partner with local government bureaus in order to operate (Howell, 1995: 9). After its initial years under UNDP management, this was certainly the case with the Malipo program, as it passed from UNDP management to that of other government offices and then finally to the county's Office of Foreign Aid. Currently, the three

[4] For example Oxfam, which is working on projects called Community Development Funds (CDF) to cater to the unique aspects of poverty in rural China.

branches house their programs in the local government buildings, live in the government dorms, and eat in the canteen just like any other public servants. It is their salary, lack of pension, and benefits that are the main difference between them and official government workers.

In their survey of NGO and governmental programs, Park and Ren also examined the implications of this government association and came to the conclusion that "in mountainous areas… costly meetings may deter the rich; but in government programs where interest rates are very low, meetings are infrequent, and village leaders control groups, the wealthy desire and obtain microfinance loans" (Park, et al., 2000: 46). Considering the nearly government status of the program, I was interested to learn if this had been a result, especially due to the position of the loan officers as established members of their branches' communities.

Although my research is far from empirical proof, my understanding of the current operation of the Malipo program coincides with Park and Ren's assessments. I was shocked at the relatively well-off profiles of many of the clients I interviewed, and I hesitate to confirm that some of them do fall into the wealthier ranks of the rural population. I met with not a few clients who were public servants with greater pensions and benefits than the loan officers themselves; entrepreneurs whose businesses were flourishing and had anywhere from 20,000¥ to 800,000¥ invested in other projects; and finally, clients whose children had found success in work outside of Yunnan and were supporting the household with remittances of over 10,000¥ annually.

The most important observation to note, however, is that the majority of program clients who can be considered wealthy were also "old" clients who had been taking out loans since as early as 1996. One loan officer proudly told me that an estimated 80% of their current client base was comprised of these original clients who had continued with the program. Given this information, it is clear that the provision of microloans has been helpful in improving the lives and businesses of some clients. In my opinion, though, these successful, old clients should actively "graduate" from the program at this point and move on to taking out larger loans from the Rural Credit Cooperative (RCC), from which they were previously excluded access because of their economic situation, among other reasons. This is where an understanding of the rural financial climate is crucial to understanding this adverse selection of clients.

In practice, China's RCCs are far from being actual cooperatives, but nevertheless they are still the most important provider of credit in China's rural areas. This is especially true after the withdrawal of many of China's state-owned commercial banks from rural townships between 1995 and 2004. During this time span, "the number of branches of the four largest state-owned commercial banks decreased by 77,000 (49.8%)." The downsizing of the Agricultural Bank of China – formerly the traditional source of credit in rural areas – was particularly pronounced, and by the end of 2005 the bank's branch network had decreased from 67,092 to 28,234, or 58% (He, 2008: 9). This downsizing coincided with an increased focus on RCCs to become the exclusive financial providers in rural areas, beginning with their official separation from the ABC from 1995-1996.

From the beginning, however, RCCs were hindered by the already bad loans of their new clients from the ABC, directed loans by the central and local governments, and non-performing loans from the Rural Credit Foundations (RCFs) that were merged with RCCs in the late 1990s (Xie, 2003: 440). Under these conditions, RCCs were hard-pressed to increase their loan portfolio in rural areas, and studies show that there is significant unmet demand for RCC loans in many areas (He, 2008: 8). In 2004, People's Bank of China estimated that only 25% of rural households have access to rural credit (Planet Finance, 2004: 11). This and other RCC restrictions are testimony to the underdevelopment of China's rural financial sector.

While they are unaware of the specifics of the RCC's financial situation, many of the clients and community members I interviewed are very much aware of the difficulty in obtaining loans from the RCC. They frequently complained about the trouble one must go to in order to secure a *danbao*, or guarantor for the RCC loans, because none of their relatives want to be responsible for any debt. Depending on the loan size, a *diya*, or collateral, is required for higher quantity RCC loans, something unobtainable for many rural families. Finally, perhaps the simplest requirement but often the most important is holding *rugu*, or "shares" of the RCC, which is a requisite to obtaining any RCC services. Citizens in rural areas were able to become shareholders when the RCC was first created in the mid-1950s for as little as 2¥, but currently it can cost as much as 200-300¥ to join the "cooperative." An RCC employee explained to me that this higher fee includes benefits such as lower interest rates, but this objective is clearly not communicated to the local community, as most of my informants simply balked at the expense. Although it is true that there are few rural families who are not RCC shareholders, not having the foresight to have joined in the 1950s is a serious financial constraint for some families.

Given the fact that RCCs are the only financial providers in most townships of Malipo, including Tiechang, Donggan, and Yangwan, there is a severe limitation on the supply of credit in the community. This situation helps us further understand the role of the UNDP microfinance program in the community and explains its odd transformation into a project that continues to supply loans to successful entrepreneurs who can be considered far above the populations of the poor and low-income. Many of these clients were able to take out even more loans from the RCC in addition to those of the program. Some of them told me they had continued with the microloan program because of its "convenience" in being able to return the loans on a staggered schedule versus all at once. Another situation explained to me by a contractor was that he needed the microloan to provide him with some fast capital in contrast to the RCC loans he had taken out to invest in long-term projects. When discussing these successful clients, many of the loan officers would boast their strong credit history, and lament that the capital of the program was not large enough to grant them larger loans. While the current program limit on loan size is officially set at 5,000¥, many of these clients were granted loans of 10,000¥ or more, sometimes up to even 40,000¥ for an "exceptional" client.

When I asked the loan officers if they had any new clients in their programs, they responded that there were some, but not many because they had such limited capital and could only serve those clients who had already been with them for years. These clients had come to them as a result of the advertising and recruiting campaign they conducted in several villages in 1996. Since then, they have not conducted another campaign.

The program has also not made any effort to communicate their policies and interest rates to the local community, as I came to find when I interviewed members of the community who were not clients. I was just as confused as they were when the loan officers told me that their current interest rate was lower than the prevalent interest rate of the RCC, because from what I could tell, the UNDP program's interest rate was 8%, and that of the RCC was 6.75%. This was also the understanding of these informants, and they didn't hesitate to let me know that I must be crazy to think that they would borrow from an institution with a high interest rate (in this case the UNDP program).

What was later explained to me by an RCC employee, however, that in China (as in the U.S. and probably around the world) interest rates are listed differently depending on whether they are monthly or yearly. Since the UNDP program lends on a year-to-year basis, they are required to list their interest rate as a percentage, or 8/100. The RCC, however, offers many different periods of loans, including three, six, and nine months, and this interest rate they are required to list as a portion over 1,000, or 6.75/1000. To calculate the yearly interest rate, this 6.75 must be multiplied by 1.2 (for twelve months), and ends up equaling 8.1%, just slightly above the interest rate of the UNDP program. It is understandable that this discrepancy would not be obvious to the largely illiterate population that could be served by the program, and any move to find new clients would require at least a small effort for explanation. As they are not seeking new clients, however, the program staff are not very concerned with this.

Besides the natural supply and demand of the financial sector in Malipo, I also postulate that the loan officers of this program are most likely sworn to "old client" allegiance due to a less complex reason: the simple math of their rate of return and the "economic result" (*xiaoyi*) portion of their salaries every month. As I explained previously, under the current system the loan officers are paid with a base salary of 700-800¥ each month with an added bonus that reflects the success of their loan portfolio. By making this conjecture, I do not intend to paint the loan officers as conniving staff who show little concern for the original goals of the program, but instead point out what I believe to be an error of the program's incentives and compensation system.

While this performance-based salary is an aspect that should factor into any loan program to reward good practice, I believe the significance of this bonus should be less for a program aimed at poverty alleviation. The Malipo program is an example of a case where the base salary is too low and the performance bonus too high, resulting in a conflict of interest regarding the objectives of the program. I think this argument is supported by the fact that the salary of the program staff – with bonus – is currently lower than the average starting salary of a public servant in the branch communities, whereas before it was on par or higher.

Although I have just highlighted this concern in the context of the entire Malipo microloans program, it is important here to bring up the fact that while the three program branches shared similar characteristics, their operation and economic success were not always the same. The Tiechang and Donggan programs were clearly the most successful of the branches, both boasting rates of return higher than 90% (though neither branch was very precise about their latest figures). The Tiechang program was even rewarded with an increase in capital and loan officers (their branch has four staff instead of two) after the Foreign Aid Office noticed the success of their administration of the small groups and their high rates of return in the first years. I quickly learned, however, that the Yangwan branch could not boast the same results. Their rate of return was significantly lower, at around 60-70% – again, an imprecise figure, but clearly poorer than the other branches.

The loan officers told me that Tiechang was the most successful program for several reasons that seemed quite obvious to them. First and foremost, they cited the fact that Tiechang has fewer minorities than Yangwan, and therefore the Tiechang branch's clients are supposedly less "backward" (*luohou*) than most of Yangwan's. The Yangwan loan officer himself agreed with this assessment of his branch's minority clients, and talking to several Han clients also gave me perspective on the presumed "backwards" minority handicap. Some wealthy Han clients I visited lived in a "model pig raising village" that was established in the past ten years by granting a 5,000¥ interest-free loan to families. When I asked about the decision to choose this village for the project, the client's daughter explained to me "this entire village is Han, we are more "cultured" than the minority villages. The government wanted them to learn from us how to raise healthy pigs."

A second reason why the Tiechang loan officers think their branch has always been naturally positioned for more success relates to the ever-important presence of the mountains. According to the program staff, Tiechang on average has even less land than in Donggan and Yangwan, so the people there have been accustomed to finding other ways to make money, even before the loan program was introduced. When I traveled to the two other branches from Tiechang, one of the first things I noticed was the fact that there are significantly more earth mountains in Yangwan and Donggan than in Tiechang, which is primarily filled with stone mountains. Throughout my visit, the loan officers discussed the “business mind” that they look for in their clients, and they claimed that Tiechang had many people with an entrepreneurial mindset due to these natural land constraints. Although before the year 2000 there were fewer opportunities for employment through migrant work, the Tiechang staff claim that residents still took the initiative to work locally and learn skills that later proved advantageous when they finally found jobs outside Yunnan province.

Amid these observations about the clients and success of the program, I learned about yet another aspect of the program that has changed: the principal of dynamic incentive in the form of new loans. Being able to convince borrowers not only that they must fully return the first loan before withdrawing the second, and moreover that they will, indeed, be able to take out a second loan as soon as this is accomplished, is crucial to lending and microfinance in particular. The areas RCCs are very strict about this rule, but I eventually learned that the UNDP program is not, and this was yet another reason why, wealthy or not, clients kept turning to the program, in some cases withdrawing multiple loans at once even after a long period of late repayment.

At the Donggan branch, some clients had gone three years before repaying their first loan, and in Yangwan there were many clients who had spent an even longer time simply paying the interest on loans and delaying capital repayment. In an assessment report of microfinance in China, the UNDP emphasized that "international experience has been to keep a firm discipline on not disbursing subsequent (and larger) loans until full payment of previous loans has been a key incentive" (Jackelen, et al., 1997: 3). Given my previous discussion of the staff's concern for the rate of return and the performance bonus, this practice seems ironically irresponsible and certainly a reflection of strayed microfinance practice.

"Real" Poverty Alleviation: A Look at the Program's Objectives

The changes in the client population of the program lead me to question whether the program had truly experienced "mission drift", which would have effectively changed its objective from a poverty alleviation microloans program to simply a small loans operation with no relation to poverty alleviation. While this assessment might be a somewhat harsh proclamation, a review of the loan officers' own views of poverty alleviation and the role of the microloan program supplement my observations of the wealthy client pool and help confirm the occurrence of the phenomenon. When asked about the program's goal to serve the area's poor population, most of the loan officers expressed their sentiment that the original UNDP poverty alleviation goal "doesn't really fit with the area because [the poor] don't have the ability to think of a business to pay back the loan." This was the major theme of their opinions: that the poor were not concerned with production as much as day-to-day consumption for survival, so they would usually spend the loan on food; if the poor tried to produce, the loan officers commented that they were too "backwards" to be successful. Even when discussing the raising of pigs, which is a common investment for clients in the program of a lower income level, the officers remarked that "poor people can't do it" and that the pigs would simply die.

One loan officer in particular expressed to me what he felt "real" poverty alleviation consisted of when he described a government program that trained local farmers in how to use engineered pig feed to raise pigs – in contrast to the traditional method of boiled feed[5] – in 2002 or 2003. This program was a training class carried out by the local Agricultural Technology Station, which can be found in every rural township center. This loan officer told me that these trainings on how to raise pigs and properly use fertilizer were examples of the types of skills that poor farmers needed to make a difference in their base incomes, and that the microloan program was simply there to provide a little bit of working capital so they could get by. Next, he told me that only when members of the family went out to do migrant work and sent back remittances was when the household's financial situation truly changed and improved. The importance of migrant work was a theme that came up again and again during my research, and will be revisited later.

These opinions are fairly in line with the generally welfare-focused discourse surrounding poverty alleviation in China, which provides a limited context in which to promote the idea of microfinance. In the words of Planet Finance, a microfinance consulting firm with years of experience in China:

> "Usury was one of the evils… which the Communist Party set out to eliminate. Officials schooled in Party history… do not easily accept the startling claim that it benefits the poor to be offered high-interest loans. [They] are more inclined to believe that the poor need special assistance and subsidies… This welfare mentality is often accompanied by a perception of the rural poor as 'backward' or of 'low quality': people who need 'lifting out of poverty' rather than people who, if they had a ladder, could climb out by themselves. Given this attitude, it becomes natural to see the challenge of poverty in terms of limited resources – land is too scarce, the state is too cash-strapped –

[5] As I learned during my time in Malipo, raising pigs and other livestock are very involved processes, and it takes a certain amount of intelligence, skill and experience to raise healthy pigs. The feed method allows for greater pig production, whereas the method of using household scraps, corn, and grass to boil homemade feed does not yield as high a quality of swine. In addition, the pigs' living space must have the right amount of ventilation, shade, sunlight, and be sufficiently clean so that when temperatures rise, they do not become diseased and die.

> rather than in terms of policy constraints on the productive capacity of the capable poor" (2004: 16).

Based on my conversations with the program staff, they too seem to be party to this view of poverty alleviation, something which I believe has significant influence on the program's operation and goals. Although officers at the Tiechang office told me that in the beginning, they physically assisted their clients in purchasing fertilizer with their first loan to prevent its use for consumption, the program appears to have strayed from the poor population that continues to struggle in Malipo. Instead, the program staff is convinced that "the government takes care of them" and that their program is not a significant part of the area's overall poverty-reduction strategy.

Microfinance is not intended to focus on the destitute population of a community, who have other more pressing health, nutrition priorities, and housing priorities; in this respect, the loan officers are correct in stating that their program is not intended to help those at the bottom rung of society. However, microfinance *is* intended to serve poor and low-income members of the population who are just above and below the poverty line, which in 2006 in China was set at 680¥ per capita net income (Microfinance Gateway, 2010). While the success of the program's initial clients is certainly a testament to Malipo's need for the program and its important role in the local economy, in its current state it cannot be considered a microfinance project achieving poverty alleviation.

Children: The New Chinese Social Security in Malipo and Beyond

Just as the Malipo UNDP program staff's opinion of poverty alleviation influences the role and success of the program, so does the phenomenon of migrant work and remittances. Many of the households I visited were incomplete units of the wife, children, and the in-laws, since all around China, capable men leave their homes for a nearby city or even as far as a neighboring province to do construction work. Unless they are fortunate enough to find local work near their villages, most of them only return home during the Spring Festival, resulting in an inordinate amount of pressure being placed on the wife, or in some cases the husband's parents, to maintain the land and raise the livestock and children. If the children are old enough, it is common that the wife will leave to work as well, in many cases with the husband. This nation-wide occurrence has transformed most villages into communities of the very old, the very young, and the mentally or physically handicapped.

The villages of Tiechang, Yangwan, and Donggan are no exception to this rule, and while the households engaged in small businesses would have a male present at home, those that had no other activity in the village besides farming and raising livestock were heavily dependent upon remittances from migrant workers in their family. Members of the community and the loan officers all informed me that before 2000 the opportunities for migrant work were less because the economy was not developing as quickly, but soon after 2000 it picked up and became much more profitable. Since then, they unanimously agreed that it had been the single most influential factor in changing the local economy. In a study by Albert Park, Changqing Ren, and Sangui Wang, it was found that from 1997 to 2000 there was a dramatic increase in migration and other forms of off-farm wage labor from 24% to 56% of total income, whereas the share of income from traditional agriculture declined from 60% to 31% (2003: 6). For those who go to work in factories, as much as 1,000-1,500¥ can be made per month if the work is good, and in construction workers can net approximately 5,000-8,000¥ per year.

In a study of migration and household investment in China, Alan De Brauw and Scott Rozelle come to the conclusion that remittances are mostly used for consumptive, rather than productive, investments in the household. A migrant worker in the family can help a household increase productive investment by as much as 20%. They also noted that out of various consumptive investments, the most important and frequent is housing (De Brauw, et al., 2008: 323-331).These findings coincide with my observations in the villages; as many academics studying rural China have noted, I found that the most useful indicator of a family's wealth was the type of their home. The poorest families still had houses made of packed mud and wood, while those who were richer had the privilege of cement block, and the wealthiest boasted fired brick structures. Across the board, this seemed to be the single most important family investment, and one of the main purposes for going out to do migrant labor. From my conversations with a contractor and new home owners, I learned that most families built their new homes before they could pay in full, and then after the fact went out to work to pay back the cost. In the words of one loan officer, "if you build a house and don't go out to work, *bu xing* (it doesn't work/that's not alright)."

What I found interesting to observe while studying the program was the difference in the financial situations of clients I visited who benefitted from remittances and those who had no working-age family members who could go out to work. By far the poorest clients were young families, where the birth of a second child kept both the mother and father at home while the children were young. If the couple had capable in-laws, once the children were old enough they could look for work, but for those without elders or with elders too sick to care for the children, the mother was forced to stay home and raise the children. In some cases, the illness of older parents even kept the husband, the primary income earner, home to care for them and perhaps prepare for their death.

One situation that at first I had difficulty understanding was the compulsory burden of children on young, newly married couples and the rest of the family. Of the women aged 20-25 who I met in the village, nearly all of them had just given birth to their first or second child. From a financial perspective, I did not understand why a young couple, in most cases with only a middle school education and without a stable income, would want to add to their already precarious financial situation with a new baby. In addition, after I learned of the primary and middle school tuitions that were only recently eliminated in rural areas[6] and heard the complaining from families about the high cost of secondary and higher education, I was baffled as to why families would not wait until their economic situation improved to have a child. My question was gradually answered as I learned of two factors that influence the decision (or, better said, the requirement) to have a child in rural China: tradition, and the human form of social security.

Countless young mothers confessed to me that if you married and did not have a child within one to three years, people in your community would start spreading rumors that you were unable to give birth. In addition, they all told me that they felt pressure from their in-laws to have a child because, according to not a few informants, the grandparents want something to go around the house besides farming. Again from a financial perspective, I also noticed that while children might be a financial burden during the first 15 years of their lives – though luckily not as much due to the new free schooling – later on they are the only hope for the family to improve its financial situation. While the poorest families I visited had young children, by far the richest families I visited all boasted working-age sons and daughters who sent money home and helped their families build a new house or make other investments. In addition, as has been the case for centuries in China, children serve as the best form of care for the elderly members of the family

[6] While in 1995, the Chinese Government began working to provide primary in secondary education in the countryside, it was not until 2006 that the now mandatory nine years of schooling were provided for free. This has greatly decreased most rural families' financial burden. (Source: www.edu.cn).

amidst a lack of a functional social security system. While the government has just recently introduced *yanglao baoxian,* (literally, “grow old insurance”) to assist the rural population, children still remain the best guarantee.

The significance of migrant work has in important influence on the Malipo microloans program and the program’s own view of its limitations and role in the community. In the opinion of most of the loan officers, the main purpose of the loans is to increase or maintain the flow of capital for rural households with small businesses or investment strategies. However, in order to really improve their living conditions and overall financial situation, the loan officers almost unanimously agree that a member of the household must go out to work and supply a steady flow of remittances to the family. While currently, this scenario might represent the reality of the situation, it is also a reflection of the program staff’s view of the role of microloans, which limits their own expectations for the work of the UNDP program.

Wife, Mother, Daughter-in-law, Farmer: The Program’s Focus on Women

In addition to all of the transformations I have discussed, yet another aspect that has been altered since the program’s establishment is its original focus on women. Official literature from the Ministry of Foreign Affairs and the All-China Women’s Federation have lauded microfinance’s role in improving women’s financial independence, stating that “many women [had] become the mainstay in their family because they were going well in their trade business” or that these women now had an “increased chance to run their household’s economic activity” (Li, 2003: 225). Nonetheless, when interviewing clients, I found that the program currently serves as many men as women. Though many loan officers tried to convince me that the new program emphasis was on “paired lending,” or lending to couples rather than individuals, I met more than a few households in which the loan was solely administered by the husband and the wife knew no information about the loan; this was especially apparent when we arrived at households where the husband was out working and the loan officer – rather than the wife – introduced me to the household's loan situation.

When I asked about the original goals of the program, all of the loan officers told me they understood that the Grameen model – notice they did not say microfinance in general – is intended to assist Bangladeshi women in gaining access to financial services. Then, immediately afterwards they would go on to explain to me how the circumstances of Bangaldeshi women are inherently different from that of Chinese women. They cited the fact that Bangladeshi women have a much lower position in society than Chinese women, and that in Bangladesh men are mostly heads of the family, whereas in China women are sometimes heads of the family. When I asked about the proof that women devote more of their earnings to the family when they are employed, whereas men are more likely to spend their income on alcohol and tobacco, they said that while this situation does happen in China, it is relatively infrequent. This comment contrasts greatly with a published interview of loan officers in the Ministry of Foreign Affairs publication about poverty alleviation in Yunnan, in which a current staff member is quoted as saying that the loan program had "[taught] the men to take better care of their money. Before, women wove at home and the men went to street market to sell the cloth. Once they'd sold it, they often bought wine. With the pressure of having to repay the loans, they might think about buying alcohol, but they'd decide paying the debt was more important" (WYB, 2003: 231).

Another aspect that contributed to the program's shift away from women was the fact that the local RCCs in Malipo, and the loan program itself, had experienced cases of women taking out loans and literally running away with the money. The loan officers and clients I interviewed explained that this situation was markedly more common in the late 1990s, when the effects of

China's fast-paced development had not yet reached the countryside and there were few opportunities to supplement subsistence farming incomes. In addition, due to the close proximity of Malipo to Vietnam, many Chinese men purchase Vietnamese wives who arrive in their communities without any knowledge of the local language (unless they are Miao, perhaps) and no family nearby, thus giving them great incentive to skip town if they could obtain a least a little cash. Apparently, this was an extremely common problem with RCC loans and led them to enforce a paired lending policy, in which both husband and wife had to sign for the loan, for some of their loan products. RCC employees personally advised the UNDP program loan officers to enforce this policy as well. Gradually, each branch changed its lending policy and eliminated lending to individuals – with the exception of "old" clients who already had a good credit history with the program.

Although this measure was more of a practical concern for the safety of the program's capital, my conversations with community members about this phenomenon revealed to me that it is surrounded by as much truth as discrimination. When I talked with men whose wives had not runaway and who managed their household's loan individually without the help of their spouses, they often joked with me that if their wives had too much money or were in charge of the loan, they would run away like all the other stories they had heard. One several occasions, the loan officers themselves joked about this predicament. Another time, a loan officer told me that in the case of his family, he personally managed the family accounts because his wife, who is illiterate, "has to be home, managing [the crops and livestock], she has no time to leave the house (*chumen*)," so it naturally makes sense for him to manage the money.

As soon as the loan officers noticed that I started questioning their alteration of the principle to "*dainü, budainan*" ("lend to women, not to men") and the local trends regarding the gender division of household money management, they quickly explained to me that as borrowers, men and women are of equal risk. Just as lending to single women came with the risk that they would run away, lending to men became hazardous when more of them started going out for migrant work. In this circumstance, the man would take out the loan – perhaps precisely for the purpose of paying for transportation fees to get to their place of work – and at monthly collection time, loan officers would go to their houses retrieve the payment only to find that their wives had no knowledge of the loan. For this reason, paired lending has become a rule for new borrowers, and the Malipo Foreign Aid Office prefers to describe the program as largely focused on "rural households" (*nonghu*) rather than individuals.

With regards to household money management, the loan officers and clients alike also explained to me that in China, each household's situation differs depending on who is the most financially literate in the couple. Many of the more progressive couples I met managed their finances together, or each managed their own income, while in others, the management of household finances was the exclusive responsibility of the wife, even resulting in the husband handing over his salary for her to manage. In my interviews, I met several women like this, who were referred to as "*guanshi*," or "manage things" women. Some of them simply managed the household finances and the loan from the UNDP program, while others were the owners of their own small businesses that they were able to start with the loan capital.

When I asked these "*guanshi*" women about the gender dynamic in their household versus others in their community, they almost universally expressed the consciousness that their situation was unique. Some of them lamented that sexist, unequal households were "*buxing*" (not right), while others expressed their belief that it's important to "*ziji yanghuo ziji*" (support oneself) and not rely on a husband to live. They also told me that their husbands supported their decisions to start small businesses, since in many cases they were public servants who, while privileged with benefits and a pension, were always looking for some sources of supplementary income for the household.

One woman whose husband was relegated to the farm work when she started her restaurant and corner store told me that "[her husband] had no other choice [to stay on the farm], we have to live." With regards to the Chinese women's traditional duty to care for the in-laws, a result of the traditional patrilocal[7] marriage system of Han Chinese culture, she responded "his parents are his own; he'll take better care of them." Finally, she told me frankly, "I don't like being at home and doing chores," which was further proof of her household's unique situation and her unusual position within it.

While these cases demonstrate that there is an opportunity for women to have control over their family's financial situation in China, they are not sufficient justification for the claim that women are "more equal" in China and have more opportunities for their own development than in Bangaldesh. Especially in rural China, where the majority of women have been relegated to what is referred to as "the feminization of agriculture," women have few, if any, opportunities to manage finances, start their own small business, or in some cases even leave the house. As Sarah Tsien writes:

"All around China, as male heads-of-household move off-farm to seek wage labor in urban areas, the phenomenon of so-called "feminization of agriculture" and the subsequent "feminization of poverty" has emerged. Women have become the remnant agricultural labor

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[7] *Patrilocal* refers to exogenous patrilocal marriage, described by Sarah Tsien as the system in which "a woman generally marries out of her natal village and moves to the household of her husband and his parents. In this setting, "the wife's in-laws become the dominant figures of the bride's life," and it is considered to be her duty to care for them as if they were her own parents (Tsien, 2002: 13).

force in a sector where there is little growth and few price incentives for production and innovation" (2002: 11).

While the program might find it easier to lend to "households" instead of individual women, individual females continue to deserve an opportunity to engage in their own self-employment activities or even simply manage the capital that goes into raising more livestock or fertilizing crops. Some more effort and training on the part of the program staff would facilitate the shifting of the program focus back to women.

Conclusion

After learning about the current operation of this program, I believe that the transformations that have occurred over the past ten years are of two types: those that have changed the day-to-day operations and administration of the program, and those that have touched the core objective of microfinance for poverty alleviation. The alterations of the Grameen model to better fit the lives and needs of rural Chinese clients can be considered relatively necessary to ensure the continuation of the program. Other microfinance methodologies involve non-group lending and longer return periods depending on the situation of the client, and the Grameen methodology is certainly not intended to be a microfinance "recipe for success." These changes also provide insight into the types of simple methodological alterations that would prove useful to microfinance programs in China and facilitate the practice's growth and success.

The other changes I observed, however, serve to question the current objectives of the program and its effectiveness in working towards poverty alleviation. The fact that the majority of the program's clients are "old" and reliable might translate into a satisfactory rate of return, but uses up valuable capital intended for poverty alleviation. If the program is truly intended to serve the poor, the client base should be reevaluated and the program reintroduced to clients who fall slightly above and below the poverty line. In addition, the original goal of the program to give financial opportunities to rural Chinese women should be revisited, especially in light of the increasing burden of agriculture on female household members.

The current state of the Malipo UNDP-established microfinance program is evidence that rural China is still very much in need of further financial reforms to increase the supply of available capital. The program has certainly had a positive effect on the local economy in that it has infused needed capital into the market and given dozens of entrepreneurs the opportunity to succeed in the rural marketplace. In this sense, the program should be applauded for its initial work with Malipo's poor. Now it is time to step back, take another look at microfinance, and develop an endemic model for the country's rural areas. Only through this effort can the Chinese microfinance industry transform into its own distinctly successful practice, like the legendary beautiful maiden Xishi, instead of adopting the position of the ugly maiden Dongshi in a well-intentioned but failed imitation.

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Interviews and Resource Persons:

Clients of microloan program in Tiechang, Yangwan, and Donggan.

Li Wenxiu. Host mother in Tiechang Tuanshanbao Village.

Li Yongqian. Professor, College of Economy and Management, Yunnan Agricultural University.

Luo Cui. Malipo Foreign Aid Office Secretarial Office (Academic Advisor).

Malipo UNDP Program loan officers: Wei Gongli (former director), Yang Daihua (current director), Tan Xian, Luo Dafu (Tiechang); Tian Yingcong, Liu Dong (Donggan), Lu Tingsong (Yangwan).

Wang Shimin. Director of Malipo Foreign Aid Office.

Xiong Bin. Associate Professor, Faculty of Management and Economics, Kunming University of Science and Technology.

Zhang Song. Oxfam Hong Kong Development Program Officer at China SW Programme Office.

Itinerary

April 26: arrived in Malipo (long bus ride from Kunming due to road repair)

April 27: met with the Malipo Foreign Aid Office staff, including Luo Cui (academic advisor)

April 28: driven to Tiechang by Foreign Aid Office staff

-informal lunch and interview with Tiechang loan officers

-went to homestay family in the afternoon (arranged with Foreign Aid Office help)

April 29: market day in Tiechang

-interviewed market sellers & clients in the rural township center with 1 loan officer

April 30 – May 2: full-day interview trips in villages with the 3 other loan officers at Tiechang

May 3: traveled to Donggan with host sister

-met with loan officers in the afternoon and arranged to live in one’s home

May 4: Donggan market day

May 5: more interview trips to villages along the border with Vietnam

May 6: driven to Yangwan by Donggan loan officers’ friend

May 7 – 8: village visits with loan officer and informal *shaokao* with local government

May 9: Yangwan market and then driven back to Tiechang by local government

May 10: Final interview and dinner with Tiechang loan officers

May 11: Returned to Malipo

May 12: Returned to Kunming

Research Reflection

Being welcomed by the Malipo Foreign Affairs Office when I first visited to start my project had its benefits and drawbacks. Without the help of the Malipo office staff, I would have had a much harder time making arrangements to get to the correct villages and making living arrangements, let alone introducing myself to the staff of the program and trying to interview clients. Thanks to their help, I was able to visit more households than I could ever imagine and travel to many distinct villages and towns. This government association, however, meant that I saw whatever the Foreign Aid Office and the branch loan officers wanted me to see about their program. I took full advantage of the time that I had away from them to talk and get to know the communities in which I lived, especially Tiechang, but this time was nevertheless limited.

However, in retrospect this limitation might have helped my project because I was truly seeing what the loan officers believed to be the best aspects of their program. They were very proud to introduce me to their "old," successful clients, and watching the interaction between loan officers and these clients versus new clients was very telling.

Once I left Tiechang for Yangwan and Donggan, I was presented with the cultural challenge of being surrounded by males for the remainder of my time in Malipo. With the exception of one loan officer in Tiechang who is a woman, the rest are men who love to drink, smoke, and play poker. I gradually grew accustomed to the constant cigarette smoke, but as a young girl traveling by myself I did not comply with their demands that I toast *baijiu* with them. I grew so fed up that these men, some of whom became my close friends, continued to pressure me to drink up until my final dinner that in a moment of frustration I flung the contents of the toasting glass on the floor. That got the message across.

In terms of the success of my research, I would have liked to do more of an empirical, data-based study, but with only a little over two weeks to be in Malipo I felt my time was too restricted. In hindsight, it would have been a good idea to get a better economic picture of the communities in terms of income ranges and the percentages of residents who engage in small business, migrant labor, exclusively farming, etc. However, I doubt the local government offices even have this information, so that would be a challenging undertaking. A better grasp of the wealth distribution of the program's clients would add more legitimacy to and support my claims.

I also wish that I had more data about the program itself, but the staff felt that they were unauthorized to let me see their annual reports. I think I did the best I could based on my observational experience, though I have made some harsh critiques of the program. If I had a second chance to go back to Malipo for further research, I would attempt to support my claims with actual data to provide a more useful assessment for the program.

Possible Research Topics

1. Development of Rural Credit Cooperatives: The financial sector, especially the RCCs, have been going through very significant reforms; also, the RCCs have a very interesting village rating system to determine interest rates that would be interesting to study

2. Marriage and childbirth in rural China: Studying the history and economics behind having children so early after marriage could be a topic in itself, especially since many other countries experienced a similar pattern earlier in their development