

Microfinance and Gender Inequality in China

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Executive Summary

Gender inequality is pervasive in China, especially in the poorest rural areas of the country. Impoverished women in these areas are targeted by microfinance programs because of such programs' proven success in increasing women's financial stability and decision-making power, which results in more resources for their families and development within their communities. However, even established microfinance programs which have existed for decades in Bangladesh and Latin America cannot measure the success of their programs on reducing gender inequality. Further, some studies conclude that the extension of microcredit to rural women results in negative consequences, such as exhaustion due to increased workloads and increased income of a recipient's male relatives in place of the female recipient.

Although microfinance programs began in China in the 1990s, there has been slow growth due to inadequate legal and regulatory measures. As of March 2006, international organizations and the government had invested more than RMB 200 billion through six major models of microcredit programs. However, lack of detailed information – such as length of loans and return on loans – prevents a comprehensive examination of microfinance's effect on gender equality in China.

Microfinance might benefit entire sectors of women in the country, or it might benefit only particular women within those sectors: while it is apparent that numerous microfinance models exist across China with the purpose of reducing gender inequality, the true impact of these programs is inconclusive. If the ultimate policy goal is to decrease gender inequality across the entire country, microfinance alone cannot be the answer; instead, microfinance should be considered in combination with other programs also targeted at reducing inequality.

Section 1: Introduction

Gender inequality, defined by the World Bank as “giving men and women different opportunities because of their gender,” is a pervasive issue in countless societies (World Bank, 2006). It persists in nations with laws safeguarding women’s equal access to health care, employment, and education, as well as in the many parts of the world where the rights of women and girls are poorly protected, and may not even be well-established. China is no exception. Our research seeks to determine the extent to which microfinance might play a role in reducing gender inequality in China. First, we will review the state of gender inequality in China and provide definitions and general background information on microfinance. Next, we will examine the potential benefits microfinance offers to women. Third, we will provide an overview of microfinance in China, including an assessment of its success. Finally, we will evaluate the obstacles and opportunities of pursuing microfinance as a strategy to improve gender inequality in China. We will conclude with a series of lessons learned that would illustrate the Chinese government the potential microfinance has in alleviating gender inequality.

State of Gender Inequality in China

In order to discuss gender inequality in China, one must trace the issue to its roots. John Bauer and colleagues (Bauer, 1992, p. 333) argue that traditional, Confucian norms “supported and reflected a strong hierarchy, both within and outside the family, based on gender and age. In this system, women were subordinate to men, and young women occupied the lowest strata of the hierarchy.” Bauer and colleagues suggest that these norms were influential in shaping modern Chinese society. Despite promises to raise the status of women made during the 1949

establishment of the People's Republic of China, gender equality persists more than fifty years later (Bauer, 1992). The lower status of women is reflected in the cultural preference for male children (Arnold and Liu, 1986; Li, 2004), the lack of representation of women in politics (Whyte, 1984), demands placed on women to work outside the home full-time, while maintaining substantial child-rearing and household duties (Bian, 1987), and attitudes about appropriate qualities of, and roles for, men and women (She, 1986). A recent study, conducted by the World Bank and the Asian Development Bank, revealed that although the status of Chinese women has improved greatly in the past two decades, "gender inequality still commonly exists in almost all social aspects including political power, education, health, employment and assets possession" (China Daily, 2005). The problem is greatest in rural, poverty stricken areas (China Daily, 2005). For example, Jianghong Li (2004) argues that the patrilineal family system of rural China perpetuates son preference and gender inequity and inequality, and is exacerbated by the government's one-child policy.

There are numerous well-known organizations, such as Grameen Bank Bank and Accion International, that have been successfully used microfinance as a means of making capital accessible to low-income groups in Asia, Africa, and Latin America over the last three decades. The experience of these organizations provides evidence that microfinance reduces income inequality by making financing available to small-scale entrepreneurs who would otherwise not have access to capital. Microfinance programs are also well-known for their success in targeting the poorest of the poor – rural women. Under ideal circumstances, the receipt of microloans empowers these women to make personal decisions about how to invest their money, and ultimately better allocate resources to meet basic needs. However, microfinance does not always generate positive results for women. The question of whether Chinese microfinance initiatives

are reducing gender inequality remains to be seen. The following section will provide the reader with additional background information on microfinance. Section three will describe microfinance developments in China in further detail.

What is Microfinance?

Microfinance is defined by Hidalgo-Celarié and colleagues as “the set of financial services on a small scale, such as credit, savings, insurance and remittances, offered to people that are excluded from bank financial services” (2005:351). These loans tend to be very small (approximately \$60) and average a payback rate of more than 95 percent (Morduch 1999). In recent years, microfinance has become an attractive development strategy to combat poverty (Morduch 1999, Park et al 2003, Hidalgo-Celarié 2005). Jonathan Morduch (1999) described it as a “win-win” strategy for donors and recipients alike, because of its high payback rate, ‘bottom up’ focus on communities, ability to reach the poor (particularly women, who have proven difficult to reach through other approaches), and sustainability (alleviation of poverty through economic opportunity).

History of Microfinance

Although the exact location and date of the first microfinance effort has yet to be determined, scholars attribute the modern microcredit movement to the work of the Grameen Bank and Accion International. Both organizations developed independently of one another, but share a number of common characteristics.

The Grameen Bank was founded by Muhammad Yunus in the early 1970s in Bangladesh (Jolis, 1996). At the time, traditional banks were not interested in loaning money to poor people, who were considered poor repayment risks. Yunus’ first loan consisted of \$27 of his own

money, which he lent to 42 individuals. Consequently, he discovered that very small loans could make a significant difference in a poor person's ability to survive, and the Grameen Bank was founded. Over the last thirty years, the Grameen Bank has issued more than \$5 billion in loans to several million borrowers – at the close of 2005 the number of outstanding loans totals more than 4 million. To ensure repayment, the bank uses a system of "solidarity groups": small informal groups, nearly all of them exclusively female, that meet weekly in their villages to conduct business with representatives of the bank, and who support one another's efforts at economic self-advancement. As it has grown, the Grameen Bank has also developed other systems of alternate credit that serve the poor. In addition to microcredit, it offers housing loans as well as financing for other activities, and other banking services, such as savings accounts (Grameen Bank, 2006).

Accion International was originally founded as a volunteer organization that addressed pressing infrastructure, health, and educational needs in impoverished Latin American communities (Accion, 2005). However, in order to address the major cause of urban poverty in Latin America - the lack of economic opportunity - Accion staff began issuing small loans in 1973. Over the next decade, Accion started microlending programs in fourteen Latin American countries. Their lending method includes small, short-term loans that built the client's confidence and credit record, and site visits instead of paperwork. In order to access larger pools of capital, Accion founded BancoSol. Established in 1994, it the first commercial bank in the world dedicated entirely to microenterprise. Like the Grameen Bank, BancoSol offers its clients a range of financial services including savings accounts, credit cards and housing loans. As a result of BancoSol's success in Bolivia, fifteen more financial institutions have been established in partnership with Accion.

Section 2: Microfinance and Women

Why Target Women?

Women are typically targeted for microfinance initiatives around the globe because studies indicate that involving women in microfinance ventures often plays a role in increasing gender equality within in a country. Efforts to reduce gender inequality can be linked to positive effects within a country. For example, reports from the World Bank demonstrate that countries and societies with high levels of gender inequality and discrimination against women often have the following attributes: high poverty levels, low economic growth, and weak governance. Additionally, providing women with access to financial resources helps increase the stability of the family unit (Cheston & Kuhn, 2002).

In “Microfinance and the Empowerment of Women,” Linda Mayoux (2001) identifies three distinct models outlining why women are frequently targeted for microfinance initiatives. Although her work is not specifically tailored to Chinese women, it is certainly applicable.

Model 1: Financial Self-Sustainability

In this model, organizations work to increase financial and lending services to poor people - particularly women - with the goal of creating overall market growth. Women are considered to be ideal targets because of their proven high loan repayment rates when compared to men. Ultimately, the goal of this model is to ensure that women have the same access to opportunity as men, since economic empowerment provides the necessary access to resources to enable individuals to make their own decisions and become self-reliant. The Financial Self-

sustainability Model assumes that providing Chinese women with access to small loans will increase their economic empowerment.

Model 2: Poverty Alleviation

According to the Poverty Alleviation Model, organizations promote microfinance as a means of alleviating poverty and fostering community development. The poverty alleviation model targets women because of their characteristically high levels of poverty and responsibility for maintaining and running the family unit. Empowerment is viewed as a means of increasing well-being for Chinese women, their families, and by extension, their communities.

Model 3: Feminist Empowerment

The Feminist Empowerment Model is the most indirect of the three models, because its' overall goal is to promote economic, social and political empowerment among women. Women are the primary target for this model among organizations that seek to create gender equality and promote human rights for Chinese women. This model considers empowerment to be the "transformation of power relations throughout society" (Mayoux, 2001: 6). The Feminist Empowerment Model assumes that the empowerment of women is the result of overall changes in the structure of society at the macro level, as well as a redefinition of gender roles at the micro level.

It is important to realize that while there are three broad models for looking at microfinance initiatives, most microfinance programs do not strictly adhere to just one of these models. Instead, microfinance programs tend to be a mixture of all three models with different levels of emphasis placed on different areas depending on the views of the organization managing the programs.

Benefits to Women

Based on her models that seek to explain the reasons why women are the target of microfinance programs, Mayoux (2001) suggests that there are three primary benefits to women that result from participation:

1. *Economic Empowerment:* The ability to create their own, better, employment opportunities increases the income of Chinese women. This increased income enables women to secure greater levels of decision-making power within the family unit (UNCDF Report, 2002). Furthermore, increasing women's income also increases overall household income, allowing families to consume items and purchase services that they previously would not have been able to afford.
2. *Increased Well-Being:* When women have greater access to financial resources and services, they obtain greater decision-making power regarding money and their households. Where this power lies may have significant implications for families and communities. Cheston and Kuhn (2002) argue that while women typically contribute all of their financial resources to their families, men rarely do so. Further evidence of this distinction is provided by a World Bank report that indicates men contribute approximately 60 percent of their income to their families. According to Mayoux (2001), when women are given decision-making power, they generally make decisions that will be optimal for their families. As a result, Chinese women will tend to make financial decisions that will promote nutrition, health and literacy within their families, whereas men may allocate some of their resources towards activities that are not helpful (and sometimes harmful) to the family.

3. *Social and Political Empowerment:* Social and political empowerment provides the most indirect benefit to Chinese women. It is a result of women's increased economic opportunity and control over their own finances, which in turn provides women with new skills, information and organizational capacity building (i.e. an expanded network of people). As a result of social and political empowerment, women are able to improve their status within their community. Together with other microfinance group members, they are able to work together to promote increasing levels of gender equality (Mayoux, 2001).

Although there are primarily three benefits to Chinese women that result from microfinance initiatives, it is important to note that these benefits are certainly not exclusive of one another. A woman could experience all or none of these benefits as a result of her involvement with a microfinance program.

Negative Effects

Although microfinance programs have been lauded for the many positive impacts they have on the lives of poor women, their families, and communities, these initiatives occasionally produce negative effects. It is important to point out that the benefits generated by microfinance initiatives cannot be guaranteed. Several issues have been identified as having the potential to contribute to the negative effects Chinese women sometimes experience as a result of their participation in microfinance initiatives:

1. *Ill Health and Exhaustion:* Women who successfully utilize their financial resources and build thriving entrepreneurial ventures frequently find themselves working longer hours and often harder than they have in the past. This change in workload may lead to poor health,

exhaustion and overwork. However, many participants actually feel that the benefits of microfinance are greater than the additional burdens caused from running a small business (Cheston and Kuhn, 2002).

2. *Loan Pass-Through*: Similar to other women in Mayoux's (2001) study, Chinese women often serve as intermediaries between lending institutions and their male relatives. Rather than using the loans to start small businesses, women actually turn the money over to their husbands or other male relatives. Consequently, these women become even more disempowered as a result of their experience with microfinance programs.
3. *Lack of Real Increase in Income*: Microfinance programs aim to provide women with the additional income that allows them to become self-sufficient and provide necessary resources for their families. However, when there are insufficient opportunities or support for women to invest their money in personal projects, women are likely to invest their money in the activities of their husbands or male relatives. This decision ultimately decreases the potential empowerment and control women could experience if they were investing their money in their own opportunities. Even when women do invest money in their own opportunities, they typically limit the investments to low investment and low return initiatives, which are traditionally categorized as female activities (Mayoux, 2001).

Mayoux effectively summarizes the potential negative effects of microfinance programs: "Evidence indicates that those who benefit least from micro-finance, and may be even further disempowered, are those who are already the poorest and/or most disadvantaged by ethnic group and/or who are abused within the household" (Mayoux, 2001: 15). It is clear that while there can be significant benefits to encouraging microfinance in order to empower Chinese women, considerable costs also exist.

Section 3: Overview of Microfinance in China

Background

Government programs, NGOs, and formal financial institutions sponsor almost 300 microfinance projects in China, although none have reached full sustainability. (Situ, 2003). The first experiments in China's microfinance practice began in the mid-1990s. Yet microfinance institutions (MFIs) have developed slowly and failed to cast any significant impact on the financial market in China. Furthermore, the Asian Development Bank (ADB) (ADB, 2004) stated that "many reasons have been put forth to explain micro credit's slow development in China, e.g. lack of human resources, lack of capital, and lack of knowledge. The key constraint, however, is the inadequacy of legal and regulatory environments for microfinance. Under such circumstances, the legal stance of microfinance institutions remains uncertain."

No policy or regulatory framework allows the operations of MFIs in China. MFIs have long been regarded as informal financial institutions by the Government and are restricted for fear of financial market instability (ADB, 2004). MFIs are not formally licensed and cannot take deposits. On the macroeconomic front, interest rates control and deflation make the micro credit business less attractive. Recently, however, the government has embarked on a different approach to poverty alleviation based on the support of economic activities at the household level. Microcredit programs have been promoted by the government on a pilot basis with the technical assistance of ADB.

According to China's Rural Development Institute, by March 2006, there were six major microfinance programs in China:

1. Micro credit programs funded by international institutions as a short-term "program".

The monetary amount is approximately RMB 1 billion.

2. Government-dominated microcredit programs funded by discount government loans and the poverty reduction loan of Agricultural Bank of China (ABC). The monetary amount is more than RMB 20 billion.
3. Rural Credit Cooperatives's (RCC) farmer family microcredit program. The funds of the program are provided by the Central Bank of China. The monetary amount is over RMB 200 billion.
4. The "micro-guaranteed loan for laid-off and unemployed people" operated by urban commercial banks as required by the state authorities since the end of 2002.
5. Poverty aid microfinance program conducted by official financial institutions through competitive tender, subsidized by the government in 200 poor counties since 2004. This program is conducted jointly by RCCs and financial institutions.
6. Pilot programs of Microcredit Institutions (MCIs) funded with private capital conducted in 5 provinces since the end of 2005.

More than RMB 200 billion has been invested in microfinance projects. Interest rates range from the subsidized rates of 3% per annum for government-operated schemes to 16% per annum for MFIs that seek financial sustainability. However, there is no conclusive report on the return on such investments and the impact that these programs have had on gender inequality. In China, information must be pieced together from the sparse information available on some organizations' websites and publications. Statistics such as average loan size, length of loan, default rate, types of collateral, and the length individuals remain in business would be extremely beneficial to understanding microfinance as a means of decreasing economic inequality. This would also tell us whether microlending is a truly empowering tool for women.

Innovation and variation in the types of microcredit programs offered in China is key because of the uniqueness of different areas of the country; one model will not work everywhere. Furthermore, microcredit is being used and promoted as a tool for unemployed workers, and models must adapt to the needs of these workers.

The following sections explore the differences between various Chinese microcredit programs and provides information about the contributions of international donors and the government to microfinance in China. Given the limited amount of information available about these programs and their impacts, we have chosen to include programs that target women specifically, as well as programs that target the poor in general.

International Donors

United Nations Development Program

In June 1979, China signed a basic cooperation agreement with UNDP, and began to receive the organization's assistance. With the help of UNDP, China introduced the microfinance scheme, and implemented projects in over 40 counties of 14 provinces on a trial basis in the mid 1990s. According to UNDP, these initiatives have effectively provided the poor with the access to the poverty alleviation resources and have been further extended throughout the country. No information was found, however, about the gender breakdown of the poor that have participated in this microfinance initiative.

In 1998, the United Nations Development Programme (UNDP) and AusAID established a business incubator in Tianjin targeted towards women. This project provided reemployment training, and combined enterprise incubation with microcredit, with the aim of helping laid-off

female workers to start their own business and become self-employed. The All-China Women's Federation's successful replication of this model is explained in more detail later in this paper.

In 2001, UNDP and the China International Center for Economic and Technical Exchanges (CICETE) launched the Sustainable Microfinance to Alleviate Poverty (SMAP) program in four selected counties. Three reached operational sustainability and one competed globally for the Financial Transparency Award organized by the Consultative Group to Assist the Poor (CGAP). In sum, UNDP has dispersed among more than \$8 million (Ruomei, 2003) to more than 300,000 microentrepreneurs across the country. (UNDP Support to Microfinance in China, 2005).

International Fund for Agricultural Development- Rural Finance Sector Programme

The International Fund for Agricultural Development (IFAD) is a specialized agency of the United Nations that has provided loans for 19 rural development projects since 1981. Most activities funded through IFAD support microfinance services, which allow poor rural households to obtain access to small loans or savings schemes. Projects are usually designed especially to target rural women, because women are largely responsible for farm production and household tasks. About 15 million people in 19 provinces have benefited from IFAD projects.

In particular, the Rural Finance Sector Programme's objective is to enable rural poor people to improve their livelihoods by increasing their access to financial services and markets. To help achieve this objective, IFAD supports the rural finance sector and proposed government policy reform of Regional Credit Cooperatives (RCCs). The aim is to turn the credit cooperatives into sustainable microfinance institutions, for the benefit of rural poor people, and women in particular. The total cost of this program is US\$ 21.3 million to be disbursed

between 2005-2009. It is expected that 120,000 households will directly benefit from this program.

Ford Foundation

The Ford Foundation's primary focus is capacity building, not solely the provision of capital to entrepreneurs. Andrew Watson, Ford's Beijing Representative, states: "There has been a lot of support for microfinance in China but no true success. The government is making it easier to operate but major challenges exist, such as government control of the interest rate and high demand." (IEDP's meeting with Andrew Watson, March 1, 2006).

Ford's microfinance program falls under its Economic and Development Finance Program, and began in 1992, when the Chinese Academy for Social Sciences (CASS) learned of the Grameen Bank's efforts. After visiting Grameen, CASS set up its own organization, Funding the Poor Cooperative (FPC), which operates in 3 counties around Beijing. This Cooperative is still in existence and maintains 15,000 clients through a rotating fund that provides loans to women.

FPC's objective was to explore alternative solutions for microcredit, increase the repayment rate, and assist the sustainability of entrepreneurs; after two year hard working the program maintained a 100 percent repayment rate. (Ruomei, 2003). Ruomei contends that prior to the FPC, microcredit in China was only a theory, but FPC's project translated that concept into a tangible system of assisting the poor. (Ruomei, 2003).

Although the next two programs we will discuss, the AusAID Qinghai Program and the Caohai Community Trust Fund, do not target women specifically, we have chosen to include them in our analysis, because they focus on alleviating poverty in rural areas, where women are

usually poorer and more alienated than men. Therefore, it is logical to assume that women figured largely in the pool of loan recipients.

AusAID Qinghai Program

One of four main components of the Qinghai Community Development program in the rural west Qinghai province is a microcredit program receiving \$1.67 million from AusAID. (Ruomei, 2003). The Haidong Agricultural Bank of China provides the credit through its township level business offices: Coordinating Extension Intermediaries from the villages disburse loans, and their income is entirely based upon collections of interest from the loan principals. Loan amounts range from \$50-\$250 with loan terms from four to twelve months, and there were more than 20,000 active clients at the end of June 2002. (Ruomei, 2003).

Caohai Community Trust Funds

An entirely unique program was initiated in the Caohia Nature Reserve, Weining County, Guizhou, by Trickle Up and the International Crane Foundation to assist people living on the outskirts of areas protected for endangered species. The program operates through Community Trust Funds whereby a management committee comprised of 10-15 people and one leader. Each group member has \$25 to grant the group and the members decide how to utilize the funds and together decide the delivery method, loan term, loan size, and interest rate. (Ruomei, 2003: 4).

The Government's Role

The Chinese government's role in the policy, logistics, and implementation of microfinance programs is very decentralized. The People's Bank of China (PBC) regulates monetary policy and interest rate regulation, the China Banking Regulatory Commission regulates the banking sector, and the Ministry of Civil Affairs regulates NGO activities (Situ,

2003). The central government relies on local governments to implement its microcredit programs and disburse the funds. Partially as a result of these factors, microfinance programs instituted by the Chinese government can be tailored to adapt to a wide range of situations, from assisting the rural poor to helping laid-off urban workers find new sources of income.

The average individual loan amounts range from RMB 1,000 to 3,000 with an APR of 2.88%, and balloon or installment payments from one to three years (Situ, 2003). There has been government support for micro lending: in 2003, a joint government working group issued the “Administrative Guidance on Guarantee Fund for Microcredit to Laid-Off Workers”, urging governments at provincial and prefecture levels to establish fund to support micro credit lending to laid-off people (Situ, 2003). The government matches reemployment funds from fiscal sources, operated by labor departments, women’s federations or trade unions (Ruomei, 2003). Loan amounts of RMB 20,000 can be obtained by laid-off workers from the local commercial banks with the guarantee provided by the local government’s funds; loan term cannot exceed 12 months, repayment is subject to the negotiations between lender and borrower, and interest rates are by the central bank’s base rate. (Situ, 2003).

Microcredit Institutions Pilot Program

This pilot program does not specifically target women. However, given that the PBC tracks the participation of women as a way to measure the impact of microfinance in gender inequality, this is an exceptional opportunity to analyze to what extent microfinance could make Chinese women’s social, economic and political status equal to that of men.

In the absence of a uniform policy for microfinance legislation and regulation under which the private sector can apply for a microfinance permission to operate anywhere in China, the PBC has proposed five pilot provinces in which they wish to allow private microcredit

institutions (MCIs) (ADB, 2004). The Asian Development Bank (ADB) will help develop relevant microcredit systems and regulatory guidelines, as well as a tendering mechanism to attract foreign and local investment, for two pilot sites - Jiangkou County of Tongren Prefecture, Guizhou Province and Dongsheng District of Erdos City of Inner Mongolia Autonomous Region (ADB, 2004). The bidding processing was kicked off on 13 March 2006 (ADB, 2004).

The PBC and the ADB do recognize that this policy process is not a substitute for the need to develop a coherent national policy on microfinance. Therefore, the development of clear and consistent national legislation and regulatory procedures and structures is critical to the promoting of commercialized microfinance industry institutions. Consequently, the launching of pilot MCIs by PBC together with the assistance from the ADB will be of great importance in attempting to develop national legislation and regulatory processes for microfinance.

All-China Women's Federation¹

The All-China Women's Federation reproduced UNDP's successful model in other municipalities. In December 1999, with RMB 800,000 they had collected, the Guangxi Women's Federation and the Liuzhou Women's Federation launched a project to help urban laid-off women use micro loans to create jobs. By the end of March 2003, RMB 5.1 million in micro loans were distributed. The money helped 2,002 women find jobs, and more than 6,000 others also benefited from the program. To ensure the project's smooth development, the Liuzhou Women's Federation visited many neighborhoods, communities and enterprises in the city to promote this project targeting laid-off women. This enhanced women's understanding of the project, and alleviated their concerns about applying for a loan. The federation also offered various training opportunities. Through such efforts, large numbers of laid-off women applied

¹ This section draws primarily from a document produced by the All-China Women's Federation (2003).

for loans. Meanwhile, the federation received support in terms of policies and funding--from the local government, including the allocation of a RMB 3.5-million revolving fund. While helping laid-off women find jobs, the project also helped some promising enterprises provide employment opportunities to laid-off women. Overall, the project has achieved positive economic and social benefits. It has become a good way of helping laid-off women find reemployment.

Regional Credit Cooperatives (RCCs)²

The rural financial system is comprised of the rural credit cooperatives (RCCs), Agricultural Bank of China (ABC), and Agricultural Development Bank of China (ADBC). In many localities, RCCs are the only financial institution serving rural areas. RCCs operate in almost every rural township in China, with farmers as the primary clients. Each individual RCC is a legal entity, and RCC unions are set up at the county level. Funding for RCC micro loans derives from the People's Bank of China at a low annual interest rate of 2-3 percent (Ruomei, 2003). In 2004, there were 32,397 RCCs with some 628,000 employees. Agricultural loans outstanding by RCCs in June 2003 amounted to RMB 700 billion. Farmer loans amounted to RMB 555 billion and microcredit loans amounted to RMB 114 billion.

RCCs were established during the rural cooperative movement in the 1950s. RCCs have long been influenced by various levels of government and suffered from problems such as unclear ownership structure, poor corporate governance, inadequate business scope and internal control, poor administrative and supervisory framework, problems with staff capacity, heavy historical burden, poor asset quality, and dismal financial performance. By the end of 2001, the

² The figures provided in this section were found in the Technical Assistance to the People's Republic of China for Rural Finance Reforms and Development of Microfinance Institutions, Asian Development Bank, November 2004, unless otherwise noted.

nonperforming loan (NPL) ratio of the RCC system was 44%, 46% of RCCs were posting losses; 58% had asset value less than liabilities, 53.3% had negative net worth (before counting NPLs written off), and 27% were facing serious financial difficulties. In most localities though, only RCCs maintain a regular but limited micro credit program.

These statistics illustrate the ineffectiveness of the rural financial system of China, and the likelihood that it may be ineffective in providing rural Chinese with economic opportunities. Billions of RMB have been disbursed, enabling farmers to find a temporary, but not sustainable solution to their needs. Furthermore, RCCs have achieved minimal success in promoting economic empowerment among rural women as a means of decreasing gender inequality.

Section 4: Implications and Conclusion

Based on the discussion in sections 1-3, the question still remains: Is microfinance an effective strategy for decreasing gender inequality in China? Although microfinance has had positive results across the globe, our research did not uncover conclusive evidence that directing resources towards microfinance initiatives will have a significant impact on reducing gender inequality in China.

As mentioned above, there are many benefits to providing microfinance to women, including increased income, which leads to more members of the family attending school or receiving healthcare. Furthermore, it is believed that women who participate in microfinance initiatives may experience economic empowerment, increased well-being and as well as social and political empowerment. These benefits will ideally work to decrease gender inequality in China.

However, there are a number of major limitations regarding microfinance initiatives. Although they may help some women, they do not help all women. In fact, many programs fail to provide assistance to the poorest women. As a result, the status of a particular group of women improves, but the overall status of all poor women does not. Additionally, there is no guarantee that the potential income that women earn as a result of their participation in microfinance initiatives will actually increase the overall family income. Consequently, increased well-being is not guaranteed. For every successful microfinance story, there is potentially an unsuccessful story.

As the Chinese government and other organizations move forward with microfinance in China, they must be aware that promoting microfinance to women is not the silver bullet solution to ending gender inequality in China. Although there are many benefits to society, there are also many potential costs. If the policy goal is decreasing gender inequality, then microfinance alone may not be the best solution - or the most effective use of resources. Microfinance has other benefits besides potentially impacting gender inequality, such as reducing income inequality and thus should be considered in conjunction with a variety of policy options, and not purely as a stand-alone program. In that same vein, as the Chinese government works towards decreasing gender inequality and helping poor women, they must consider microfinance as part of an equation of solutions and not the sole answer.

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