



Problems of Micro-Credit Company Supervision and Related Suggestions

LI Junhong^{[a],*}; SHI Yue^[b]

^[a] Lecturer, Master Degree in Economics, Research direction: the world economy. Economy College, Shenyang University, China.

^[b] Assistant, A bachelor's Degree in English. Economy College, Shenyang University, China.

*Corresponding author.

Supported by Liaoning province social science fund plan project "Liaoning micro-credit company sustainable development and system innovation research" in 2012 (L12DJY052).

Received 7 June 2013; accepted 3 August 2013.

Abstract

The micro-credit company has obtained the good economic and social effect since becoming a pilot, however, micro-credit company has many problems on management: such as the lack of regulations, identity positioning is not clear, regulation subject is vacancy, internal control mechanism is weak etc., the existence of these problems directly affect specifications and health long-term development of micro-credit company. This paper presents that it should announce the micro-credit company related laws as soon as possible, clear the petty loan company's non-bank financial institution attributes, gradually relax regulatory restrictions, lower the difficulties of "career change" for micro-credit companies and so on, provide a good legal environment and strong support for the long-term development of micro-credit company.

Key words: Micro-Credit company; Regulatory; Legislation microfinance

LI Jun Hong, SHI Yue (2013). Problems of Micro-Credit Company Supervision and Related Suggestions. *International Business and Management*, 7(1), 69-72. Available from: <http://www.cscanada.net/index.php/ibm/article/view/j.ibm.1923842820130701.1105>
DOI: <http://dx.doi.org/10.3968/j.ibm.1923842820130701.1105>

Micro-credit company is a new type financial institutions in order to solve the problem of "agriculture, countryside and farmers" and financing difficulty of

small and medium-sized enterprises. Since micro-credit company pilot work has been promoted in 31 provinces and regions in 2008, micro-credit companies is developing rapidly, and has achieved good social benefits and economic benefits. According to statistics released by the People's Bank, the national total of micro-credit companies is 6080, loan balance is 592.1 billion Yuan, annual new loans are 200.5 billion Yuan at the end of 2012. With the advancement of pilot work, however, problems of micro-credit company are continuously emerging, especially more regulatory loopholes which directly affect the standard management and the sustained, healthy development of micro-credit company.

1. THE PROBLEM OF MICRO-CREDIT COMPANY REGULATION IN OUR COUNTRY

1.1 The Lack of Regulations

At present only banking regulatory commission and the People's Bank of China jointly issued national level to micro-credit company legislation in May 2008 "About micro-credit company pilot instruction opinion" (here in after referred to as "Guidelines"), which is a department normative documents, its legal effect is lower than administrative rules, and for other government departments, local governments set up micro-credit companies are not legally binding. Although each pilot areas also introduced the implementation of local micro-credit company, such as in November 2008, there was "The Liaoning province people's government of carry out the work of micro-credit company pilot instruction opinion" in Liaoning province (here in after referred to as "Guidance in Liaoning province"). It made further clear provisions on micro-credit company's access threshold, capital source, financing mode, supervision mechanism according to the actual situation of Liaoning province, but it belongs to administrative rules and regulations, legal status is

too low. Also, according to the “Guidelines” regulation, micro-credit company is a industrial and commercial enterprises and financial institutions, so micro-credit company is unconstrained by “Commercial bank law” and “Company law”, but “Company law” and “Contract law” applies to all companies, not to make special provisions micro-credit company. High status lack of laws and regulations, to a certain extent, will affect the micro-credit company investor’s confidence and credibility of micro-credit companies in the financing market, and bring trouble regulatory activities to the government.

1.2 Lack of Consolidated Supervision, Poor Regulatory Fragmentation Effect

At present, there is not yet a national level regulatory of micro-credit company implement to unify in our country. “Guidelines” regulation: “The provincial government clears a competent department (financial or related organizations) which is responsible for the supervision and management of micro-credit company, at the same time, the CBRC and the People’s Bank of China also have certain regulatory responsibilities.” In practice, it forms the government dominated system, which supplemented by the CBRC and the People’s Bank. Take Liaoning province as an example, “the micro-credit company in Liaoning province measures for supervision and management of the (provisional)” (Liao financial office [2009] no. 68) Stipulates: “The provincial government finance office authorized municipal finance office to carry out the micro-credit company daily business management. Municipal finance offices under the leadership of the municipal joint government with relevant departments to carry out microcredit companies risk managements. County supervision duties shall be determined by the municipal government according to the actual situation.” There are two problems with this regulatory approach: One is the bull ineffective regulation. In the practice of the regulatory financial office joins the local banking board and the central bank branches to coordinate regulatory activities of various departments with industrial and commercial tax department and others. The regulatory department is so many that not only will cause the stalling phenomenon of each department, also cause higher regulatory costs, and regulatory efficiency and effect are not satisfactory. Another is limited capacity of local government regulation. As micro-credit companies more units at the county level, some local financial offices have regulatory power further down, and the government at the county level and its relevant departments shall take specific responsibility for the regulation of micro-credit company. Financial regulation is a very professional job, the local governments, especially at the county level people’s government due to lack of appropriate professional and technical personnel and regulatory experience, it is difficult to form on the effective regulation of micro-credit company, it may even lead to a greater risk to micro-credit company.

1.3 The Part of the Regulatory Index is too Strict

It mainly reflects on the registered capital and financing restrictions. (1) The registered capital requirement. According to “Guidelines”: Shares held by a single natural person, enterprise legal person, other social organizations and their affiliated parties shall not exceed 10% of the small loans to the company’s total registered capital. Liaoning provincial government finance office released “on the adjustment of the main promoters of micro-credit company and their affiliates and other related issues stake supplementary notice” in March 2010 ,which stipulates: “micro-credit company’s main sponsor and its affiliated parties stake aggregate shall not exceed 49% of its registered capital; other investor and its affiliated parties stake in total must not exceed 10% of its registered capital”, which has set up a microfinance company should have at least 6 shareholders, even if the large shareholders’ funds is very abundant, also need to other small shareholders’ capital, in order to meet the special requirements of proportion. Thus the formation of micro-credit company subject to the small size of shareholders’ funds, and its registered capital is also very limited loan funds. (2) Financing constraints. “Guidelines” provides micro-credit company “shall not in any form of external financing and deposits from the public”. “Micro-credit companies can integrate into the funds to no more than two banking institutions, and the integration of the balance of funds shall not exceed 50% of the net capital.” This means that the company’s financial leverage microfinance maximum of only 1.5, while the commercial bank’s leverage ratio of at least 12.5. In addition, for a new micro-credit company, itself on a smaller scale, business is still in its infancy, and thus to obtain the trust of the banking financial institutions to get financial support, there is still a big difficulty.

1.4 Daily Supervision Become a Mere Formality

At present, relevant departments of state and local micro-credit company not yet clear regulatory rule, the daily supervision is vacant as a whole. On the one hand, information disclosure system evolved into statements, although all micro-credit company regularly submit various reports to relevant management departments, but due to the lack of statistical analysis of all kinds of data and information publicly trade data on a regular basis, make the micro-credit company unable to know the trade business situation, the business can only be in fumble stage of development; On the other hand, lack of policy guidance and services, most microcredit company in policy guidance blind area, and lack of timely and effective to the regulatory policy channels, relevant policy documents can only be obtained through online query, telephone consultation, etc. In addition, the related policy system, microfinance technology and experience almost in blank state policy propaganda, is not conducive to micro-credit company operation and development.

1.5 Conversion Upgrade Provides some Defects

In June 18, 2009, the CBRC issued the "Micro-credit company established restructuring village bank Interim Provisions", which clearly defined in accordance with certain conditions, micro-credit companies can be transformed into village banks. Restructuring conditions: You must be banking institutions as the main sponsor; continuing operations three years or more and recently two consecutive profitable fiscal years; non-performing loan ratio of less than 2% and the loan loss reserve adequacy ratio of 130% and so on. This provision of a wide range of private capital into the financial sector opened the door to a dream. Of course, rural banks must be made by commercial banks holding This means that the transformation of a small loan company good into village banks will lead to the original shareholders will control over to the banking financial institutions, the petty loan company shareholders under such conditions would not "career change"; In addition, in order to avoid competition, the banks are also reluctant to holding in the same area of village bank. It is very difficult for micro-credit companies to change into village banks.

2. SUGGESTIONS OF IMPROVING THE MICRO-CREDIT COMPANY REGULATION

2.1 Introducing Related Laws for Micro-Credit Companies and Establishing Microcredit Company's Properties

The existing normative documents on microfinance in our country mainly is the People's Bank of China issued "rural credit cooperatives microfinance credit management method" (1999), "the rural credit cooperatives farmers group lending guidelines" (2000), "the rural credit cooperatives farmers microcredit loans management guidance" (2001) and so on, their force of law is low, and they aimed at credit unions. Suggests that it should announce the micro-credit company related laws as soon as possible, Make the legal status, micro-credit business direction and purpose setting down in legal form, and clear the financial institutions attributes of micro-credit companies, provide a good legal environment and strong support for the long-term development for micro-credit companies.

2.2 Further Clear Regulatory Body

Because of the lack of the reserve of talents, research ability, supervision experience and independence of local government finance office, the regulatory body is not suitable as the micro-credit company supervision. Starting from the situation of our country, it should establish the CBRC as micro-credit companies' supervision department. The reason is: our policy is a separate supervision system, from the beginning of 2003, the China Banking Regulatory Commission is responsible to regulate for the banking financial institutions (including

commercial banks, credit cooperatives, rural banks, financial companies and so on). Micro-credit company's main business is lending, which belongs to the regulation of the CBRC; At the same time, the CBRC has a lot of experience and a higher level of supervision, it can avoid over-regulation or lack of supervision, inefficiencies and other issues under the supervision of the current bull.

2.3 Gradual Relaxation of Regulatory Restrictions

One is to broaden the registered capital restrictions. At present the biggest problem of micro-credit companies is the lack of funds, the maximum amount of registered capital of a small-sum loan company can reduce the business risk, but also limit the scale of development, reduce the development speed, weaken the micro-credit company's capital strength and anti-risk ability. Gradually adjusted the proportion of shareholders' funds of micro-credit company, the first big shareholder's money can be raised to 49%, and reasonably determine the proportion of other shareholders funds. The other is to broaden the financing restrictions. Financing constraints make it difficult to use micro-credit companies to leverage debt instruments, resulting in tight funding sources, but also improve the operating costs of micro-credit companies. So the government should relax too many restrictions on micro-credit company's financing, increase the number of financial institutions with financial capital, allow some good micro-credit company into the capital from more banks, while increasing the proportion of net capital to total capital.

2.4 Broaden the Transferring Way of the Microfinance Company

There are three directions are available for micro-credit company's future development: (1) Transforming and upgrading to rural Banks. Suggest relaxing transforming conditions appropriation: on one hand, lowering the difficulty of "career change" for micro-credit companies. Because the NPL ratio is generally higher than 5% of "three rural" lending business in domestic agriculture-related financial institutions, the prerequisite that the non-performing loan ratio should be less than 2% is too high for converting the micro-credit company into a rural bank. It is appropriate to lower the standards. On the other hand, we should further improve the arrangement of ownership system of all kinds of shareholder in village Banks, relax the restrictions on the proportion of private capital investment in rural bank, ensure the main sponsor of the micro-credit company's holding position, to stimulate the enthusiasm of the micro-credit company for village banks. (2) Reference to foreign development model into a professional loan companies, such as American loan retail companies. Of course, micro-credit company also need some breakthrough in the nature of the institution, the sources of funds and other aspects to become market-oriented operation and business professional loan

company. (3) Integration as a subsidiary body of large financial institutions. Financial holding group, commercial banks and other large financial institutions attach great importance to the financing of small and medium-sized enterprises. But the small and medium-sized enterprise credit department of large financial institutions plays a limited roles, it can make the large financial institutions to better services for small and medium-sized enterprises through acquiring the micro-credit companies.

REFERENCES

- Qiu, J. Y. (2011). *The Legal Issues Research of Micro-Credit Company Regulations in our Country* (Master's Degree Thesis). Southwest University of Political Science and Law.
- Wu, X. Y., Wu, D. L., & Zhang, Y. (2006). Micro- Finance Supervision of International Experience and Enlightenment to our Country. *Finance Economy*, (3).
- Xie, Y. M. (2012). *Comparative Study on Microfinance Development*. Beijing: Higher Education Press.
- Yao, M. L. (2011). *The Financing Breakthrough of Private Capital- The Investment Research of Zheshang on Village Bank and Microfinance Company*. Zhejiang: Zhejiang University Press.