

Analysis of Countermeasures for Development of Micro-Credit in Jilin Province

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Abstract

As a large province renowned for grain exporting, agriculture is regarded as the main industry of Jilin Province. Therefore, it is of great significance to promote the development and reform of new financial institutions-small loan companies and increase farmers' revenue as well. With micro-credit in Jilin Province as the research target, the paper states the current condition of micro-credit, makes an analysis of drawbacks in the development of micro-credit and the negative factors which restrain its development, and then discusses how to promote optimum development of micro-credit in Jilin Province through three aspects, including improving the relevant guarantee system of RCC (Rural Credit Cooperative) to create good economic environment, protecting the rights of the two parties involved in the loan and bringing in external investment, etc..

Key words: Micro-credit; Jilin Province; Countermeasures

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INTRODUCTION

Micro-credit is a type of individual-centered or household-centered business loan with industrial and commercial self-

employed entrepreneurs, individual workshop owners, petty proprietors, medium-sized and small and micro enterprise owners as its service target. The amount of loan generally ranges from 1,000 RMB to 100, 000 RMB. Micro-credit is the extension of petty loan in technique and practical application. There is no need for the debtor to provide a guarantee. The feature lies in that the debtor doesn't have to provide a guarantee or the third party can apply for the loan only by means of credit and the repayment guarantee is determined by the degree of debtor's credit. Since the type of loan goes with relatively greater risk, the economic benefit, level of operation and management, and the development prospect, etc. should be investigated in a detailed way so as to lower risk. Meanwhile, micro-credit is a type of durative credit service for low-income group and MSE (Micro and Small Enterprises) with a small amount, which is an effective financial way for poverty alleviation by giving full play to financial incentive mechanism and changing traditional fiscal transfer and payment. As a large province renowned for grain exporting, agriculture is regarded as the main industry of Jilin Province. Therefore, it is of great significance to promote the development and reform of new financial institutions-small loan companies and increase farmers' revenue as well.

1. THE DEVELOPMENT OF MICRO-CREDIT

Internationally, micro-credit was first created in 1970s, with the initiative to eliminate poverty and develop agricultural production. The fund is mainly granted for agricultural production and technical transformation through national financial institution or a cooperative organization. The loan granted comes from subsidy of government and various public funds and is generally low-interest or zero-interest (Wang, 2004).

Micro-credit has been carried out in different countries all over the world. The modes of operation and the

development paths of the micro-credit vary with different conditions in different countries. The institutions which can provide micro-credit in each country also vary, including state-owned institutions, state policy-related banks or development banks, commercial banks, NGOs, credit cooperatives and non-official community group. There are several kinds of influential micro-credit in the world, including micro-credit systems of Grameen Bank in Bengal, rural cooperative bank in Thailand and People's Bank in Indonesia.

Since the beginning of 1990s, under the influence of Bengal mode, micro-credit has become pilot projects in the countryside in China, mainly including NGO, social community, and foreign-funded pilot (Zhao, 2003). Most of them had to rely on subsidy to maintain and it was very difficult for them to spread their experience effectively in a fast way. Thus they failed to attain a certain amount of quantity, certain coverage and sustainable development. In the late 1990s, expansion of micro-credit in a wider range was carried out by the government and designated bank mainly by means of poverty alleviation funds. Since 2004, the government has issued a series of favorable policies to compensate the blank of financial product support targeted at average and low-income group and MSE (Micro and Small Enterprises) and to develop micro-credit. Chinese micro-credit can be generally classified into three types: the secured loan from the bank for laid-off and unemployment, poverty-relief loan and students' loan; micro-credit from RCC (Rural Credit Cooperative) or co-guarantee loan for farmers; and non-governmental micro-credit organization (Liu, 2011).

2. THE OVERVIEW OF DEVELOPMENT OF MICRO-CREDIT IN JILIN PROVINCE

Jilin Province is one of the largest agricultural provinces in China. According to the census of 2010, Jilin Province has a population of 27,460,000, 45% of which live in rural areas, accounting for a large proportion. Moreover, Jilin Province is also the main production base for grain. Agriculture, as the first industry in Jilin Province, created 88.86 billion RMB in 2014, which has laid a solid foundation for the development of micro-credit. Small loan institutions of the new type have been gradually established since the beginning of 2007. The new rural financial institutions have begun to emerge. Besides loan companies such as original RCC (Rural Credit Cooperative) and Agricultural Bank of China, creating multiple structure of micro-credit at present.

3. PROBLEMS IN THE DEVELOPMENT OF MICRO-CREDIT IN JILIN PROVINCE

There are also some irrational problems in the development of micro-credit in Jilin Province, covering

fewer fund resources, lower level of electronic information management and little sense of risk management.

3.1 High Loan Interest Rate

At present, farmers can apply for the micro-credit to the annual interest rate of approximately 10%, sometimes even as high as 11%, which is unbearable for most low-income farmers. The financial institutions have to ensure profit if they would like to provide micro-credit persistently or even explore their services. With the rapid development of bank nowadays, if RCC (Rural Credit Cooperative) fails to win profit, suffers from loss, and couldn't get valid subsidy, this will lead to the sluggish development of micro-credit, in which the key factor lies in the level of interest rate. Compared with the procedure of loan in the bank, the micro-credit is featured with small amount and relatively high cost; consequently, the weakness can be compensated by high deposit-loan surplus. The widespread successful differences between deposit and loan of micro-credit interest rate in the world reach as high as 8%-15%, the micro-credit in China is relatively simple without the requirement of new financial institutions, thus lowering the cost; the interest rate still remains 8%-10% to ensure normal turnover without great loss (Ouyang, 2011). Since the development of the economy varies in different regions, the rational interest rate of micro-credit will be determined based on measurement. The president of China Foundation for Poverty Alleviation, Duan Yingbi once said in an interview "On the one hand, the farmers' separate living style results in high cost of even single loan in small amount; on the other hand, large banks, rural banks and small loan companies are essentially commercial in nature, demanding making profit. Under the pressure of stock, shareholders and dividends, it is inevitable for them to serve the clients of the relatively large amount loan in order to lower the cost and reduce risk. Since the farmers win little profit in farming, it is very difficult for them to pay the reasonable interest, which is the main problem for micro-credit in Jilin Province at present."

3.2 Short Loan Period

The period of loan the farmers get from RCC generally lasts from 10 to 12 months. Since Jilin Province is located in northeast of China; the production cycle for crops is one year and it also takes nearly a year for the farmers from investing the loan into farming, getting harvest, selling crops till obtaining income, which is irrational in schedule. Consequently, the farmers find budget tight and then defer their payment.

3.3 Small Amount of Loan

Since the actual amount of the loan fails to satisfy the farmers' actual requirements, the average amount on the whole could hardly meet the fund demand in rural area. The public small loan institutions mainly carry out their service under the guide of CFPFA (China Foundation for

Poverty Alleviation), and the project supported by CFPA is featured with “hard to persist, hard to repeat and hard to expand”, it is very difficult to realize benefit of scale or complete industrial structure. Moreover, since the farmers aren’t well-educated and lacking in relevant framing skills and knowledge and the farming tools they possess are insufficient or of poor quality, not only Agricultural Bank of China, but also RCC hold a cautious attitude for verification of farmers’ loan. It is difficult for the coverage of farmers’ micro-credit to reach 10% of the minimum population of the rural area (Wei, 2011).

3.4 Incomplete Guarantee System

Targets small loan institutions of Jilin Province service are mainly local farmers or enterprises and the clients are laid-off workers and farmers without any property as mortgage. According to provisions of *the Guarantee Law of the People’s Republic of China*, it is not particularly specified that the farmers’ self-built houses couldn’t be used as mortgage, while the farmers’ houses should be classified as “other properties under mortgage” pursuant to the law. On the other hand, it is also stipulated in *the Guarantee Law of the People’s Republic of China* that the right to use a house built on the collectively-owned house site can’t be used as a mortgage. Since the right to use the house site is possessed by the community, the farmers merely possess the private use of the land use right, which is not allowed to dispose and enter circulation area. When the farmers’ self-built house is under mortgage, it is virtually the ownership of the house, rather than the land use right, which makes it impossible for the mortgagee to have the mortgage on the house. The ambiguous specification poses a great challenge for the farmers who apply for the loan. Even after mortgage, the special property of the mortgage makes its function unrealizable and the person liable for the joint guarantee will fail to bear responsibility due to natural disaster and thus incur losses.

3.5 Lack of Complete Security System

Since most debtors are farmers lacking in funding, if the project invested fails and results in a loss, the loan fund will be difficult to guarantee. Moreover, the lack of honesty and trust system of the whole society results in incredibility of credit guarantee of micro-credit. Although at present private loan still takes a relatively large part in rural areas of Jilin Province, with the expansion of unofficial financial activities in rural areas, the advantage of information will be impaired and the mismatch of information will arise, resulting in ethical risk and honesty crisis.

3.6 Lacking in Variety

Generally, loan refers to external and internal credit and financing business covering a variety of loans, trade financing, discount, factoring, loan commitment, pledge, letter of credit, acceptance of bill, etc. while the Chinese Rural Credit Cooperatives support the MSE mainly by providing loan, rarely acceptance of bill and discount

and without any involvement of other business such as trade financing and factoring(Chen,2012). However, the loans granted at present are mainly secured loan, with a relatively small amount of an unsecured loan.

3.7 Lacking in Rigorous Process of Granting Micro-Credit

Micro agricultural credit is granting a loan based on investigating financial situation of farmers, evaluate the credit rating, issuing a certificate and directly granting a loan by the certificate. Although it is an unsecured loan, every step involved will have an impact on repayment of the loan on schedule. Once there is lacking in rigorous or practical transaction in each step, non-performing loan or ethical risk may occur. The investigator of the micro agricultural credit is the primary responsible person. However, in reality, after the handover of micro agricultural credit from the formal village, it is inclined that some loans with good condition may be transferred, while some due loans may fail to be transferred, for the loan officer gets retired or transferred or management areas are divided in a different way within the rural cooperative. In case of loss, it is a problem whether the original investigator or the current officer in charge should be investigated. In reality, they usually pass the buck to each other.

4. COUNTERMEASURES FOR PROMOTING DEVELOPMENT OF MICRO-CREDIT IN JILIN PROVINCE

Micro-credit in rural areas in Jilin Province is featured with framers as clients working in a decentralized way, small amount and great service demand, etc. In order to improve micro-credit, the reform of RCC (Rural Credit Cooperative) system is required, bringing in competitors and creative financial products so as to expand the financial market in rural areas. Since there are also factors such as striking difference in different regions, unstable market structure and irrational interest rate pricing, it is crucial for the government to administrate non-financial institutions like RCC (Rural Credit Cooperative), such as setting interest rate ceiling, enhancing the cooperation between financial market and non-financial market and finding balance for the two markets. The countermeasures are as follows:

4.1 Gradually Standardizing Rural Credit System

The social credit system has been preliminarily established in China, including personal credit system based on traders in the market, enterprise credit system based on legal persons, in combination with government credit system which is based on EGA (Electronic Government Affairs) with government as the subject. The government should incorporate in personal credit system the credit status of framers and other credit receivers involved in non-governmental credit as fast as possible, establish rural personal credit system covering introduction to

personal assets, the record of personal savings and debts and personal credit history. Moreover, the relevant credit assessment will be carried out to protect efficiently the interest of both parties involved in the loan.

The transaction should be standardized based on current credit rating of farmers. The financial institutions should realize data share to a certain extent, so as to lower the cost of information mismatch in the market and increase the effective use of micro-credit. Moreover, time limit for various information changes should be set up in a scientific way. Information on general production, living and operation should be adjusted and changed annually; information on poor reputation should be gathered at times and stored for the long run; information on personal savings, assets, etc. also gathered at times and kept in permanent storage.

4.2 Enriching Financial Products and Increasing Fund Efficiency

The new competitive edge should be created. After careful study of fund demand structure, period and purpose in local area, consumer credit service, real estate credit service, SME credit service, overdraft of credit card and personal financial service, etc. In light of resources advantage and features of agricultural industry in Jilin Province, special aid should be given to development and expansion of economy with distinctive features, such as plantation of maize and rice, etc..

Rational loan interest should be worked out and the availability of fund increased. Meanwhile, the Central Bank of China should pour more funds into re-loan of Rural Credit Cooperative to support farmers; appropriately increase credit granting of farmers' micro credit. Moreover, taking the features of agricultural production into consideration, the loan period stipulated in the regulations should be extended appropriately and the decision should be made by RCC according to the production cycle of production and the purpose of the loan.

4.3 Standardizing Financial Act; Establishing Stringent Investigation and Penalty System

The development of micro-credit relies on standardization and guidance of financial laws and regulations, the relevant departments should improve relative laws and regulations and modify "Law of the People's Republic of China on the People's Bank of China" as soon as possible, amend articles about micro-credit so as to establish the independent subject role of micro-credit institutions; micro-credit is allowed to enjoy the same proportion of interest rate fluctuation as RCC, to attract idle funds from society with interest rate close to that of market, screen risk factors in the credit market, increase the profit level; supervision policies which meet requirements of development features and development stages should be worked out as soon as possible.

Legally, the distinction between financially illegal acts and normal private financial acts should be stipulated and the act of lenders should be specified as well. The

opportune moment, method and scope of unofficial financial act intervention in a rural area should be defined. The relevant departments of government will notify the farmers the risk caused by various unofficial financial acts in a broad way by establishing rational information announcement system, so as to compensate for the risk of information mismatch. Meanwhile, the relevant incentive mechanism will be established and institutionalized.

4.4 Relocate Government R

Micro-credit in China can't go without support and coordination of government. However, government should follow the principle of "participation without intervention", without intervention in approval and granting, without intervention in incentives and punishments from the micro-credit institutions; without intervention of amount, period and interest rate of the loan; participation in providing market information, technique guidance and policy support for the clients. Meanwhile, government should popularize the range, limits of power, purposes, etc of the micro-credit through special issue in newspaper, posters, popularization over the counter and daily popularization; government should make more efforts to provide better favorable legal environment and preferential policies, lessen the risk of micro-credit institutions indirectly. Financial institution which will virtually serve for Chinese rural economy will be constructed and fund raising channels expanded, to guide the flow of funding and provide abundant credit service for farmers.

CONCLUSION

Generally, small loan institutions possess great potential risk, a good environment should be created for them to prevent capital outflow and lower the risk. Meanwhile, powerful investment enterprises both within the province and outside the province will be positively guided to pour substantial capital, or even the foreign investment introduced to lay a solid foundation for micro-credit.

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