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## **Households Access to Nongovernmental Microfinance, Formal and Informal Credits in Rural China**

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## Introduction

- Credit constraint has been recognized as one of the primary bottlenecks in improving the livelihood for the poor.
- In rural areas, government-oriented credit failed to meet the demand.
- Non-governmental microfinance** becomes a backbone of delivering loans to the poor in less developed economies



### In CHINA

- Formal Financial Institutions dominate in rural financial market, however, the credit demand is still *unmet*.
- Microfinance has been developed since the early 1990s in China.

Internationally, recent concern centers on the **mistargeting of microfinance**. And so far, somewhat less known is the status of China's microfinance and how the poor people are served. Whether the poor are excluded? Little empirical evidence till now...

## Objectives

- Present the profile of credit access from various sources for the sampled rural households.
- Empirically analyze how household wealth and other indicators affect farmers' access to credit from different credits.
- Examine the differences of targeting of these three categories of lenders.

## Sampling and Data Collection

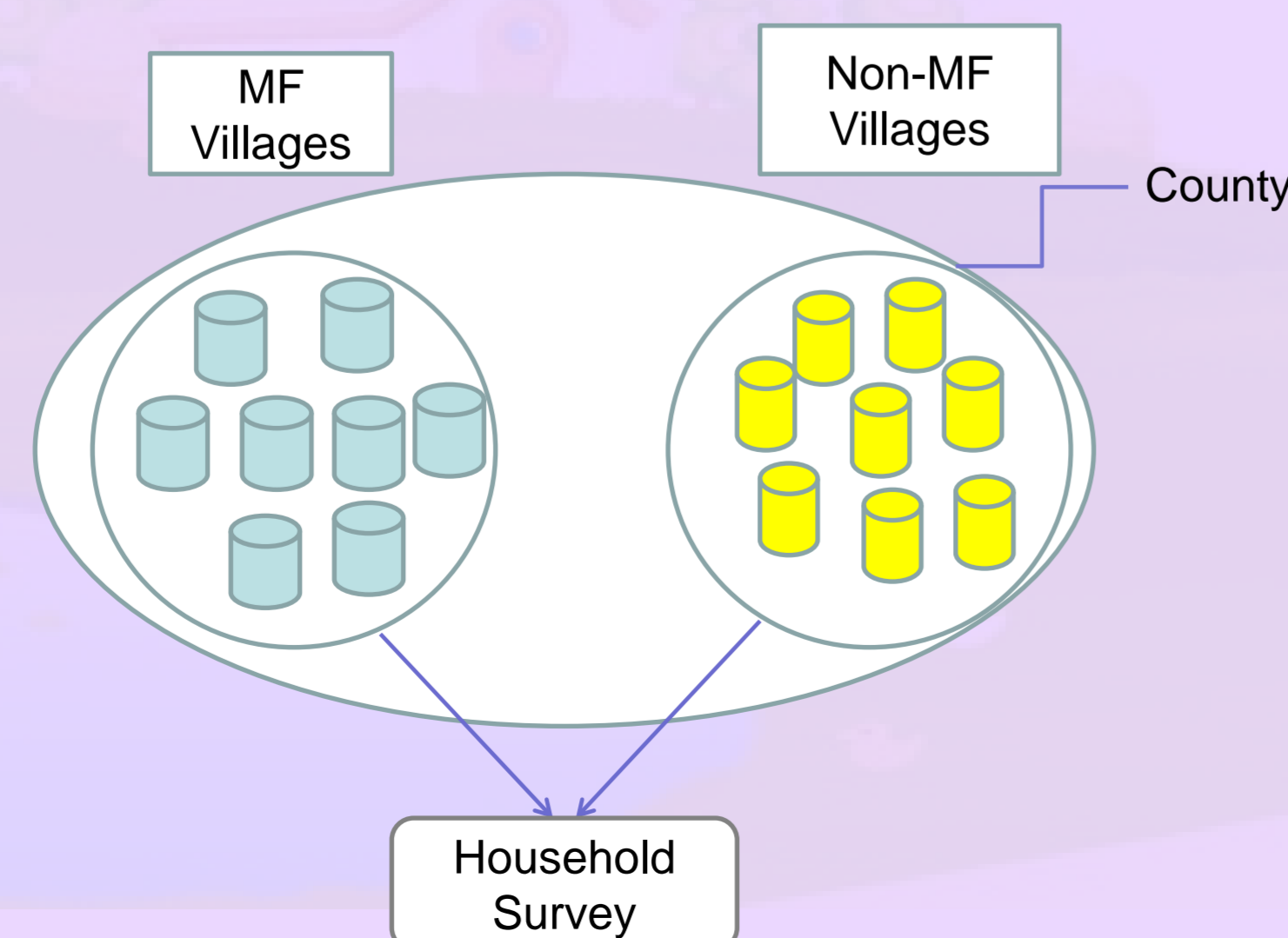
we examine China's largest NGO microfinance (CFPA microfinance)

**Period:** 2006-2009

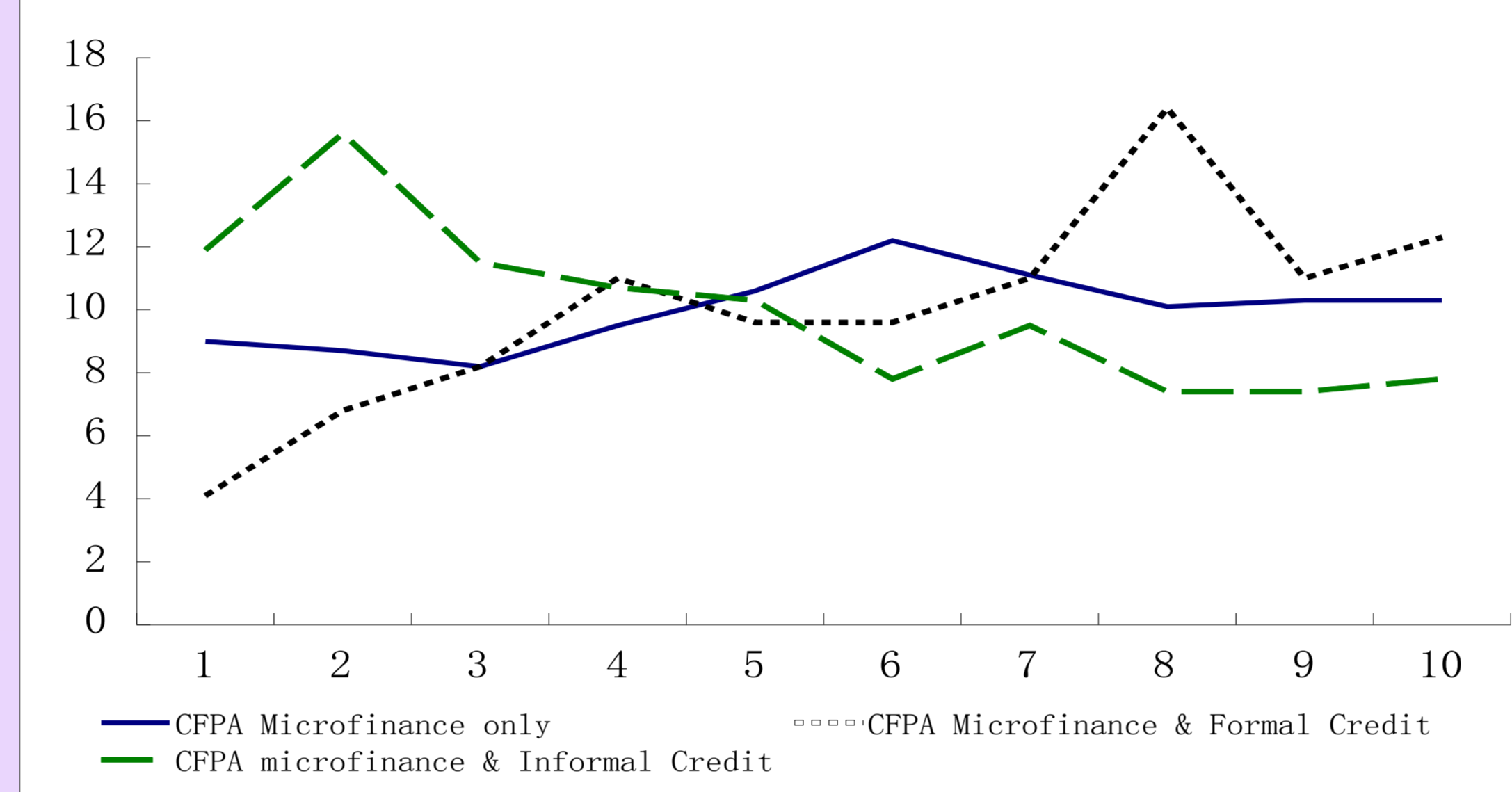
**Counties:** HA and XB both are group lending and national designated poverty counties

**Villages:** Two categories (Microfinance villages and Non-Microfinance villages)

**Households:** 749 in MF and 1246 in Non MF, separately.

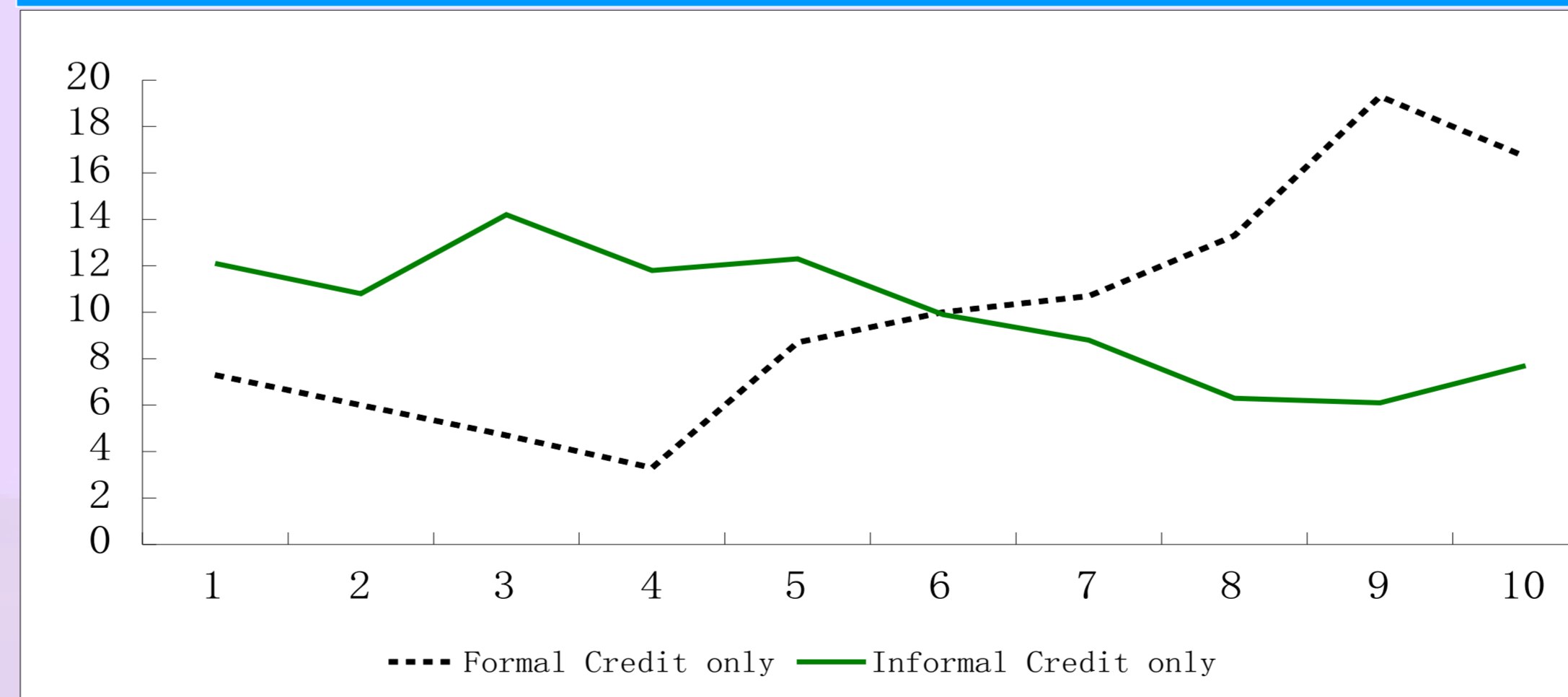


## Outreach of different credit by household wealth in MF villages



- The solid blue line of microfinance is more flat, rural households had almost equal access to the microfinance.
- The dot black dash line is steeper means targeting of formal financial institutions on the wealthy.
- The grid green dash line suggests informal network was primarily relied by the poor.

## Outreach of different credit by household wealth in Non-MF villages



- The upward dash line shows that formal financial institutions excluded the poor and targeted more on the rich.
- The green solid line means that poor farmers tended to borrow money through informal network.

## Econometric Estimation

$$Y_{ijtk} = a_0 + a_1 * Asset_{ijt(t=2005)} + a_2 * Ind_{ijt(t=2005)} + a_3 * T + e_{ijtk}$$

	Microfinance	Formal Credit	Informal Credit	Null Credit
Asset per capita (1,000 yuan)	0.001 (0.19)	0.001** (2.21)	-0.001*** (3.84)	0.001 (0.75)
Age (years)	0.001 (0.35)	-0.001 (1.06)	0.001 (0.03)	-0.001 (1.05)
Education (years)	0.003 (0.84)	-0.002 (1.25)	0.003 (1.00)	-0.002 (0.45)
Cultivated Land (ha)	-0.03 (0.67)	0.001 (0.01)	0.07** (2.33)	-0.03 (0.61)
Other control	...	...	...	...

- In MF villages, Microfinance **is inclusive** for both poor and wealthy and did not discriminate households in terms of age, education and farm size Formal credit targeted more on wealthy households; The poor were inclined to borrow through informal network.

	Formal credit	Informal credit	Null credit
Asset per capita (1,000 yuan)	0.001*** (3.56)	-0.002*** (4.66)	0.001 (0.80)
Age (years)	-0.003*** (4.44)	-0.004*** (4.52)	0.01*** (5.84)
Education (years)	-0.004* (1.94)	-0.01*** (2.71)	0.01*** (3.24)
Cultivated Land (ha)	0.08*** (3.81)	-0.08** (2.36)	-0.01 (0.20)
Average income per capita in village (1,000 yuan)	0.11*** (15.31)	-0.05*** (5.25)	-0.02** (2.56)
Village with paved road (1=yes, 0=no)	0.09*** (5.26)	-0.04** (2.51)	0.02 (0.95)

- In non-MF villages, Formal credit targeted more on wealthy households, and normally located in relatively rich areas with better rural infrastructure.

## Conclusions and Policy Implications

- Microfinance is neutral and inclusive to all households without favor of any individual groups.
- When compared with formal credits, NGO microfinance does help the poor in China.
- Two major policy implications:
  - to support the NGO microfinance institutions in poor regions to meet the rising demand for credit of rural households.
  - poverty-oriented NGO microfinance should be supported based on extent of its ability to target at the poor.