

The image shows the exterior of a building with a large, prominent sign. The sign features the Chinese characters '江西省农村信用社' (Jiangxi Provincial Rural Credit Union) in a bold, sans-serif font. Below the Chinese characters, the English text 'JIANGXI RURAL CREDIT UNION' is displayed in a smaller, all-caps, sans-serif font. The building's facade is light-colored, and the sign is mounted on a dark, overhanging section. The sky is clear and blue, and some greenery is visible in the background.

江西省农村信用社  
JIANGXI RURAL CREDIT UNION

Nicholas Loubere

# Development on Loan

Microcredit and Marginalisation  
in Rural China

Development on Loan

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*Microcredit and Marginalisation in Rural China*

*Nicholas Loubere*

Amsterdam University Press

The publication of this book is generously supported by the Association for Asian Studies and the libraries at Lund University.

Cover illustration: Jiangxi Rural Credit Union

Source: Nicholas Loubere

Cover design: Coördesign, Leiden

Lay-out: Crius Group, Hulshout

ISBN 978 94 6372 251 3

e-ISBN 978 90 4854 427 1 (pdf)

DOI 10.5117/9789463722513

NUR 903



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*For my parents and grandparents*



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# Acknowledgements

This book only exists due to the support of a great many people. First and foremost, I am grateful to everyone who took the time to speak with me about their lives during my research trips to China. I encountered a remarkable amount of generosity and patience while in the field that defined this project and the fieldwork experience. I was also extremely fortunate to have had a chance to work with incredible graduate students from Zhejiang University and Jiangxi University of Finance and Technology during fieldwork; I owe a huge debt of gratitude to the institutions, and to them and their families for all their help, hard work, and friendship. I am very grateful to my PhD supervisory team at the University of Leeds, my friends and colleagues who provided endless support during the PhD journey, and my PhD examiners who provided new insights into how my dissertation could be expanded on and improved, thus forming the conceptual basis of this book.

I am also grateful to the Australian Centre on China in the World, Australian National University (ANU), and the Centre for East and South-East Asian Studies, Lund University, for providing me with gainful employment, without which I would never have been able to complete this manuscript. My colleagues at both ANU and Lund have been a wonderful source of inspiration. Additionally, I am indebted to many colleagues around the world who have become my virtual community, and who I am always happy to meet in person during fortuitous encounters at conferences.

Most importantly, my family has been an incredible source of strength and stability. None of this would have been possible without my parents, grandparents, younger siblings, uncles and aunts, and my in-laws. This book owes most to my wife, who has supported me endlessly and listened to me discuss my research far more than could reasonably be expected. My son was born during the writing of this book, and therefore undoubtedly has influenced the final product. Just today, as I was putting the final touches on the manuscript, he made a b-line for my computer and attempted to make a few final additions of his own. My daughter was born during the final copyediting stages, and has provided delightful distraction.

I need to acknowledge and thank the institutions that have provided the necessary funding support for this research – including for fees, maintenance, fieldwork, conference attendance, and training: the University of Leeds, the Chiang Ching-kuo Foundation for International Scholarly Exchange, the Worldwide Universities Network, the Universities' China Committee in London, the British Inter-University China Centre, the Leeds

for Life Foundation, the International Co-operative Alliance, the Australian National University, and Lund University. I am especially grateful to the libraries at Lund University and the Association for Asian Studies for providing the funding to make the book open access.

Finally, this book expands on the research and arguments presented in the three articles referenced below.

Loubere, N. (2018). Indebted to Development: Microcredit as (De)marginalisation in Rural China. *Journal of Peasant Studies*, 45(3), 585-609. <https://doi.org/10.1080/03066150.2016.1236025>

Loubere, N., & Shen, Q. (2018). The Policy and Practice of Microcredit in Rural China: Toward a Relational Understanding of Heterogeneous Implementation. *Modern China*, 44(4), 418-452. <https://doi.org/doi.org/10.1177/0097700417753734>

Zhang, H. X., & Loubere, N. (2013). Rural Finance, Development and Livelihoods in China. *Duisburg Working Papers on East Asian Studies*, (94), 1-28.

## Note on Language, Currency Units, and Referencing

Translations of commonly used Chinese terms are followed by *pinyin* (without tonal diacritics) in the first instance. In subsequent instances only the italicised *pinyin* or the English translation is used. Proper names of people and places (e.g. Jiangxi Province, Deng Xiaoping, etc.) are not italicised.

Currency amounts are either provided in United States Dollars (USD) or Chinese Yuan (RMB). As of September 2019 USD 1.00 = RMB 7.08.

The book adheres to Harvard referencing style throughout. In-text citations consist of the author's last name followed by the year of publication. For works with more than three authors, all names are listed in the first instance, and the first author's name followed by 'et al.' is provided in subsequent instances. Harvard referencing style is also utilised to cite policy documents and reports issued by government departments and organisations. Since these institutions often have long names, in some cases I have opted to use acronyms in both in-text citations and the bibliography. Below is a list of these acronyms along with the full names of the institutions.

Additionally, this book uses footnotes to reference the primary interviews and conversations that form the basis of this study. Interviews and conversations have been assigned a number and can be found in the References just before the Bibliography.

In order to protect the identities of the people I spoke with I have not used any real names and the three townships where the majority of data collection took place have been given pseudonyms according to the primary means of earning a living in the respective localities: the agricultural township (AT), the migrant work township (MWT), and the diverse economy township (DET).

Unless explicitly stated, all photographs, tables, and diagrams were taken or created by me. Some photographs have been altered to protect the identity of people and places.

## Acronyms used for referencing

Acronym	Full Name
DFID	Department for International Development (United Kingdom)
JXPABC	Jiangxi Province Agricultural Bank of China
JXPMoHRSS	Jiangxi Province Ministry of Human Resources and Social Security
JXPMoF	Jiangxi Province Ministry of Finance
JXPMoLSS	Jiangxi Province Ministry of Labour and Social Security
JXPPAO	Jiangxi Province Poverty Alleviation Office
JXPPG	Jiangxi Province People's Government
JXPRCCU	Jiangxi Province Rural Credit Cooperative Union
MoF	Ministry of Finance
MoLSS	Ministry of Labour and Social Security
NCCPBC	Nanchang City People's Bank of China
OECD	Organisation for Economic Co-operation and Development
PAO	Poverty Alleviation Office
PBC	People's Bank of China
SETC	State Economic and Trade Commission





“Marginals,” are not men living outside society. They have always been “inside” – inside the structure which made them “beings for others.”

*Paolo Freire – Pedagogy of the Oppressed (1970)*

Beautiful credit! The foundation of modern society. Who shall say that this is not the golden age of mutual trust, of unlimited reliance upon human promises?

*Mark Twain and Charles Dudley Warner – The Gilded Age: A Tale of Today (1873)*

# 1 Introduction

## Abstract

Starting with a vignette from fieldwork, this introductory chapter lays out the ideological underpinnings of microcredit as a development approach and contextualises China's contemporary development landscape. The chapter then outlines the study's key questions and objectives, elaborates on the research methodology, gives the background of the field sites, and presents a brief roadmap for the rest of the book.

**Keywords:** China, rural development, microfinance, microcredit, financial inclusion, marginalisation

After two hours of driving along half-maintained country roads, many of which were serving as rice-drying surfaces for the autumn harvest, we arrived at the township and immediately began looking for the local rural credit cooperative (RCC). It did not take long to find. The township centre essentially consisted of one road, which was home to the local government, the police station, and a host of other government offices, in addition to the RCC. In this way the township was unremarkable – mostly similar to others I had visited or passed through in northern Jiangxi Province, if perhaps slightly poorer and more dilapidated. On the surface the RCC was also unremarkable. It was housed in a smallish building, and had not yet transformed into a more profit-oriented rural commercial bank like RCCs in more wealthy areas. This local RCC branch was special in one way, however, which was the reason I had been brought to this particular township in a car filled to capacity with Ministry of Human Resources and Social Security (MoHRSS) officials from the county. It was piloting a new method of implementing a nationally-mandated microcredit programme, and officials at the village, township, and county levels all had high hopes that their model would be recognised for its innovative approach and elevated for use across the country. We had come to speak with the director of the RCC and the director of the township-level MoHRSS office to hear about their progress in this endeavour.

I was excited. It was the very beginning of my project on microcredit programmes in rural China, and this was my first chance to talk with people involved in providing microcredit services at the local level. My research had been inspired by reading about the transformative potential of microcredit in other contexts, and a deep fascination with socioeconomic developmental trajectories in rural China – so I was eager to see how the development ideas underpinning the global microfinance movement manifested in Chinese townships and villages through some of the largest public microcredit programmes in the world. As we entered the RCC we were greeted by the director and ushered up to a room on the second floor, where we were furnished with some green tea and snacks. After the introductions were completed I quickly jumped in with my first question: ‘Who are the primary targets of microcredit in the township? Do you focus on agriculture or enterprises?’, I asked. The RCC director responded, saying ‘Local farmers are the main beneficiaries of the microcredit programme because they can develop traditional agriculture through borrowing. Small and medium enterprises can borrow from the county.’<sup>1</sup> He followed this by explaining that they were modelling a new type of agricultural lending by providing microloans to farmers involved in a farming cooperative for joint investment in the construction of modern vegetable greenhouses. I then asked if the loans were going to the poorest farmers in the village, and the director of the township MoHRSS chimed in, saying: ‘Local people borrowing microcredit are mainly bold, intelligent, and hard-working farmers who, in order to live a better life, take more risks and earn more money [...] of course, there are also some complacent and lazy people who want to borrow, but they cannot get loans.’<sup>2</sup> The RCC director nodded at this, and added that it was unfortunate but necessary, before reciting the (in)famous Deng Xiaoping quote ‘let a few people get rich first’. ‘In that case’, I asked, ‘Do you think that microcredit is helpful for the poorer or more marginal households in the township?’ The director thought about this for a moment before saying ‘Yes, the most important thing is that it has improved their mentality [...] The biggest change has been in the local farmers’ mind-sets. Before they just focussed on saving, now they also think about borrowing.’<sup>3</sup>

This initial exchange with those in charge of dispersing microcredit in rural China stayed with me. At the time I could not quite put my finger on the significance of this conversation, but I had the sense that their direct responses to my rather naïve questions held some deeper insights into the

1 Interview 05.

2 Conversation 01.

3 Interview 05.

ideology of the microcredit and type of development it purports to facilitate. In the years that followed, as I continued examining government microcredit programmes and their implementation in China – and as I became more familiar with a rapidly emerging critical body of literature challenging the developmental claims of the global microfinance movement, as well as the broader goal of expanding financial inclusion – the implications of what was related to me that day started to come into focus. This discussion of mentalities and mind-sets, of heroic risk-taking and lazy complacency, epitomised many of the key assumptions at the root of microcredit ideology. In particular, it brought to life the idea that underdevelopment and marginalisation are symptoms of: 1) exclusion from the formal financial system and wider economy, 2) a shortage of resources to participate in market activity, and, crucially, 3) the lack of a modern ‘financial consciousness’ necessary to properly engage in loan-taking and entrepreneurial behaviour. In this sense, microcredit programmes are both projects of market expansion – through the integration of previously ‘excluded’ populations – and also civilising missions attempting to reprogramme the psyche of the ‘backward’ rural citizen, transforming them into entrepreneurial subjects, and thus refashioning the structure and organisation of rural life. While always an implicit element of microcredit programmes, and development interventions more generally, in the Chinese context this more fundamental civilisational goal is sometimes made explicit – such as through the practice of publicly identifying households that are considered to be ‘civilised borrowers’, and thus able to access microcredit, as depicted in Figure 1.1 below.

**Figure 1.1** Plaque denoting a ‘civilised borrower’ household



## 1.1 Contested and Paradoxical Rural Development in China

The developmental perspective outlined above – of marginalisation being combatted through integration into open and inclusive markets, the provision of financial capital through expanded access to credit, and an increasingly ‘financially conscious’, ‘economically civilised’ entrepreneurial population able to participate in the market economy – is also mirrored in Chinese popular conceptions of development, progress, and modernity over the past four decades. Dramatic economic growth since the initiation of the reform and opening (*gaige kaifang*) policy at the end of the 1970s has meant that rural household incomes have, on average, grown at over six percent per year (Schak, 2009). At the same time, the country’s rural poverty reduction has been unprecedented, with some estimating that the economic reforms helped pull up to 700 million rural people out of poverty, essentially singlehandedly meeting the United Nation’s Millennium Development Goal for poverty reduction and improving rural living standards dramatically (Wang, 2013; Yao, 2000). This perspective of continual beneficial socioeconomic progression in the Chinese countryside, primarily due to economic liberalisation, was expressed by a majority of the rural people I spoke with during fieldwork in northern Jiangxi Province, with many framing the improvement of rural livelihoods as being the natural (and inevitable) result of wider socioeconomic development that was bound to continue due to the country’s ‘correct’ development trajectory. In the words of one rural resident: ‘In the 1970s life was not very good, in the 1980s it improved a bit, and the 1990s were better than the 1980s. All of society is continually improving, so in the future our lives will continue to improve.’<sup>4</sup>

On the other hand, competing narratives also contest this dominant discourse of beneficial linear progression. Some of the most marginal and vulnerable households in the townships where I did fieldwork pointed out that the shift towards ‘market socialism’ and the inevitable commercialisation of local society had increased competition over limited resources, resulting in exclusion from the benefits of modern development, as well as active marginalisation actually making life worse. In the words of one poor rural resident: ‘If today’s society is so good, then why do people like me have no income but still need to buy medicine; my daughter needs to buy books, how is my living situation any good?’<sup>5</sup>

4 Interview 30.

5 Interview 59.

This issue of decreasing support for marginal households and rapidly increasing socioeconomic inequality within rural areas – particularly after the waves of privatisation in the 1990s – resulting in seemingly intractable poverty for certain segments of the rural population, has also been highlighted in much research on rural China (Sanders, Chen, & Cao, 2007; Schak, 2009; Unger, 2002a). At the same time, China’s wider integration into the global capitalist system and the ensuing market-oriented policy reform has systematically marginalised rural China in favour of urban areas that are better linked to the world economy and, therefore, represent more secure and profitable locations for investment (Loubere & Zhang, 2015). This has resulted in rapidly increasing inequality between rural and urban areas, as reflected in the national Gini coefficient, which is estimated by many to be over 0.5 (indicating extreme income inequality), and underlined by the fact that urban incomes are, on average, three times larger than those in rural areas (Chen, Dai, Pu, Hou, & Feng, 2010; Li & Sicular, 2014; Thøgersen, 2011; Yeh, O’Brien, & Ye, 2013). This disparity within rural areas and between rural and urban China has, in recent decades, become a focal point of the central government. In particular, since the beginning of the Hu Jintao-Wen Jiabao administration in the early 2000s, rural development inequalities have been problematised through their depiction as the ‘three rural issues’ (*sannong wenti*),<sup>6</sup> and have served as the impetus for the formulation of a number of overarching (and often overlapping) policy frameworks. These include the Construction of a New Socialist Countryside (*shehuizhuyi xinnongcun jianshe*, hereafter XNCJS) and Urban-Rural Integration (*chengxiang yitihua*, hereafter CXYTH), which largely aim to de-marginalise rural areas and people through further integration into the urban-based market system, thus mirroring the integrative goals of microcredit and financial inclusion.

Despite the existence of counter-narratives, the ‘script, or “meta-narrative”’ of the overarching ‘story’ of dramatic and rapid rural development in China is, for the most part, agreed on, and situated within a paradigm that sees development as an evolutionary and linear process. However, ‘the basic elements of this central story about China are constantly being adapted by any number of interpreters and performers far from Beijing’ (Tomba, 2012, p. N/A). These micro-narratives are heavily contested and often inherently contradictory, but they nevertheless all seek to establish

6 The term *sannong wenti* refers to development problems related to a lack of support for agriculture (*nongye*), and increasing marginalisation of rural areas (*nongcun*) and farmers (*nongmin*), particularly in relation to more prosperous urban areas. For more detailed discussions on these issues see (H. X. Zhang, 2009).

their vision of China's rural development trajectory, thereby gaining more influence in guiding the country's direction going forward. Probably due to the unprecedented nature of China's socioeconomic transformation, characterisations of the country's rural development lend themselves to hyperbole and grand statements. Depending on who is providing the interpretation, China is either depicted as destined to become a world class power with dramatically improved rural living standards, or as a country on the brink of social, political, and economic collapse, requiring policy fixes to reorient its development path. In reality, however, China's rural development trajectory is not a coherent or logical progression from point A to point B, which can be tracked, analysed, predicted, or technocratically guided through the formulation and implementation of external interventions (e.g. microcredit). The unprecedented nature of socioeconomic change in rural China means that the country's rural development story is characterised by messiness, rather than coherence. Tradition and modernity, underdevelopment and development, impoverishment and prosperity, all exist side-by-side. Moreover, rather than being separate and clearly delineated stages of socioeconomic progression, these conditions are mutually constituted and co-produced in relation to each other. They are, therefore, two sides of the same coin.

For this reason, external interventions like microcredit ultimately become reconstituted at the local level, and reflect these developmental contradictions, which often results in complex, emergent, unpredictable, and unintended outcomes, rather than the simple, clear, and linear impacts envisioned during their formulation. In this way, China's rural development is both complex and inherently paradoxical, as the very reforms and interventions that have made it an unprecedented example of beneficial socioeconomic transformation have also (re)produced dramatic inequality, intractable poverty, and the dichotomous division of rural and urban areas, leading to the inevitable marginalisation of the countryside and certain segments of the rural population. Rural China is both the epitome of the country's developmental success and, simultaneously, the cause of its continued backwardness.

## **1.2 The Rise of the Global Microfinance Movement and the Adoption of Microcredit in Rural China**

The same fundamental contradictions underpinning China's rural development since the reform and opening are also present in processes of development worldwide and, by extension, the tools (i.e. interventions) utilised to induce

development. The most visible example of this has been the rise of the global microfinance movement. Since its popularisation in the 1970s (basically in parallel with China's economic liberalisation), microfinance has also captured the global developmental imagination with its seductive philosophy of economic openness, liberalisation, and the promotion of entrepreneurship as easy and cost-effective ways of facilitating sustainable development. Ultimately, this has resulted in microfinance becoming the most prominent and well-funded type of development intervention in the world (Bateman, 2014).

Similar to conceptualisations of development and underdevelopment in contemporary China, proponents of microfinance perceive marginalisation as being the result of exclusion from the capitalist system, and see access to formal financial services as a powerful remedy. The primary, and original, goal of the microfinance movement is the provision of microcredit (i.e. small loans) 'to the poor to allow them to establish a range of very simple income-generating activities, thereby supposedly helping facilitate an escape from poverty' (Bateman, 2014, p. 2).<sup>7</sup> While this idea of providing small-scale credit to the poor to induce development has been utilised in different contexts throughout history, the modern microfinance movement is widely understood to have begun with the establishment of the Grameen Bank in Bangladesh by Muhammad Yunus, a professor of economics, who has subsequently become the leading proponent and face of microfinance worldwide, in part due to his claim that microfinance has the potential to relegate poverty to a museum (Bateman, 2010; Brau & Woller, 2004; Hospes & Lont, 2004; Woolcock, 1999; Yunus & Weber, 2007).

Yunus established the Grameen Bank with financing from international donors after returning to Bangladesh from Ph.D. study in the United States. The original Grameen model saw access to credit as a basic human right. It primarily targeted women with collateral-free loans, and sought to reduce risk by requiring frequent repayments and lending to joint-liability loan groups (usually consisting of around five people), which reduced costs associated with monitoring and exploited existing social dynamics to pressure borrowers to repay, as the group as a whole was excluded from future loans if one member defaulted. Moreover, the original Grameen model utilised

7 Originally, microfinance and microcredit were essentially interchangeable terms. However, with the increasing focus on 'financial inclusion' as an important development goal in its own right, microfinance has come to include other financial services, such as savings, remittances and insurance – although credit is still the primary focus. For the sake of clarity, throughout this book I will use the term microfinance when I am referring to the global microfinance movement or the concept of microfinance more generally, and microcredit when I am referring specifically to microcredit programmes.



progressive lending to encourage repayment, with borrowers being allowed to access increasingly larger sums after the successful repayment of previous loans (Bateman, 2014; Bislev, 2010; Khandker, 1998; Yunus & Jolis, 2001).

Throughout the 1980s microfinance quickly gained popularity globally, resulting in the explosion of microcredit programmes and microfinance institutions (MFIs), often based on the Grameen model (called 'Grameen clones').<sup>8</sup> Microcredit also caught the attention of the World Bank and the International Monetary Fund, where it was included in schemes aimed at mitigating some of the adverse effects of the Structural Adjustment Programmes (i.e. austerity measures) imposed on low-income countries (Weber, 2004). The 1990s saw a debate over the ideological soul of microfinance, with the movement shifting from the 'poverty lending approach' – which was characterised by heavily subsidised interest rates and the targeting of the very poorest – to the 'financial systems approach', which rejected concessional and subsidised loans (for the most part) in order to build a microfinance industry that was financially sustainable, and even profitable (i.e. imitating the commercial financial sector). In this way, commercialised microcredit was seen as a 'win-win' in that it created sustainable institutions and provided profit-making opportunities for investors.

This transition towards commercialisation resulted in the Grameen Bank adopting the 'Grameen II' model, which offered a range of different services (other than just credit) and also downplayed the importance of the original Grameen methodology (e.g. targeting women, joint-liability loan groups, etc.) in favour of experimenting with techniques that would allow for financial sustainability and increased 'financial inclusion' (Hulme, 2008; Rutherford, 2006). Ultimately, this development signalled the emergence of a diversified global microfinance movement consisting of a huge range of programmes and institutions utilising a variety of different techniques (i.e. departing from the original Grameen methodology) in order to provide financial services in the name of development.

In order to facilitate this move away from the poverty lending approach, microfinance proponents began lobbying for the de-regulation of rural financial sectors around the world in an attempt to allow microcredit programmes and MFIs to operate in a free market like regular banks (Bateman,

8 It is necessary to distinguish between microcredit programmes, which are often run by governments or development organisations, and MFIs, which are usually autonomous organisations dedicated to providing financial services. For the sake of clarity, throughout this book I will only use the term MFI when referring to specific institutions. Otherwise the term microcredit programme will be used.

2010). This ideological shift to an even more explicitly neoliberal mode of organisation was justified on the grounds that financial sustainability through a market-oriented approach would allow for the expansion of microcredit programmes, thereby 'financially including' more people, as they would no longer need to rely on charity for their continued operation (Aitken, 2013; Hulme, 2008; Morduch, 2008; Robinson, 2008). The overall adoption of the financial systems approach by the microfinance movement has, unsurprisingly, received strong support from the global commercial financial sector,<sup>9</sup> and ultimately resulted in the incredibly rapid and unprecedented growth of the microfinance industry worldwide. This can be illustrated by the fact that a World Bank questionnaire aiming to measure microcredit outreach in the early 1990s only received responses from 206 programmes and institutions, representing USD 7 billion in loans to 14 million borrowers (Paxton, 1996), while the Mix Market – a website dedicated to tracking the global microfinance movement ([www.mixmarket.org](http://www.mixmarket.org)) – currently has information for tens of thousands of programmes representing an outstanding loan balance of over USD 75 billion to over 95 million borrowers.

Microcredit has become the most popular type of development intervention globally and, particularly throughout the first decade of the 2000s, the microfinance movement was perceived as being basically synonymous with beneficial and sustainable development. This resulted in the United Nations declaring 2005 the 'international year of microcredit', and Yunus and the Grameen Bank jointly winning the Nobel Peace Prize in 2006. As a global development idea, microfinance has proven extremely resilient. The microfinance movement has weathered serious crises – such as the one in Andhra Pradesh, India in 2010 which resulted in a spate of suicides – and increasing evidence that it does not live up to its goals (Duvendack & Maclean, 2015; Mader, 2013; Taylor, 2012). In recent years the movement has increasingly shifted away from the original claims of poverty alleviation stemming solely from access to credit, and towards the discourse of financial inclusion, with international institutions and large donors such as the Gates Foundation promoting the idea of inclusion into the financial system as beneficial in and of itself (Häring, 2017; Mader, 2016b). The microfinance movement has

9 Citi Bank, MasterCard, Visa, HSBC, and many other global financial players have provided funding and guidance for MFIs and microfinance associations. For instance, the China Association of Microfinance (CAM), which is located in the Chinese Academy of Social Sciences' Rural Development Institute (CASS-RDI), was established with the support of Citi Bank and other international institutions that are heavily involved in promoting the financial systems approach through the privatisation and financialisation of MFIs, and the deregulation of the rural financial sector (see <http://www.chinamfi.net/>).

also been instrumental in the digital finance and demonetisation push globally, identifying the Internet as a tool capable of dramatically expanding the reach of commercial financial products (Loubere, 2017a; Mader, 2016a).

Considering the rapid ascension of the global microfinance movement and the discourse of financial inclusion outlined above, it is unsurprising that research on the subject has proliferated. This research largely attempts to assess the impact of microcredit on economic development and the wellbeing of local actors. Throughout the 1990s and early 2000s, the majority of studies on microfinance essentially took the normative stance that increased access to credit was implicitly good, and therefore attempted to determine the types of benefit that emerged from expanding access to credit services (Helms, 2006; United Nations, 2006; Yaron & Benjamin, 1997). While there are far too many examples of research finding different positive impacts to comprehensively cover here, many studies have credited microcredit programmes with the ability to empower women by giving them an active economic role in the family and community; facilitate consumption smoothing across seasons for agricultural producers; improve access to education and diversify labour, thereby increasing income, consumption, and overall household net worth; and improve access to nutrition, healthcare, and health-related information. In this way, microcredit has been attributed with the ability to help the rural poor reduce their vulnerability and increase their resilience to shocks, thereby increasing their chances to pull themselves out of poverty (Hashemi, Schuler, & Riley, 1996; Holcombe, 1995; Khandker, 2005; Leatherman & Dunford, 2010; Morduch, 1998; Pitt, 2014; Pitt & Khandker, 1998).

At the same time, however, in recent years there has been a growing body of literature critiquing the normative understanding of financial inclusion as inherently positive. Even some prominent supporters of the microfinance movement have started to shift their positions on the ability of microcredit programmes to affect beneficial change, with recent systematic reviews and impact assessments finding no evidence of net positive impact (Angelucci, Karlan, & Zinman, 2013; Bateman, 2013; Duvendack et al., 2011; Korth, Stewart, Van Rooyen, & De Wet, 2012; Roodman, 2012; Roodman & Morduch, 2014; van Rooyen, Stewart, & de Wet, 2012). More important, however, are the increasing number of studies outlining fundamental flaws in the conceptualisation of microfinance and financial inclusion as facilitators of development more generally. This body of research sees the global microfinance movement as instigating 'the rise of destructive local neoliberalism' (Bateman, 2010, p. 1), and details a number negative outcomes that stem from the expansion of microcredit, especially through programmes adopting the financial systems approach.

Detailed research has repeatedly refuted the idea that microcredit automatically results in female empowerment (Goetz & Gupta, 1996; Guérin & Kumar, 2017; Guérin, Kumar, & Agier, 2013; Karim, 2011; Maclean, 2010, 2013; Yeboah, Arhin, Kumi, & Owusu, 2015). Investigations have also convincingly contradicted the claim that credit access improves the lives of those at the bottom of the pyramid, instead showing that programmes tend to reflect inequalities and local power imbalances, and facilitate forms of dispossession (Batliwala, 2007; Elyachar, 2005; Loubere, 2018; Montgomery, 1996; Taylor, 2011). Other research has revealed the ways in which microcredit can create destructive debt cycles, trapping borrowers and creating subprime-type crises, threatening local and even national economies (Bateman, 2017; Guérin, Labie, & Servet, 2015; Mader, 2018). Ultimately, the rapid growth of this critical literature highlights fissures at the core of microcredit developmentalism, demonstrating that the expansion of microentrepreneurial activity is not a panacea and can often be inherently harmful to local social cohesion, economic activity, and livelihoods; that the idea of a ‘win-win’ where the rich make profit off the poor while simultaneously helping them is absurd; that financial inclusion through digital technologies can result in exploitative outcomes; and that the promotion of small and medium enterprises (SMEs) is more conducive to supporting local development, particularly SMEs that are cooperative in nature (Bateman, 2007, 2010, 2012, 2013; Bateman & Chang, 2012; Brigg, 2006; Hsu, 2014; Karnani, 2007; Loubere, 2017b; Montgomery, 1996; Weber, 2004, 2006).

Therefore, much like rural development in China, the global microfinance movement has been heavily contested and defined by a multitude of overlapping but contradictory narratives – with some claiming that microcredit is a ‘magic bullet’ for facilitating ‘sustainable development’, while others deride it as an example of the worst excesses of fundamentalist free-market capitalism, describing it as a ‘zombie idea’ that will not die despite being widely discredited (Bateman, 2012, 2015; Hickel, 2015; Oya, 2012). At the same time, as stated above, both the global microfinance movement and rural development in China are similar in that they have followed an increasingly neoliberal trajectory over the past four decades, depicting marginalisation as essentially the result of disconnection and exclusion from the wider capitalist system. The prescription in both cases is integration into urban markets – firstly through inclusion into the formal financial system; which then, secondly, provides marginalised actors and areas with the necessary capital to foster entrepreneurial activities, thereby enabling their entrance into the modern market system.

Considering these ideological similarities between the ways in which Chinese rural planners and proponents of microcredit conceptualise

development and de-marginalisation, it is unsurprising that microcredit programmes have become increasingly important components in Chinese rural development strategies. Indeed, despite the fact that most people would first think of countries in South Asia, Africa, or Latin America when discussing microfinance, China's microfinance industry is undoubtedly one of the largest in the world (or even the largest outright) in terms of size and scale.<sup>10</sup> It is true that microcredit was relatively late to catch on in China, with only a few international non-governmental organisation (NGO) programmes in the 1980s – and the first domestic NGO and government programmes not really taking off until the 1990s. However, it has since become arguably the most important development intervention (or at least the fastest growing) since the reform of the RCCs in the early 2000s, the liberalisation of the rural financial sector through the introduction of private commercialised village and township banks (VTBs) and microloan companies (MLCs) in 2006, and the rapid expansion of the Internet finance sector since the early 2010s. In this way, China's rural development efforts and rural financial restructuring have undoubtedly been influenced by the global microfinance movement's increasingly commercialised approach, resulting in a stronger emphasis on financial sustainability, profitability, and the creation of winners and losers in the name of development progress. At the same time, as a chief constituent element in China's overarching rural development strategy, Chinese microcredit programmes have come to reflect (and strengthen) the fundamental paradoxes at the core of the country's rural development since the reform and opening outlined above. As such, an examination of China's government-run microcredit programmes has the potential to shed light on development thinking in the country, and also provide a glimpse into the ideological underpinnings of the global microfinance movement more broadly.

10 Of course, the size of a 'microfinance industry' depends on how the terms microfinance and microcredit are defined. Since Chinese government microcredit programmes and new commercial MFIs often do not follow the original Grameen methodology, they have sometimes not been considered to be 'microcredit' in the same way as NGO programmes (often 'Grameen clones'). However, with the worldwide adoption of the financial systems approach and the resulting diversification of the microfinance movement, government programmes and commercial providers have been widely accepted as being part of the Chinese microfinance industry (He, Du, Bai, & Li, 2009). For the purposes of this book, microcredit is simply considered to be the provision of small-scale loans targeting excluded areas and/or actors with the stated aim of inducing bottom-up socioeconomic development through inclusion into the formal financial system.

### 1.3 Research Questions and Objectives

In many ways, microcredit in rural China is emblematic of the country's unprecedented and paradoxical rural development landscape. At the same time, it provides a fascinating view into the contradictions underpinning the global microfinance movement, which is at the very heart of contemporary conceptualisations of what development means worldwide. It is, therefore, surprising that there has not been more research on microcredit in China – particularly from actor-oriented or locally-focused perspectives which allow for a more direct examination of how these paradoxes play out at the local level and what they mean for the lives of rural people.<sup>11</sup> Extending research on Chinese rural finance and microcredit from different approaches – with different foci and at different levels of analysis – is of vital importance for a number of reasons. For one, there can be no doubt that the rural financial system – and especially credit provision – has played a critical role in the transformative and unprecedented development of rural China since the reform and opening. In particular, rural development has depended on the financing of agricultural producers and township and village enterprises (TVEs), as well as the transfer of remittances from migrant workers in urban areas back to their rural origins (Cheng, 2006; Tsai, 2002; Zhou & Takeuchi, 2010), making it important to examine how different financial institutions and services have facilitated different types of development for different areas and actors.

At the same time, there are innumerable examples, in different contexts and throughout history, of financial systems and institutions causing severe crises, often with catastrophic outcomes for local, regional, and national economies. These crises have the potential to destroy the foundations of livelihoods across the spectrum, but are particularly dangerous for the most marginal members of society. With the continued transition toward commercialised approaches to financial operation and organisation in rural China (Loubere & Zhang, 2015), the financial sustainability of local financial institutions and the governments that borrow from them has become a growing concern, requiring careful and vigilant observation and analysis (Ong, 2006, 2012). Finally, and more fundamentally, the organisation, distribution, and utilisation of financial resources reflect the formation and constitution of local society, as well as local understandings of what

11 Of course, this does not mean to say that there has not been some excellent research touching on different aspects of these issues. See Chapter 2 for a comprehensive literature review outlining the key strengths and weaknesses in the research on rural finance and microcredit in China.

development entails. Therefore, by exploring how rural financial services generally – and microcredit in particular – manifest themselves at the local level, it becomes possible to gain important insight into the ways in which rural people conceptualise and (re)produce their existences, thereby allowing for an in-depth examination of the meanings of the paradoxical processes underpinning rural China's contemporary socioeconomic transformation. In this sense, this research draws inspiration from other studies that have sought to critically analyse the 'social life' of microcredit at the grassroots – maintaining a commitment to representing the complexity of local contexts, while also attempting to expose exploitative processes and ideologies underpinning the microfinance movement more generally (Elyachar, 2005; Guérin & Kumar, 2017; Karim, 2011).

This book will attempt to engage with these critically important issues by asking the question: 'What role do microcredit programmes play in local processes of socioeconomic development and the livelihoods of diverse local actors?' This broad overarching research question is addressed through in-depth examination of the three largest government-run microcredit programmes in three rural townships located in Jiangxi Province. These microcredit programmes were formulated at different points in history as key components of separate rural development strategies, and they each attempt to address different aspects of the country's post-reform rural de-marginalisation agenda – e.g. reducing poverty, expanding financial inclusion, or modernising rural employment.

The book looks at how and why the three microcredit programmes have been formulated by policy actors at different levels – i.e. how the programmes fit into overarching development goals and priorities. It then explores the reasons for the heterogeneous implementation of the three programmes in the different townships, thus exposing divergent understandings of what development means, and who development should benefit, at the local level. The detailed depiction and analysis of the heterogeneous formulation and implementation of the microcredit programmes across the three townships contributes to the large (and still growing) body of research on policy implementation in rural China by providing evidence for the need to understand the local (re)production of microcredit and other development interventions as the emergent results of complex, non-linear, and relational processes.

At the same time, by examining variation in outcomes at the local level, the book contributes to our understanding of the divergent and multidimensional 'impacts' that development interventions such as microcredit have on different local actors. This points to the ways in which microcredit in rural China contributes to the production of different patterns

of de-marginalisation, while simultaneously feeding into undercurrents of marginalisation, thus reflecting (and even strengthening) many of the contradictions inherent in China's rural development and the global microfinance movement outlined above. Through this analysis the book provides a means of understanding contemporary development, both in China and globally, as inherently paradoxical, contradictory, and emerging from unequal relationships and mutually constituted patterns of development and underdevelopment.

The research questions and objectives outlined above represent an agenda that departs substantially from the vast majority of research on microcredit and development, both in China and globally. Therefore, it is also important to outline what this book does *not* aim (or claim) to do. For one, unlike most of the research on microcredit and rural finance in China, which is largely from the disciplinary perspectives of finance and/or economics, this study does not seek to systematically investigate the functioning of the rural financial system as a whole or the operation of rural financial institutions in order to make universalist and/or normative claims about how to fix 'problems' or 'irregularities'. While the book does not ignore systemic and institutional issues, it instead observes them through the perspectives of local actors, and therefore values multiple understandings and interpretations, rather than generalisability and universality. At the same time, this book does not uncritically accept the normative foundations of the 'financial inclusion' discourse, which implicitly assumes that more access to financial services (and credit in particular) is positive. I therefore avoid making policy recommendations on this basis. Finally, this research is not interested in addressing the most commonly asked question in research on microcredit – i.e. 'does microcredit work?' – by assessing top-down linear causal impact. Instead, this book understands impact as multifaceted and relational, and, therefore, seeks to explore the *role* that microcredit programmes play in local development and livelihoods. In other words, rather than attempting to identify generalisable trends, best practices, and/or linear causation in order to provide prescriptions for future policy, the research in this book aims to understand the processes underpinning the provision, acquisition, and utilisation of microcredit by diverse actors – all of whom have their own understandings of development and divergent livelihood goals. Simply put, I do not seek to answer 'whether microfinance does or does not "work" but, rather: "What are the workings of microfinance?"' (Taylor, 2012, p. 602). From this perspective, microcredit is a lens through which it is possible to examine the nature of paradoxical and contradictory development in China and elsewhere.



## 1.4 Research Methodology and Fieldwork Sites

This book is based on data that was collected during four rounds of in-depth fieldwork (approximately eight months in total) in Jiangxi Province between 2012 and 2014.<sup>12</sup> The fieldwork design was based on the principles of grounded theory, particularly with regard to flexibility and openness. Fieldwork was based on an actor-oriented approach, and aimed to draw out locally-produced theories and capture concepts emerging directly from the empirical data (Atkinson & Hammersley, 2007; Charmaz, 2006; Long, 2001). The data set comprises 78 semi-structured interviews and 42 unstructured conversations, conducted with a variety of local actors. The research also draws on systematically recorded participant and contextual observation, and the collection of primary documentary data – e.g. visual data, policy documents, and local socioeconomic records. The fieldwork was carried out using the Systematic and Reflexive Interviewing and Reporting (SRIR) Method, which was developed over the course of the research project by myself in coordination with research assistants and collaborators. The SRIR method is a collaborative approach to undertaking research, which aims to co-produce data and initiate analysis through discursive practice. More specifically, ‘the SRIR method utilises semi-structured and unstructured interviews conducted by two or more researchers. After completing an interview, researchers engage in reflexive dialogue, and jointly write interview and analysis reports’ (Loubere, 2017c, p. 1). Researchers also engage in systematic observation and iterative report writing throughout fieldwork in order to create a holistic portrait of the contexts being researched. This approach allows researchers to begin the coding process while in the field and facilitates discussion as a means of initiating analysis, ‘thus facilitating critical engagement with emergent themes during fieldwork rather than afterwards’ (Loubere, 2017c, p. 1). After fieldwork I categorised all the data and imported it into the NVivo software package for further coding and analysis.

Most data were collected in three different townships, each located in a separate county in northern Jiangxi Province. Jiangxi was chosen because the province was an initial piloting site for two of the microcredit

12 Fieldwork in rural China is challenging and gaining access to the field is not always straightforward. The fieldwork for this study was facilitated through institutional and personal connections, which allowed me to live in the townships/villages for extended periods. During these stays I was able to gather the large dataset upon which this study is based. These data are rich, but come with their own set of issues that need to be thoroughly reflected upon, which I have attempted to do in a number of publications (Loubere, 2014, 2017c).

programmes being studied. Policy modelling and piloting is a crucial element in China's rural development policymaking and implementation, and pilot sites thus provide important insight into how development interventions are conceptualised, as well as realised in practice (see Chapter 3 for more details on the policy modelling process). The townships were selected because they represent distinct socioeconomic contexts, providing the opportunity to examine how government microcredit programmes function under different conditions. Interviews, observation, and documentary data collection was also conducted at the county, municipal, and province levels. I chose Jiangxi Province because it was designated as a nationwide 'model province' for microcredit provision targeting laid off workers, thus allowing for an examination of the policy modelling process at the local level in relation to government microcredit. The township was selected as the unit of analysis because it is the township-level government institutions that are responsible for the actual implementation of microcredit in rural areas. Thus, through a focus on the township it is possible to directly analyse the interpretation and implementation of policy.

I purposefully selected townships in different counties in order to analyse the distinct sets of socio-political relationships and structures of power through which implementation emerged. In addition to representing distinct contexts, the three townships also have differentiated access to formal financial services. The selection of these localities, therefore, allows for an in-depth examination of the different ways that local relationships and negotiations over policy interpretation shape implementation. It also reveals much about how implementation reflects local particularities, while simultaneously paralleling wider development ideologies and trends.

In order to ensure the anonymity of my interviewees, all data was anonymised and encrypted while in the field (adhering to the ethical guidelines of the institutions where I was based during the period of study), and I have given the three townships pseudonyms that reflect their primary economic activities: the agricultural township (AT), the migrant work township (MWT), and the diverse economy township (DET). The AT has a population of over 30,000 people and administers just under 30 villages.<sup>13</sup> It is located only 60 kilometres away from a large urban centre. However there is no high-speed road connection or train line, and the roads that do exist are narrow and largely in disrepair. For this reason it takes as much as two hours to travel the distance by car, and significantly more

13 The contextual background information of the three townships presented here is based on interviews, observation reports, and documentary data collected during fieldwork.

than two hours by bus. The distance and travel times from the township to the county seat are similar. The centre of the township is small and is surrounded by flat rice-farming agricultural land, and most households are involved in agriculture. Many households also rely on remittances from migrant work, with 30 percent of the adult population working between the township and the city. Local officials estimate that the average yearly income in the township is around RMB 6,000,<sup>14</sup> which would mean it is the second richest of the three townships after the MWT. However, based on observational data, both the township government and residents have significantly fewer resources than in the other two townships (i.e. it is the poorest of the three townships).

The MWT is located approximately 40 kilometres outside of a major urban area in northern Jiangxi, has a population of about 15,000 people, and administers five relatively large villages. The township is connected to the city by a new high-speed road, meaning that it only takes 40 minutes to travel from the township to the city centre by car and about one hour by bus (depending on the traffic). The county seat is actually further away than the city, and therefore takes slightly longer to reach. The centre of the township is substantially larger than that of the AT and the MWT is home a range of small, medium, and large stores and businesses, most of which are related to the construction of new houses and apartments in the township. Township households are highly reliant on family members going out to engage in migrant work, with the floating population fluctuating between 40 to 70 percent of working age adults. For a majority of the households there is least one person working in an urban area, and those without are often poor. Elderly residents frequently continue to farm small plots of land, but there are large tracts of unused and abandoned farmland due to the lack of young farmers. Officials estimated that the yearly per capita income in the township is RMB 7,000, which would make it the richest of the three townships. However, observational data revealed that the MWT government has significantly fewer resources than the DET government, and that most people in the DET have more money than people in the MWT. That being said, the richest residents in the MWT are wealthier than their counterparts in the DET (i.e. the MWT is more unequal).

The DET is located on a well-maintained road that connects two urban centres, both of which are approximately 40 kilometres away. It takes slightly over half an hour to travel to the city or the county by car, and about one hour in either direction by bus, with frequent departures from the

14 The official poverty line is RMB 2,300 per year (Walker & Yang, 2019).

**Table 1.1 Key features of the three townships**

	<b>Agricultural Township</b>	<b>Migrant Work Township</b>	<b>Diverse Economy Township</b>
Distance to urban area (car)	1.5-2 hours (bad roads)	40 minutes (good roads)	40 minutes (good roads)
Average income per year (official estimates)	RMB 6,000	RMB 7,000	RMB 5,000 (this estimate is contradicted by observational data)
Socioeconomic situation based on observational data	Poorest of the three townships	Poorer than the DET but richer than the AT	Richest of the three townships
Main economic activities	Rice farming Vegetable farming Contracting farmland Migrant work (30% of working adults)	Migrant work (40-70% of working adults) Local construction Industrial park	Local business Textile factories Local construction Farming Tourism Migrant work (40% of working adults)
Financial institutions	RCC	RCC ABC ATM	RCC PSBC ABC

township bus station. The township covers the largest area of the three, has the largest population with over 32,000 residents – including 1,000 migrant workers who have come to work in local factories and tea plantations – and administers 17 villages. The centre of the township is much larger than the centres in the other two townships, and is home to a diverse range of shops, businesses and restaurants of a variety of sizes. Many people in the township still engage in farm work, leaving very little unused agricultural land. Approximately 40 percent of the working age population undertakes migrant work. Officially, the township has a per capita income of only RMB 5,000 per year. However, in reality the DET is (by far) the richest of the three sites, based on observation and conversations with local officials. Table 1.1 below provides a concise summary of the socioeconomic contexts of the AT, MWT, and DET.

**1.5 Book Outline**

This book consists of seven chapters (including this introduction), which are organised as follows: To begin with, in order to historicise and contextualise

the financial and development landscapes that the three microcredit programmes have been embedded in, Chapter 2 starts by outlining the historical development of rural finance and microcredit in the country since the establishment of the People's Republic of China (PRC) in 1949. This is followed by a systematic review of the literature on rural financial services in China, which allows for the identification of the strengths and weaknesses in our current understanding of the nexus between financial services (and particularly microcredit), local development, and livelihoods in the Chinese countryside.

Chapter 3 begins by providing detailed historical backgrounds of the three microcredit programmes, outlining how they have been formulated at the central and provincial levels as components of overarching rural development strategies and frameworks – thereby largely adhering to the prevailing narratives and discourses defining rural development in China. This is followed by an analysis of key areas where microcredit policy has been left relatively open to interpretation, allowing for local policy experimentation. The rest of the chapter explicitly outlines how the three programmes have been implemented (or not) in each of the townships, setting the stage for an analysis of heterogeneous implementation.

Chapter 4 starts with a brief review of the literature on policy transformation and variation in local implementation, both globally and in rural China, and outlines the key ways in which heterogeneous implementation is conceptualised, particularly with regard to development policy. The chapter then turns to examine the ways in which differentiated financial landscapes – alongside a variety of exogenous and endogenous pressures and incentives – have been internalised and interpreted very differently by implementers across the three townships. This is followed by an analysis of local policy interpretation and implementation from a relational perspective, which illustrates how implementation outcomes are actually formed at the interfaces of interaction between diverse actors at different levels – producing complex and emergent results. The chapter concludes by pointing out that heterogeneous implementation is ultimately a reflection of relational dynamics at different levels, which has serious implications for the role that microcredit (or any external intervention) plays in local development strategies and livelihoods.

The beginning of Chapter 5 is dedicated to outlining the fundamental features of the linear progression development paradigm (i.e. the dominant way of understanding contemporary development), which depicts socioeconomic development as following predetermined stages, and conceptualises underdevelopment as being the result of spatial,

material, and temporal marginalisation and detachment from the 'modern' world. The chapter then goes on to outline how microcredit programmes have been envisioned as facilitating de-marginalisation and local development based on this paradigm, albeit in different ways by different actors in different places. The chapter then analyses ways in which the microcredit programmes have been perceived to deliver on these paradigmatic developmental goals – namely, by facilitating urban to rural transfers of technology, knowledge, and financial capital; creating new socioeconomic and socio-political linkages between rural and urban individuals and groups; and promoting livelihood diversification through new types of employment, local cooperation, and financial inclusion. The chapter concludes by observing that microcredit has undoubtedly had some success in contributing to certain types of de-marginalisation and socioeconomic development for some areas/actors. However, these apparent benefits have not been equally distributed across or within the three localities.

Chapter 6 starts by briefly summarising the 'alternative development' literature, which provides a critique of the dominant linear progression development paradigm and modernisation discourses outlined in Chapter 5. The chapter then goes on to show how China's rural margins and urban centres have been dichotomously mutually constituted – and are, therefore, inherently relational – necessitating the marginalisation of the countryside and certain rural actors. This is followed by an illustration of how microcredit and other development interventions implicitly reproduce (and sometimes strengthen) patterns of marginality – namely, by facilitating the diversion and extraction of resources from marginal rural areas to central urban zones; by exacerbating patterns of socioeconomic exclusion at the local level; and by aggravating already precarious livelihoods through exploitation and risk transfer. The chapter concludes by analysing how the heterogeneous implementation of microcredit (and other development interventions) ultimately reflects, magnifies, and/or transforms unequal relationships of power at different levels, hence facilitating de-marginalisation for some, while simultaneously feeding into undercurrents of marginalisation that disadvantage others.

Chapter 7 concludes the book. It outlines the key findings and provides a summary of the main arguments. The chapter ends by examining areas where future research could build on the approaches and findings in this book to further improve our understanding of microcredit and rural development in China and elsewhere.

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## 2 Rural Financial Services in China

### Historical and Literature Review

#### Abstract

In order to historicise and contextualise the financial and development landscapes that the three microcredit programmes have been embedded in, this chapter starts by outlining the historical development of rural finance and microcredit in the country since the establishment of the People's Republic of China (PRC) in 1949. This is followed by a systematic review of the literature on rural financial services in China, which allows for the identification of the strengths and weaknesses in our current understanding of the nexus between financial services (and particularly microcredit), local development, and livelihoods in the Chinese countryside.

**Keywords:** China, rural development, rural finance, microfinance, microcredit, financial inclusion

There is a growing fascination with the mechanics of microfinance, with the vehicle. There is less and less concern about the passengers and their destination.

– *Aminur Rahman*<sup>1</sup>

As external interventions that aim to facilitate socioeconomic development and improve the livelihoods of those outside the formal financial system through the provision of loans, microcredit programmes are often viewed in relative isolation from the pre-existing local financial landscapes. This is because the ways in which local people organised their finances prior to the arrival of microcredit is generally perceived as being backward or underdeveloped. At the same time, microcredit

<sup>1</sup> See (Lont & Hospes, 2004).

'impact' is assessed in a more-or-less causal, linear fashion in order to determine how the intervention changes – or correlates with changes in – specific measurable indicators. This perspective obscures the fact that microcredit programmes necessarily enter into, and become reconstituted within, complex and often highly differentiated regimes of resource acquisition, accumulation, and utilisation at the local level. As Stuart Rutherford points out in his book *The Poor and their Money*, all financial instruments (including savings, loans, insurance, etc.) are really just different methods of helping people gather together 'usefully large lump sums of money' (Rutherford, 2000, p. 9). Financial organisation is, thus, a manifestation of the fundamental human need to accumulate resources in order to reproduce and affect beneficial change in living situations. Therefore, external microcredit programmes cannot be divorced from the existing financial and developmental terrains, as all local actors – even the financially excluded – have their own methods of gathering together 'usefully large lump sums' of financial capital and/or other resources. Nevertheless, different actors perceive, access, and utilise microcredit programmes in very different ways, thereby changing what microcredit actually means in different contexts.

For this reason, before it is possible to undertake an in-depth analysis of how and why microcredit programmes operate the way they do in rural China – and the role they play in various aspects of socioeconomic development and the livelihoods of diverse rural actors – it is first essential to establish the historical, political, and socioeconomic development contexts, as well as the nature of the financial landscapes, within which these programmes are located. At the same time, it is also necessary to critically review the literature on Chinese rural financial service provision more generally, in order to assess the current state of the scholarship, and identify key strengths and weaknesses in our understanding of the topic.

This chapter attempts to set the scene by providing this necessary background knowledge. The rest of the chapter is organised as follows: The next section comprehensively outlines the historical trajectory of rural financial service provision in China from the founding of the PRC to the present day. The chapter then turns to systematically review the research on contemporary rural financial services in China – identifying key strengths in the current scholarship, as well as areas where our knowledge is relatively limited. The chapter concludes by highlighting the need to address a number of lacunae in the current literature in order to improve our understanding of the nexus between microcredit, development, and livelihoods in rural China.

## 2.1 The Trajectories and Contours of the Rural Financial Landscape since 1949

Since the first half of the twentieth century, China's rural financial and developmental landscapes have been characterised by continuous and rapid dynamism. We first turn to look at the period starting just before the establishment of the PRC in 1949 to the beginning of the reform period at the end of the 1970s.

### Rural finance in the pre-reform period

The Chinese Communist Party (CCP) introduced RCCs in areas they controlled before 1949. As cooperative institutions, RCCs were initially owned by rural households (as members) and provided both savings and loans for small-scale agricultural producers. RCCs were established with the purpose to provide peasants with an alternative to the usurious money-lending practices that were commonplace in rural areas at that time. In this sense, they were a social policy and development intervention aiming to reduce inequality and provide a social service, as opposed to a profit-oriented financial institution (Y. Cheng, 2006; Herrmann-Pillath, 2009a). After coming to power, the CCP continued to restructure the rural financial system and in the 1950s the Agricultural Bank of China (ABC) was established to finance agricultural production. At the same time the RCC network was expanded nationwide to become the main financial service provider in rural areas, and by the mid-1950s there were over 103,000 RCC branches across the country with more than 100 million member households (Y. Cheng, 2006, p. 26). With the push towards agricultural collectivisation after the mid-1950s, control over RCCs quickly shifted from the member households to the people's communes (*renmin gongshe*),<sup>2</sup> which incorporated the RCCs along with the supply and marketing cooperatives (*gongxiao hezuoshe*) into a single system (Zhao, 2011). Following the Great Leap Forward (*da yuejin*) from 1958 to 1961, economic readjustment policies handed the management of some of the RCCs to the smaller production brigades until the Cultural Revolution (*wenhua dageming*) of the 1970s, when the People's Bank of China (PBC) took over full administration of the RCC network. The ABC was merged

2 From the late 1950s to the early 1980s rural China was organised into a three-tiered administrative system consisting of the people's communes, the production brigades (*shengchan dadui*), and the production teams (*shengchan dui*), which have since been converted into townships/towns (*zhen/xiang*), villages (*cun*), and natural villages (*zirancun*), respectively.



with the PBC in the 1950s and only re-established after the initiation of the reform and opening policies of the late 1970s (Herrmann-Pillath, 2009a).

Under the system of collectivised agriculture, the Chinese rural economy was less diverse and rural people were paid largely in kind (e.g. grain). This meant that households were often short of cash (Oi, 1989; Riskin, 2009). At the same time, private entrepreneurship and local collective efforts to diversify economies and livelihoods were largely discouraged due to ideological rigidity. Central planning was the order of the day, and the overarching policy frameworks put forth by the central government favoured urban heavy industry over agriculture and the rural sector. Within this context, RCCs became one of the institutional mechanisms that facilitated the transfer of rural resources (including rural household deposits) to urban areas and industries – particularly through policies mandating that RCCs place their local deposits in the more central branches of the PBC (Loubere & Zhang, 2015). At the same time, however, RCCs also provided limited financial support – such as the necessary start-up and operational capital – for an emerging sector of rural enterprises, which generated extra cash income for both the collectives and rural households, especially in relatively better-off areas with stronger collective entities. While these enterprises did not receive as much support as larger, often urban-based, state-owned enterprises (SOEs), they did manage to acquire some loans from local RCCs, laying the foundation for their transformation into the dynamic TVE sector in the post-reform period (Y. Cheng, 2006; Herrmann-Pillath, 2009a; Tam, 1988).

Informal finance for the purpose of investment was also constrained during this period because of the restrictions mentioned above on almost all forms of private economic and financial activities, as well as the predominance of subsistence agriculture as opposed to entrepreneurial livelihood strategies. Nevertheless, in some areas rural people still continued to utilise informal methods of accumulation, such as rotating savings and credit associations (ROSCAs). This provided for generally interest-free mutual help loans to households for consumption purposes – such as to cover costs during times of crisis or for ceremonial events – rather than for entrepreneurial or commercial ventures. These informal modes of financial organisation often had long traditions, sometimes dating back to before the establishment of the Qing Dynasty over 350 years ago (Hu, 2003; Tsai, 2004).

### **Rural finance in the early post-reform period**

China's rural financial system has changed dramatically since the initiation of the reform and opening policies in the late 1970s. In 1979, in parallel with

the beginning of agricultural de-collectivisation through the introduction of the household responsibility system (*jiating lianchan chengbao zerenzhi*), the central government made the PBC the country's central bank responsible for setting national monetary policy and regulating the financial sector. The ABC was re-established and restructured to become one of the 'big four' state-owned banks under the administration of the PBC, along with the Bank of China (BoC), the Industrial and Commercial Bank of China (ICBC), and China Construction Bank (CCB). The ABC was redefined as both a policy and commercial bank, and it also took over the governance of the RCCs from the PBC (He, 2014). These reforms were meant to re-establish the cooperative nature of RCCs to meet the increasing credit needs of farmers, which went hand in hand with rapidly diversifying rural livelihoods and increasing incomes in the first half of the 1980s (see Chapter 1). However, this attempt to redirect RCCs back to their rural members largely failed, and RCCs continued to use local savings to support local governments and TVEs. In general, RCCs were still reluctant to lend to private individuals and households for initiating small business ventures, which resulted in a perceived shortage of formal credit in many rural areas (Ong, 2011; Tsai, 2004).

At the same time, the RCCs continued to facilitate the transfer of rural resources to urban areas, and while rural savings deposited in the RCCs increased rapidly from RMB 16.6 billion in 1978 to RMB 214.5 billion in 1990 (Y. Cheng, 2006, p. 27), RCCs were required to deposit 30 percent of these savings in the ABC – most of which were located at the county level or higher – at low interest rates. In the 1980s these deposits from the RCCs were the largest source of funds for the ABC, accounting for some 50 percent of the bank's total deposits (Tam, 1988; Watson, 2003). Drained of their resources, the RCCs were only able to lend 50 percent of their total savings within the townships and villages (Y. Cheng, 2006, p. 27), most of which went to the TVEs within a wider policy environment that encouraged rural industrialisation and *in situ* urbanisation.

The ABC and RCCs were also required to provide loans at below-market interest rates to support this rural industrialisation strategy. This was evidenced by the fact that between 1985 and 1990, even though the RCCs substantially expanded their loan provision from RMB 4.5 billion to RMB 141.3 billion, and the ABC registered rapid growth in loans from RMB 168.8 billion to RMB 377.4 billion, both institutions were loss making (Y. Cheng, 2006; Tam, 1988). Considering the leading role that TVEs played in driving China's miraculous economic growth throughout the 1980s and 1990s – this strong government support for the TVE sector can be considered a success story of state-led rural industrialisation (Bateman, 2010; Loubere & Zhang,

2015). However, the strategy also contributed to widening inequalities across the country, since the eastern coastal region was home to larger and more successful TVEs, better infrastructure, and better access to export markets. Coastal provinces, therefore, received the bulk of government support in the form of subsidised loans, which reduced the amount of lending capital available to small-scale private entrepreneurs in less prosperous regions (Ong, 2011).

In the second half of the 1980s two important structural changes to the rural financial system occurred resulting in further increases to rural-urban capital outflow. First, the ABC was allowed to pursue profitable commercial lending opportunities, most of which were in urban areas, by using rural deposits (Tam, 1988). This pursuit of profits resulted in the rapidly declining presence of the ABC in rural areas. Second, in 1986 the Postal Savings and Remittance Bureau (PSRB) was established offering savings and remittance services through the China Post network. Since the PSRB was not a bank at that time, it reached a special agreement with the PBC whereby the PSRB could store funds in the central bank at preferential interest rates. This enabled the PSRB to provide its customers with higher interest rates for their savings, resulting in the rapid growth of PSRB deposits from RMB 128.8 billion in 1996 to RMB 442.1 billion in 2002. While most PSRB funds were deposited by rural households, the PBC opted to allocate most of the funds for lending in non-rural areas (Bislev, 2010; Y. Cheng, 2006, p. 33; Feng, He, & Ljungwall, 2013; Ong, 2009b). This capital flow from rural to urban areas through the RCCs, the ABC, and the PSRB occurred despite the government's intention to provide increasing numbers of migrant workers in Chinese cities with improved services to remit money back to their rural households. As such, the newly established financial institutions continued the pre-reform policy of funnelling rural financial resources into urban and industrial investment.

Meanwhile, semi-formal and informal financial intermediaries and services expanded rapidly to meet the needs of rural actors operating within the diversifying rural economy. In the early 1980s, the Ministry of Agriculture (MoA) introduced another network of financial service providers known as rural cooperative foundations (RCFs) to ease the shortage of lending capital in the countryside (Nyberg & Rozelle, 1999). RCFs became an immediate success – attracting deposits of RMB 10 billion by the end of the decade (Y. Cheng, 2006; Tsai, 2004; Wen, 2009). However, because RCFs were sanctioned by the MoA, a government ministry rather than a state financial regulator, the PBC did not recognise them as formal financial institutions. Thus, RCFs fell into a legal grey zone with only a semi-formal status (Y. Cheng, 2006). At the

same time, informal providers such as ROSCAs, pawnshops and even loan sharks made a dramatic return to the countryside. Rural people have also continued to rely heavily on their social networks for loans or pooled mutual help funds for a variety of purposes, including consumption, start-up capital for microenterprises, children's education, medical expenses, house-building, and ceremonial events. Some researchers, therefore, estimate that informal finance has become the largest source of lending capital in rural China since the reform period began (Hu, 2003; Tsai, 2004; Turvey & Kong, 2010; Zhao, 2011).

The 1980s also saw the first attempts at emulating the global microfinance movement with the incorporation of microcredit programmes based on the 'poverty lending approach' associated with the Grameen Bank's joint-liability lending methodology into some small-scale projects run by international development agencies and non-profit organisations (NPOs) or NGOs, such as the United Nations Development Fund for Women, the International Fund for Agricultural Development, and Oxfam. These projects initially relied on external grants to fund their activities, and were often run in coordination with local authorities in an effort to reduce rural poverty (He, Du, Bai, & Li, 2009). In 1986 the central government started its own subsidised Poverty Alleviation Microcredit Programme (*guojia fupin tiexi daikuan*, hereafter PAMP) in rural areas as part of its overall poverty reduction strategy.<sup>3</sup> These loans had interest rates set as low as 2.88 percent and subsidies were paid for by the central Ministry of Finance (MoF). The PAMP was further expanded after 1996 as the main component of the 8-7 National Poverty Reduction Programme (*guojia baqi fupin gongjian jihua*, hereafter 8-7 Programme)<sup>4</sup> to become one of the largest microcredit schemes in the world (Park & Ren, 2001; Park & Wang, 2010).

The 1990s brought more change through the official restructuring and differentiation of rural financial providers into policy, commercial, and cooperative institutions.<sup>5</sup> The Agricultural Development Bank of China

3 As stated in Chapter 1, sometimes the PAMP and other government lending programmes have not been considered to be 'real' microcredit, as they do not strictly adhere to the original Grameen lending methodology. However, for the purposes of this book, microcredit is simply considered to be the provision of small-scale loans targeting excluded areas and/or actors with the stated aim of inducing bottom-up socioeconomic development.

4 The 8-7 Programme was named for its declared targets of lifting 80 million rural people out of poverty in seven years between 1994-2000 (Bislev, 2010; Tsai, 2004).

5 According to the legislation, policy banks are not profit oriented but instead provide loans for policy objectives (e.g. poverty reduction). Commercial banks are expected to be profit oriented and financially sustainable. Cooperative institutions, typified in the case of the RCCs, are mutually owned and should meet the needs of their members (Chen, Zhao, Chen, & Luo, 2009).

(ADBC) was created in 1994 to take over the unprofitable policy lending duties of the ABC, which also included the PAMP. The RCCs, which had been under the governance of the ABC since the beginning of the reform period, had their administration transferred to county credit unions, which were directly responsible to the PBC (Y. Cheng, 2006; Feng et al., 2013; X. Xu, Deng, Xue, Liu, & Hu, 1994; Zhao, 2011). These reforms marked a shift in the operating principles of the financial intermediaries. The RCCs, as cooperative institutions, were expected to be more responsive to the needs of farmers, microenterprises, and SMEs. As the ADBC started shouldering the bulk of policy lending duties, the ABC was increasingly engaged in profitable commercial endeavours, which were often better achieved in urban areas. This led to the ABC's further retreat from rural areas, and by the end of the 1990s the bank had closed almost all of its township- and village-level branches, as well as many county-level branches (Feng et al., 2013; X. Li, Gan, & Hu, 2011b; Ong, 2009a). Meanwhile, the PSRB continued expanding into both urban and rural areas (Y. Cheng, 2006).

In 1994, a group of researchers from the CASS-RDI established the Funding the Poor Cooperative (FPC) with support from the Ford Foundation and the Grameen Trust. While some microcredit projects had been initiated in the 1980s, the FPC was the first purpose-run MFI in China, and its establishment is considered to be the beginning of 'institutionalised' microcredit in the country (X. Du, 2003; He et al., 2009). Throughout the 1990s, NPO and NGO-style MFIs (both domestic and international) modelled on the Grameen group-lending practice gained popularity, and by the end of the decade there were more than 200 such MFIs across the country. The largest and most well-known of these were the FPC, the China Foundation for Poverty Alleviation (CFPA), and the Association for Rural Development of Yilong (ARDY) (Chan, 2009; Druschel, 2002; He et al., 2009). These MFIs, however, have not been allowed to register as formal financial institutions, and are thus not considered to be a part of the formal financial market subject to government supervision and regulation. They are, therefore, not permitted to conduct the full range of financial business, particularly with regard to accepting and mobilising deposits. Nevertheless, in many rural areas they have been allowed to operate and provide microloans to low-income groups at the discretion of local governments (He et al., 2009; Jia, 2008; Tsai, 2004).

After 1996, the PAMP was expanded and its management reverted back from the ADBC to the ABC. The ABC was required to allocate the microloan quotas to township and village poverty alleviation offices (PAOs) – under the auspices of the State Council's PAO – which were then responsible for organising Grameen-style lending groups (consisting of about five people), and

disbursing the loans in accordance with the quotas. However, microloans were often captured by local elites and used for projects not necessarily related to the poverty reduction objectives. Moreover, these loans were generally subject to overriding policy goals and local interests were prioritised over financial sustainability. This frequently resulted in repayment rates of around 50 percent, representing a liability for the ABC (Bislev, 2010; Ong, 2011; Park & Ren, 2001).

The end of the 1990s was a turbulent time for rural finance in China. With the exception of the PSRB, other rural financial institutions were considered commercially unsustainable and subjected to a round of commercialised restructuring. The existing rural financial system was perceived as being incompatible with the core commercial objectives of maximising profits through efficiency and competitiveness. In this climate, the RCCs and RCFs were reformed based on the logic of a market-driven commercial system, with financial sustainability being made a priority. This resulted in underperforming RCCs being closed or merged with ones that were more commercially successful. The total number of RCC branches reduced from around 50,000 to just over 33,000 (Y. Cheng, 2006; Tsai, 2004; Wen, 2009), and RCC administration was shifted from the local county unions to more central provincial unions. In other words, RCCs underwent a process of 'de-localisation' through consolidation, commercialisation, and centralisation (Loubere & Zhang, 2015). The RCFs, on the other hand, were seen as being a much larger liability, primarily due to the fact that they were not technically a part of the formal financial system and were therefore more difficult to control. All 45,000 RCFs were either shut down or merged with RCCs, causing protests across the country (Feng et al., 2013; State Council, 1998; Tsai, 2004; Wen, 2009). The cost of this massive financial restructuring was mainly born by local governments and rural residents (Wen, 2009).

These reductions in RCC branch numbers and the abolition of the RCFs, along with the ABC's retreat from townships and villages, represented a significant retraction of the rural financial sector. It substantially restricted access to financial information, services, and institutions for many rural actors, and especially for poorer farmers. At the same time, the remaining RCCs and the PSRB continued to channel rural household deposits to local and non-local governments, as well as TVEs or SOEs, most of which had transformed from collective to private or semi-private entities by the turn of the new century (Chen, Zhao, Chen, & Luo, 2009). While it is true that government and NGO microcredit programmes were becoming more popular, they were still not widespread. Therefore, a majority of rural households and microenterprises continued to rely on informal sources to meet their credit needs (Tsai, 2004).

## Rural finance since the turn of the century

Since the early 2000s there have been two divergent trends in the Chinese rural financial system. Firstly, the continued exacerbation of the 'three rural problems' and increasing social discontent in the countryside has led to serious concerns within the central government about potential social instability and its own political legitimacy. This has prompted the leadership to put a greater emphasis on promoting rural development. For example, rural development issues have been the main feature of every Number One Central Document (*zhongyang yihao wenjian*) since 2004. This has resulted in overarching policy frameworks aimed at addressing the widening gap between rural and urban areas, including the Campaign to Open up the West (*xibu dakaiifa*), the XNCJS, and the CXYTH. These development frameworks have pushed forward a number of specific policy measures, including the abolition of agricultural taxes and fees, the provision of agricultural subsidies, and the establishment of basic pension and healthcare systems for rural residents and migrant workers (Brown, de Brauw, & Du, 2009; Fan, 2006; Veeck & Shui, 2011; Watson, 2009). More importantly for this book, the renewed focus on rural development has emphasised the need to extend access to modern formal financial services to rural areas (State Council, 2014), drawing on global narratives stressing the importance of 'financial inclusion' in order to promote rural development, modernise the countryside, and 'empower' the poor (Sparreboom & Duflos, 2012; World Bank, 2014).

Within this context, the government again attempted to reform the RCCs in order to facilitate the extension of financial services to excluded marginal segments of the population. After 2003 the RCCs were put under the administration of provincial unions and three different RCC models were introduced: rural credit cooperatives, rural cooperative banks, and rural commercial banks (Ong, 2009a). A large portion of RCC debt from the non-performing loans was written off and RCCs were required to begin providing subsidised microcredit through the RCC microcredit programme (*nonghu xiao'e xinyong daikuan*, hereafter RCCMP). The RCCMP was envisioned as a way to promote rural microenterprises and further diversify livelihoods through loans that are accessible to low-income households without collateral (*diya*). Additionally, the PAMP has seen continued expansion as part of the Poor Village Investment Programme, and in the early 2000s the central government initiated the Employment Microcredit Programme (*xiaogang shiye zaijiu ye xiao'e danbao daikuan*,

hereafter EMP)<sup>6</sup> for urban workers who had been laid-off during the reform and privatisation of the SOEs (*guoyou qiye gaige*) of the late 1990s and early 2000s. The EMP was then extended to rural areas in 2006, and has since provided microcredit at 0 percent interest in an effort to generate employment opportunities and increase income for a number of rural actors, such as returning migrant workers and local farmers (for more details on the RCCMP, PAMP, and EMP see Chapter 3). Another important development was the transformation of the PSRB into the Postal Savings Bank of China (PSBC) in 2007 with the ability to provide loans in both urban and rural settings. The PSBC has been mandated to redirect investment capital back into rural areas through its national network by providing credit to rural individuals, households, and microenterprises, as well as through wholesale loans to MFIs and private commercial financial institutions (X. Du, 2008a).

These government-led and government-subsidised microcredit initiatives – as well as the PSBC's mandate to increase rural coverage – represent social policies aiming to more effectively address rural development issues, which is seemingly in contradiction with the earlier commercialised policy discourse prioritising the 'financial sustainability' and 'efficiency' of financial institutions. However, alongside these government forays into microcredit provision, China's rural financial system has also paralleled the increasingly commercialised ideological approaches to financial organisation globally, typified by the global microfinance movement's shift from the 'poverty lending approach' to the 'financial systems approach' (see Chapter 1). Since 2004 the central government has pushed for new types of market-oriented rural financial service providers to compliment the government-subsidised initiatives outlined above (Feng, He, & Du, 2006; Feng et al., 2013; State Council, 2004). For instance, in 2005 the PBC initiated a new type of profit-oriented private MLC in rural areas; in 2006 the China Banking Regulatory Commission (CBRC) piloted and subsequently legalised private VTBs; and in 2007 the CBRC approved the formalisation of rural mutual credit cooperatives (RMCCs), which are the regulated equivalent of ROSCAs. While different rules apply to MLCs and VTBs, the two emerging commercial rural financial institutions can lend at up to four times the basic lending rate set by the PBC (as of July 2015 the rate was 5.6 percent), which

6 The EMP is actually more accurately translated as the 're-employment microcredit programme'. However, since being extended to rural areas, the EMP's focus has expanded to include a variety of other target groups in addition to laid-off workers. I have, therefore, opted to choose a translation that reflects the current objectives of the programme.



is much higher than the 2.3 times the basic rate allowed for state-owned financial institutions. However, in an attempt to prevent the type of rural-urban capital outflow discussed earlier, MLCs and VTBs were forbidden from operating beyond their home counties, making them unable to link up with central administrative units at higher levels (X. Du, 2008a; He et al., 2009).

The entry of these commercial institutional forms into the rural financial sector has created new opportunities for private financial institutions, local investors and global capital – represented by international commercial banks – to tap into China's rural cash reserves. Indeed, since 2008 major international players – such as HSBC, the Bank of East Asia, and Standard Chartered Bank – have set up VTBs, and Citi Bank has invested in MLCs (He, 2008). These large international financial institutions have often sought to frame investment in these new commercial MFIs as a form of corporate social responsibility, while also acknowledging their desire to gain a foothold in the Chinese countryside (which prior to the advent of MLCs and VTBs had been off-limits to foreign financial institutions) in the hopes that the restrictions on coordinating branch activities at higher administrative levels will be relaxed in the future (Stiles, 2009).<sup>7</sup>

Since the early 2010s the rural financial landscape has undergone a further dramatic transformation through the advent of Internet finance. While the formal financial sector in China has been tightly regulated, Internet finance has grown rapidly in a relatively uncontrolled environment, which has resulted in China's Internet finance industry becoming the largest in the world in a few short years. This has opened the door for digital microlenders and peer-to-peer platforms to provide services in rural areas. Unlike other financial institutions, these digital lenders have existed in a legal grey zone, and have had few limits on their operations or lending rates – providing the potential for both high profits and exploitative behaviour. While Internet finance providers still predominantly serve urban clientele, there are many rural customers as well – and some companies specifically target rural areas – as all that is needed to participate is a mobile phone (Guo, Kong, & Wang, 2016; Loubere, 2017b, 2017a).

This commercialisation of the rural financial landscape has instigated a rapid expansion and diversification of financial institutions at the grass-roots. For instance, between 2008 and 2012 over 4,000 MLCs and VTBs were established nationwide (Y. Wang & Wang, 2012), mainly by small private investors, and thousands of Internet providers with the ability to operate rural areas have emerged. Practically, this has resulted in the

7 Conversation 02.

formalisation of previously informal moneylenders and underground banks, and the emergence of new ‘cyber loan sharks’ (Loubere, 2017b). Rather than benevolently lending to the poor and marginalised segments of society for development activities, these commercial MFIs often lend at high rates (frequently higher than legally allowed) for ‘unproductive’ activities, such as gambling, that regular banks would not provide loans for. Moreover, property is frequently used as collateral rather than joint-liability groups.<sup>8</sup> At the same time, in a reversal of earlier practices, the ABC has started reopening some of its closed township-level branches, and other state-owned banks have begun investing in VTBs and MLCs themselves (X. Du, 2008b). Meanwhile, major Internet companies, such as Alibaba and Tencent, have been investing in rural microcredit and establishing wealth management investment funds provided through their digital platforms. The increased competition caused by the growing number of providers backed by international, private, and state-owned capital threatens the RCCs’ position as the leading rural financial institution. In response, RCCs have become increasingly profit driven, despite the fact that they are required to provide subsidised loans through the RCCMP. In other words, the rural financial system as a whole has become more commercialised, which has resulted in rural financial institutions increasingly prioritising profit-making over social policy objectives (Loubere & Zhang, 2015).<sup>9</sup>

These two contradictory trends – government subsidised/directed lending versus an increasingly commercialised rural financial system – have created a complex and dynamic financial landscape. However, it is also fragmented, composed of an increasing number of players with diverse and sometimes conflicting objectives, providing a variety of financial services and products to different rural actors. For instance, the RCCs should meet the central government’s mandate of providing support to rural households and microenterprises through subsidised loans. At the same time, the government expects the RCCs to be financially independent and sustainable – responsible for their own profits and losses (Y. Cheng, 2006; He, 2014).<sup>10</sup> To achieve this, the RCCs must operate on a for-profit basis. Thus, there is clear inconsistency between the political and social goals on the one hand, and the market-oriented demands on the other. Without strong fiscal support from the government, the RCCs must adopt commercial modes of operation

8 Conversation 35; Conversation 41.

9 Interview 01; Interview 05; Interview 10.

10 PAMP and EMP implementers are also often under increasing pressure to ensure repayment. See Chapter 3 and Chapter 4 for more details.

regardless of their officially defined duties, and this is particularly true in the context of growing competition in the rural financial market.<sup>11</sup> Furthermore, it is still unclear how this increasingly complex rural financial market can be effectively regulated to protect rural clients – particularly small-scale farmers, microenterprises, and vulnerable social groups – from falling victim to financial malpractices and even fraud as witnessed in almost all parts of the world as under-regulated financial markets expand.<sup>12</sup>

Table 2.1 and Table 2.2 outline rural China's current financial landscape (since 2006) in terms of the different types of providers in operation – both ideologically and for regulatory purposes – and the services available. From the tables, it is clear that the only providers of microcredit services are NPO-style MFIs, some Internet finance providers, government agencies offering subsidised policy-oriented microloans – e.g. the PAMP and the EMP – and the RCCs through the RCCMP. Meanwhile, other financial services – e.g. policy loans, savings, remittances, and commercial credit – are provided by a wider variety of financial institutions and informal sources. Mapping financial service provision in this way allows for a better understanding of where microcredit 'slots in' to the increasingly segmented rural financial landscape in China, which is essential for an analysis of what these programmes mean for local socioeconomic development and the livelihoods of different local actors. We now turn to analyse the current state of our knowledge of rural financial services generally, and microcredit in particular, based on a systematic review of the academic literature.

## 2.2 Research on Rural Financial Services in China

The historical review above shows that China's rural financial system has transformed dramatically over the past four decades against the backdrop of major ideological shifts in the philosophical underpinnings of national rural development strategies. These changes in the organisation and structure of rural financial institutions, and the ways in which they provide rural financial services, have had significant implications for local socioeconomic development and rural livelihoods. There is, unsurprisingly, a substantial body of research in both English and Chinese examining the role played by China's financial system in general, and microfinance

11 Interview 01.

12 Recently, there have been particularly blatant examples of fraud in the rural financial sector. See (G. Zhu, 2015).

**Table 2.1 Financial service providers in rural China since 2006**

	<b>Policy-oriented</b>	<b>Market-oriented</b>	<b>Cooperative</b>	<b>Informal and Semi-formal</b>
Providers	- ADBC	<i>State-owned</i> - ABC - PSBC	<i>Private</i> - VTBs - MLCs	- RCCs - RMCCs - NPO MFIs - ROSCAs - Moneylenders - Pawnshops - Friends and family - Internet finance providers

Source: Adapted and updated from Zhang & Loubere, 2013

**Table 2.2 Financial services provided by different institutions in rural China since 2006**

	<b>Policy Loans</b>	<b>Savings</b>	<b>Remittances</b>	<b>Commercial Credit</b>	<b>Subsidised Microcredit</b>
Sources	- ADBC	- RCCs - RMCCs - ABC - PSBC - VTBs - Internet finance providers - Informal sources	- RCCs - ABC - PSBC - Internet finance providers - Informal sources	- RCCs - ABC - PSBC - VTBs - MLCs - PSBC - Internet finance providers - Informal sources	- NPOs/NGOs - RCCs - Government programmes

Source: Adapted and updated from Zhang & Loubere, 2013

industry in particular, in facilitating and shaping rural development. With some notable exceptions (see below), this research is mainly situated within the disciplines of economics, finance, or political economy, and tends to focus on macro-structural issues related to the functioning of the rural financial system and/or financial institutions, or is interested in the impact that changes in the supply and demand of financial services have on rural individuals, households, and enterprises. Another feature of this literature is that the vast majority of studies focus on credit, but there is a smaller body of literature examining savings and/or remittances (Fleisher, Liu, & Li, 1994; Murphy, 2006; H. X. Zhang, 2014). In this section I critically review the current scholarship on rural finance and microcredit in China in order to identify some of the field’s strengths, the main assumptions underlying

both research and policymaking, and areas where our understanding is relatively less developed.

### **The financial system, institutions, and service provision**

There is a considerable amount of literature examining China's rural financial markets (Findlay, Cheng, & Watson, 2003; Meyer & Nagarajan, 2000; OECD, 2003; Ong, 2012; Turvey, He, Kong, Ma, & Meagher, 2011), the role that rural finance has played in economic growth (Nyberg & Rozelle, 1999; Ong, 2011), as well as the growth of the country's microfinance industry (Brandt, Park, & Wang, 2001; Dubas & Harris, 2008; He et al., 2009; Montgomery & Weiss, 2006; Park & Ren, 2001; Ren, 2012; World Microfinance Forum Geneva, 2008; L. Zhu, Jiang, & Von Braun, 2002). Literature has also focused on how reforms and new regulations have changed the institutional environment for financial service providers (Chen et al., 2009; Y. Cheng, 2006), and how policies have served to either facilitate or constrain the expansion and diversification of the rural financial industry, especially with regard to microcredit provision by both banks and non-banking institutions (Gowrie-Smith, 2010; Kwong, 2011; Ma, 2003; T. Sun, 2008; Thompson, 2003). Most research depicts China's rural financial system as being institutionally 'weak' or 'underdeveloped'. This is mainly attributed to government interventions that have 'distorted' the market through subsidies – e.g. subsidised microcredit undermining commercial financial providers – and a legal framework that restricts the operation of financial service providers both directly, through the perceived overregulation of the rural financial system, and indirectly, by not clarifying property rights (Farrell & Lund, 2006; OECD, 2003; Osthoff, 2005; Rahman & Luo, 2011).

In addition to this system focus, there has been significant interest in examining the structural changes to rural financial intermediaries, and what this has meant for their operation. For example, the RCCs are the focus of many studies, most of which analyse how their operation has been impacted by the reforms made over the past few decades to their organisation and governance, their regulatory environment, the institutional factors contributing to the RCC crisis in the late 1990s, and the on-going expansion of the RCCMP (Y. Cheng, 2006; Deer, 2014; Ong, 2012; Swoboda & Zhang, 2007; W. Wang, 2003; Xie, 2003; Zhao, 2011). Similarly, the role of the ABC in rural China is the focus of much attention, especially with regard to the bank's relationship with the RCCs in the 1980s and 1990s, its transformation from a policy bank to a state-owned commercial bank in the early 1990s, its retreat from the countryside in the mid-late 1990s and subsequent return,

and its perceived responsibility to support the central government's rural development strategies while maintaining 'financial sustainability' (Y. Cheng, 2006; X. Du, 2008b; Ong, 2011; Park & Ren, 2001; Park & Wang, 2010; Tam, 1988).

There are also some detailed accounts of the regulatory environment, institutional structures, and current outreach of traditional NGO-style MFIs, as well as the new players that have come onto the stage since 2005, such as the PSBC, VTBs, MLCs, and RMCCs. This research often analyses what the emergence of these new MFIs means for the microcredit environment (X. Du, 2008a; He et al., 2009; He, Tang, Zhang, Xie, & Rong, 2012; Lau, 2008; Ong, 2011; Rahman & Luo, 2011; B. Sun, 2011). However, there has been limited empirical investigation into how these new actors operate at the local level, how they have been perceived and utilised by local people, or the impact that they are having on rural livelihoods and development. Finally, there is some excellent in-depth, empirically-based research on informal finance, mainly focusing on the classification of its types, the operation of informal financial systems in different contexts, and the practices of pooling financial capital through informal social networks. In general, these studies attempt to understand how rural people, enterprises, and communities have dealt with credit constraints while sustaining diverse livelihoods through informal lending and borrowing (Hu, 2003; J. Li & Hsu, 2009; Tsai, 2000, 2002, 2004; Y. Zhang, Lin, & Li, 2012; Zhou & Takeuchi, 2010).

Much of the existing research seeks to provide policy recommendations for 'improving' the financial system as a whole and the provision of specific financial services (particularly microcredit). These prescriptions are generally rooted in a financialised perspective characterised by the 'financial systems approach' to microcredit (see Chapter 1). In particular, they frequently depict China's rural financial system as 'unsustainable' and 'inefficient', urging greater market liberalisation through the privatisation of RCCs and other state-controlled financial institutions, as well as the further deregulation of the financial market (Byström, 2007; OECD, 2003). The advocacy for further commercialisation and financialisation of the microfinance industry typifies this trend (He et al., 2009). These recommendations are made on the grounds that state subsidies create 'distortions', thus rendering China's rural financial system more inefficient and unsustainable. Furthermore, government monitoring and regulating of the financial sector are frequently framed in negative terms as inhibiting free market operation, restricting institutional entry, and creating credit shortages. Government action is depicted as prohibiting competition, preventing the optimal allocation of resources, and discouraging entrepreneurship – all of which hinder economic

growth and development. Therefore, much research in the field, implicitly or explicitly, advocates further financial market liberalisation with regard to regulation of interest rates, services, institutional practices, ownership forms, and geographical limitations (Brandt et al., 2001; Montgomery & Weiss, 2006; Nyberg & Rozelle, 1999; OECD, 2003; Ong, 2011; Park & Ren, 2001; L. Xu, 2009). Some research takes this even further, advocating for full-scale privatisation through property rights changes and the privatisation of collectively-owned agricultural land, which could then be used as collateral for loans (OECD, 2003). This prescription is largely based on the influential work of Peruvian economist Hernando de Soto, which conceptualises land with vague or communal property rights as 'dead capital' (de Soto, 2000). Unacknowledged in this literature, however, is the fact that this depiction of land rights has been vigorously contested and critiqued, both with regard to the global microfinance movement, and specifically in the Chinese context (Bateman, 2010; Q. F. Zhang & Donaldson, 2013).

### **Supply, demand, and impact assessment**

There is also a substantial amount of research paying attention to the impact that the increased availability of financial services has on rural development. This research is largely dominated by the disciplinary perspectives of finance and economics, and is primarily concerned with measuring impact in a linear way – focusing on the effects that changes in the supply and demand of credit have on different actors. The main argument put forward is that the market reforms since the late 1970s have brought about increasing demand for credit from households, communities, and enterprises, but that supply by the formal financial sector has fallen far short, causing credit constraints and the formation of a large and diverse informal 'curb market' to meet the demands of those excluded actors (E. Cheng, 2007; Y. Cheng, 2006; Z. Du, 2004; Feder, Lau, Lin, & Luo, 1989; Kumar, Turvey, & Kropp, 2013; X. Li, Gan, & Hu, 2011a). For example, in the early 2000s the OECD estimated that only 16 percent of Chinese farmers had access to credit and that more than 70 percent of loans to rural people were obtained through informal channels. It was also noted that formal financial institutions were reluctant to lend to small businesses because of the high transaction costs involved (OECD, 2003, p. 7).

Most studies attribute this situation to a restrictive policy environment created through onerous government interventions as discussed above, and also recommend further liberalisation and deregulation of the financial market in order to meet demand, allowing the financial market to expand

and thus promote financial inclusion (Z. Du, 2004; Feder et al., 1989; Feng et al., 2006; He, 2008; He et al., 2009; OECD, 2003). At the same time, however, some researchers argue that credit constraints are not universally or evenly observed in the rural Chinese context, pointing to data that show widespread and sometimes concurrent use of both formal and informal sources (Park & Ren, 2001; Tsai, 2004; Zhou & Takeuchi, 2010). Other studies contest the predominant view that low-income rural households have high demand for loans by showing that many such households have actually decided not to participate in credit programmes based on careful calculations of potential risks and returns (Bislev, 2010, 2012; Park & Ren, 2001; Turvey & Kong, 2010). Still others have investigated the awareness of, access to, and utilisation of financial instruments. This research has focussed on the selection of different providers and services – both formal and informal – as well as borrowing behaviours, revealing dynamism, diversity, and heterogeneity in local preferences, practices, and goals with regard to lending and borrowing (Bislev, 2010, 2012; Hsu, 2014, 2017; Loubere, 2018; Tsai, 2004; L. Xu, 2009; G. Zhang, 2008; Y. Zhang et al., 2012; Zhao, 2011).

The use of financial services – again mainly credit – is another primary focus of impact-oriented research. These investigations have found that loans are often used for ‘productive’ purposes – such as investment in agriculture, TVEs, microenterprises, and to facilitate rural-urban migration. At the same time, loans are also frequently used for ‘non-productive’ purposes – such as children’s education, healthcare, house construction, consumer durables, weddings, funerals, and daily necessities – which is generally conceptualised as ‘consumption smoothing’ (Park, Ren, & Wang, 2003; Unger, 2002b; Zhou & Takeuchi, 2010). These studies usually come to the conclusion that easier access to credit – i.e. more ‘inclusive’ financial services – correlates positively with increased income, consumption, higher levels of educational attainment, and other beneficial outcomes (X. Li et al., 2011b; Nichols, 2004; Pan, Rejesus, & He, 2009; Park & Ren, 2001; Rahman, Luo, & Zhao, 2014; You & Annim, 2014). Other research has gone into more depth, exploring the heterogeneous and multiple uses of loans in diverse household livelihood strategies – with borrowers simultaneously engaging in farm, off-farm, and non-farm activities – which has uncovered multiple impacts (Kumar et al., 2013; H. Li, Rozelle, & Zhang, 2004). Most of these studies rely on econometric methods that attempt to identify causal linear relationships, and are, therefore, fundamentally structuralist and top-down in their approaches.

That being said, while the vast majority of research is top-down, structurally-oriented, and largely neglects (or minimises) local agency, there



is a small body of scholarship which examines the processes and dynamics involved in the acquisition and utilisation of financial services from the perspectives of local actors through in-depth fieldwork in the Chinese countryside. This research explores the local political economy of formal and informal financial intermediation (Hu, 2003; Ong, 2006; Tsai, 2004), and often finds that rural financial services – and even ‘external interventions’ such as microcredit – become ‘embedded’ within existing socioeconomic and socio-political contexts at the local level (Bislev, 2010, 2012; Deng, O’Brien, & Chen, 2018; Hsu, 2017). In particular, it has been observed that access to financial information – especially with regard to subsidised loans – is differentiated based on existing social relations, power, and widening social stratification in rural society (Bislev, 2010, 2012; Tsai, 2000, 2004; Unger, 2002; Y. Zhang et al., 2012). Therefore, the negotiations surrounding access to, and utilisation of, financial intermediaries and their services, often have broader societal implications; e.g. for local power differentials, gendered divisions of labour, control of various resources and knowledge, etc. (Bislev, 2010, 2012; Hsu, 2014; Tsai, 2000; Tsien, 2002). As such, observing financial behaviour at the local level provides a lens through which we can view the organisation and functioning of rural Chinese societies undergoing processes of dynamic and rapid socioeconomic development and change.

### **Strengths and weaknesses in the current scholarship**

This systematic review of the literature reveals that there has been a substantial amount of work analysing the organisation of the rural financial system as a whole – particularly with regard to changes in policy, regulatory bodies, and ideology. Much research has also focussed on the operation of rural financial institutions, especially in terms of changes to institutional classifications, the goals and objectives of different financial intermediaries, and the wide variety of informal providers. However, financial providers are not equally represented in the literature. Most research is interested in the RCCs, the ABC, and/or informal intermediaries, while other providers are often only mentioned in passing. For instance, there are only a few studies focusing primarily on government-subsidised microcredit programmes, with the EMP being particularly under-represented in both English-language and Chinese-language scholarship.

The current state of the scholarship, therefore, represents a relatively comprehensive understanding of the top-down structures governing rural financial service provision in China – i.e. how (and why) the system and its constituent elements ‘should’ be operating. However, this (overly)

structural focus reinforces biases and misperceptions that obscure the high levels of complexity that are inherent in financial organisation in rural China. Because much less research has been conducted through micro-level sociological and anthropological approaches, there has been limited representation of the voices and perspectives of local people. This represents a number of blind spots in areas of critical importance for an in-depth understanding of what rural financial services actually mean at the local level.

Firstly, the structural emphasis outlined above does not accurately represent the hugely important role that local agency plays in the negotiations between different actors, which ultimately determines how rural financial services are perceived and manifested in different localities. In other words, the understanding of how financial institutions and services are designed centrally is prioritised over in-depth analysis of their implementation and provision at the local level. This is surprising considering the comprehensive body of literature dedicated to the analysis of transformation and variation in the implementation of policy at the local level in rural China (Ahlers, 2014; Brown et al., 2009; Donaldson, 2009; Loubere & Shen, 2018; Manion, 1991; O'Brien & Li, 1999). This scholarship, a significant segment of which explores rural development policies and campaigns, has much to tell us about development realities in rural China – particularly in relation to the extension of financial services as part of government-led development initiatives – but has, nevertheless, been largely neglected by research on rural finance. This has resulted in a relatively underdeveloped picture of how (and why) rural financial services are actually provided in townships and villages – a gap that this book addresses in Chapter 3 and Chapter 4.

Secondly, when local-level implementation is discussed, it is primarily through the discourse of impact evaluation, which views financial services (particularly subsidised loans) as targeted external interventions with specific objectives aimed at improving the situation in rural areas and the lives of rural people. From this perspective, transformation and variation in implementation is framed negatively as a 'failure' because the objectives have not been met, which is invariably blamed on incompetence or (more often) on collusion between greedy officials and elites at the local-level who 'capture' the funds for their own purposes (Hofmockel, 2005; Ong, 2011; Park & Ren, 2001). Moreover, these impact evaluations are generally prescriptive, usually attempting to clearly define target groups and measurable variables denoting improvement, e.g. consumption, income, propensity to migrate, etc. This approach is taken in order to identify linear causation or correlation, rather than taking a more holistic approach, and thus suffers from the same

weaknesses that have been identified in the global literature on microcredit impact evaluations (Bateman, 2013; Hulme, 2000). Even the small body of scholarship adopting micro-level perspectives mentioned above, which provides detailed analysis of the ways in which microcredit and informal finance become embedded within local contexts, tends to focus primarily on the implications of these financial services for certain groups or singular aspects of livelihoods. Therefore, while the current body of research provides us with a relatively clear understanding of some of the ways in which financial services impact specific actors, we still do not really understand how local variation in provision ultimately shapes the role that financial services play in processes of socioeconomic development more broadly, and the livelihood strategies of various actors at the local level. For this reason, Chapter 5 and Chapter 6 outline the multidimensional and paradoxical impacts that microcredit programmes have on local communities and households.

Finally, due to the general financialised orientation of most existing research on rural financial services and microcredit in China, there has not been sufficient engagement with wider global debates over neoliberal modes of development, or the potentially negative outcomes stemming from the commercialisation and financialisation of local financial institutions and microcredit programmes. Instead, the literature aimed at assessing impact mentioned above usually seeks to measure positive impact and does not consider the possibility of negative side effects emerging from expanded financial inclusion. However, the growing body of critical literature on the global microfinance movement has provided evidence that in many developing and post-socialist societies – e.g. South Asia, Latin America, Africa, the Balkans, etc. – the increasingly neoliberalised microfinance industry has exacerbated inequality and undermined local development efforts. At the same time, as mentioned in Chapter 1, microcredit has also been blamed for causing widespread risk, severe debt, distress, and crisis at the individual, household, community, and societal levels (Bateman, 2010; Bateman & Chang, 2012; Maclean, 2013; Taylor, 2012). This research has fundamentally challenged the theoretical reasoning, logic, and ideological pillars of the neoliberal assumptions underpinning the microcredit model and the concept of ‘inclusive finance’. The non-engagement with this global debate in the Chinese context suggests an urgent need to critically interrogate fundamental ‘truisms’, and to develop more reflexive perspectives drawing on international experience while staying grounded in holistic understandings of local contexts. For these reasons, Chapter 6 and Chapter 7 explore the ‘alternative development’ literature and global critiques of microcredit in relation to the in-depth empirical data presented in this book.

## 2.3 Conclusion

By comprehensively charting the institutional trajectory and contours of the Chinese rural financial landscape since the founding of the PRC, this chapter shows that China's rural financial system has, at different times, experienced either consolidation and contraction, or expansion and diversification. This is true for both government-subsidised financial services as a means of facilitating local development, as well as for commercial financial institutions seeking access to rural financial resources (e.g. savings deposits) and greater profits through investment in rural areas. This complex, dynamic, and ideologically inconsistent financial terrain has played diverse and multiple roles in the ways in which different rural actors access, utilise, and perceive financial services as vital elements in their livelihood strategies. It has also played a key role in shaping local socioeconomic development more broadly, making attempts to box China's rural financial landscape into a single 'ism' overly simplistic.

In order to gain a more holistic understanding of the Chinese microfinance industry and address this book's overarching question – i.e. what role do microcredit programmes play in local processes of socioeconomic development and the livelihoods of diverse local actors? – it is necessary to shed light on the socioeconomic, cultural, and political processes, practices, and dynamics involved in shaping local actors' perceptions and understandings of financial information and services. At the same time, we must interrogate the negotiations that take place over the provision, acquisition, and utilisation of financial services – both within localities, and between local and non-local actors. However, a careful scrutiny of current scholarship reveals that, with a few exceptions, most research is mainly interested in more macro-structural issues related to the functioning of the rural financial system, the mechanics of service provision, particular elements related to the environment within which rural financial institutions operate, and/or assessing the linear causal impact of financial service extension on specific aspects of livelihoods and/or local development.

The current body of research has, therefore, provided us with an invaluable understanding of the operation of the rural financial system and institutions from a top-down structural perspective, and has also successfully analysed key linear impacts and the ways in which financial services become embedded at the local level from the perspective of certain rural actors. However, it has not provided us with the tools to holistically analyse the complexities involved in rural financial organisation outlined above from the perspective of local actors themselves. The rest of this book will

approach this gap by adopting an actor-oriented perspective that analytically focuses on the interfaces of interaction between different actors, the flows and linkages between interconnected financial landscapes, and the capabilities, resources, and values associated with diverse local livelihoods. This approach provides the basis for a detailed analysis of the role that government-subsidised microcredit programmes play in dynamic processes of local socioeconomic development, and the (re)production of the complex and diverse livelihoods of multiple rural actors, that is both grounded in detailed fieldwork in townships and villages, and also engages with the critical global debates outlined above.

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# 3 Making Microcredit

## Policy Formulation and Implementation

### Abstract

This chapter begins by providing detailed historical backgrounds of the three microcredit programmes examined in the book, outlining how they have been formulated at the central and provincial levels as components of overarching rural development strategies and frameworks – thereby largely adhering to the prevailing narratives and discourses defining rural development in China. This is followed by an analysis of key areas where microcredit policy has been left relatively open to interpretation, allowing for local policy experimentation. The rest of the chapter explicitly outlines how the three programmes have been implemented (or not) in each of the townships, setting the stage for an analysis of heterogeneous implementation.

**Keywords:** China, rural development, development policy, policy implementation, microcredit

The centre has policies, local areas have counter-policies  
(*shang you zhengce, xia you duice*).  
– Old Chinese saying

Since the initiation of the first microcredit projects in the 1980s, the Chinese microcredit sector has expanded and diversified. Through the 1990s and 2000s the number of NGO/NPO programmes and commercialised MFIs increased at a seemingly exponential rate (see Chapter 2). Nevertheless, despite the rapid expansion of microcredit services provided by NGOs/NPOs and commercial MFIs, the three largest programmes run and subsidised by the government (the PAMP, RCCMP, and EMP) are still, by far, the largest source of microcredit in rural China in both size (i.e. total amount of loans)

and scale (i.e. outreach). These programmes are fundamentally different to NGO/NPO or commercial MFIs in a number of key aspects – most notably due to the fact that they are not institutions themselves, but policy frameworks that facilitate microcredit transactions between rural borrowers and financial institutions. They have, nevertheless, for the most part adhered to global microfinance ideology. For instance, all three of the programmes have provided loans at subsidised rates to different ‘financially excluded’ target groups. The programmes also all aim to jumpstart rural development and reduce socioeconomic inequalities by facilitating grassroots entrepreneurship, in much the same way that the Grameen Bank and other early proponents of the ‘poverty lending approach’ envisioned turning on ‘economic engines among the rejected population of society’ (Yunus & Weber, 2007, p. 56). Government microcredit in China has also been influenced by the global microfinance movement’s shift towards the ‘financial systems approach’, as well as by the increased emphasis on financial sustainability and profitability in China’s financial sector more generally (Loubere & Zhang, 2015). This has prompted both the local implementers and the financial institutions providing the loans for the PAMP, RCCMP, and EMP to think of their involvement in the programmes in more commercial and financialised terms.

Ideologically these microcredit programmes have also been firmly situated within the government’s overarching rural development strategies and frameworks, including longstanding development narratives put forward by China’s top leaders. For instance, policies for the programmes have been framed as ‘following the guidance of “Deng Xiaoping Theory” (*Deng Xiaoping lilun*) and the “Three Represents” (*sange daibiao*)’ (JXPMoHRSS & JXPRCCU, 2009; State Council, 2003), while also being linked to efforts to create a ‘Harmonious Society’ (*hexie shehui*) and a ‘Well-off Society’ (*xiaokang shehui*) (JXPPAO, JXPMoF, & JXPABC, 2006; PBC, 2001; State Council, 2002, 2003). Since the early 2000s, the extension of formal financial services in general – and microcredit programmes in particular – to rural areas has been identified as a key method of dealing with the *sannong wenti*, and the RCCMP has been especially singled out as an effective method of supporting rural people engaged in agriculture (MoF, 2010; PBC, 2001; State Council, 2003, 2014; Tang, 2006). More recently, the three programmes have also been integrated into newly emerging and overlapping rural development strategies, such as the XNCJS, which seeks to ‘modernise’ the countryside while maintaining its rural nature (State Council, 2006), and the CXYTH, which aims to ‘break down the systemic urban-rural dichotomy’ (Wang, 2013). In this context the RCCMP is seen as a method of improving rural

production, particularly through agricultural modernisation, the PAMP as a way of increasing rural consumption, and the EMP as a means of improving and modernising the rural employment situation (JXPPAO et al., 2006; State Council, 2006, 2014).

Therefore, similar to most other top-down rural development interventions in China, these government microcredit programmes are embedded within a number of overlapping – and sometimes conflicting or contradictory – development ideologies, discourses, and narratives both within China and globally. This situation has resulted in a complex and dynamic environment that allows for a variety of interpretations of how policy should be implemented based on different developmental and ideological priorities. This often results in significant policy transformation from the centre to the local, as well as variation in the actual operation of the programmes across localities. This chapter aims to explore both the formulation of microcredit policy in China and the reality of policy implementation in rural areas. This will provide the basis for analysis of the reasons for the heterogeneous implementation of the programmes, and the nexus between microcredit provision, local development, and livelihoods in subsequent chapters.

The rest of the chapter is organised as follows. The next section (3.1) outlines how the policies of the three programmes have been formulated at the central and provincial levels, before turning to examine key areas that have been left open to local discretion. Section 3.2 explores the ways in which these microcredit programmes have manifested in the three townships, and the perceptions of local implementers and borrowers towards the programmes. The final section (3.3) concludes and leads into Chapter 4.

### **3.1 The Formulation of Microcredit Policy**

The PAMP, RCCMP, and EMP were initiated at different times, by different government entities, and are operationally different in a number of ways. This section reviews the policies for each of the programmes at the central and provincial levels in order to provide a detailed overview of their official historical development, objectives, and ideological underpinnings – as well as the technical aspects, such as those related to programme administration, loan provision, interest payment, and application processes. Table 3.1 below summarises the information.



**Table 3.1 Microcredit policy frameworks**

	<b>Poverty Alleviation Microcredit Programme (PAMP)</b>	<b>Rural Credit Cooperative Microcredit Programme (RCCMP)</b>	<b>Employment Microcredit Programme (EMP)</b>
Initiated	1986	1999	2002 (expanded to rural areas in 2006)
Administered by	Poverty Alleviation Office	People's Bank of China	Ministry of Human Resources and Social Security
Subsidies paid by	Ministry of Finance (central): 80% Ministry of Finance (provincial): 20%	Rural credit cooperatives People's Bank of China	Ministry of Finance (central): 100%
Interest rate (banks receive with subsidy)	The same as a normal loan (1-2 times the national rate set by the People's Bank of China)	1.2 times the national rate set by the People's Bank of China	3% + the national rate set by the People's Bank of China
Interest rate (paid by borrowers)	Households: 5% Businesses/Cooperatives/Projects: 3%	1.2 times the national rate set by the People's Bank of China (maximum)	Fully subsidised for individuals and households (i.e. 0%) Half interest paid for businesses, cooperatives and projects
Loan amount	Depends on local conditions	Depends on local conditions	Households: RMB 100,000 (maximum) Businesses: RMB 4,000,000 (maximum)
Loan term	1 year	Progressive lending	2 years (maximum)
Provided by	Any financial institution	Rural credit cooperatives	Any participating financial institution
Loan secured by	Guarantor; credit rating; other/none	Credit rating; joint-liability	Guarantor (individual, cooperative, institution); joint-liability; collateral; credit rating; other/none
Quota	None specified at the central or provincial levels	60% of rural credit cooperative savings required to be used for household microcredit	None specified at the central or provincial levels
Target areas	National/provincial designated poverty-stricken villages	Nationwide	Nationwide
Target borrowers	Poor households engaged in productive commercial activities Rural businesses, cooperatives and projects that reduce poverty	All rural people with an emphasis on farmers	Laid off workers out of work for 1 year (including migrant workers returning to rural areas) Veterans Recent college graduates Disabled people Companies hiring unemployed people Farmers and agricultural enterprises

## The poverty alleviation microcredit programme (PAMP)

The PAMP was initiated in 1986 and was first piloted in a handful of counties around the country before being expanded nationwide as part of the central government's general poverty alleviation programme. This followed the usual pattern of policy modelling/piloting that has been an integral feature of China's development planning since the Mao era (Ahlers & Schubert, 2013; Heilmann, 2008). Over the approximately 30 years since its inception, administration of the programme has shifted between the ADBC, the ABC, and PAOs at various levels. It has also been co-opted by, and reformulated within, subsequent rural development programmes over this period (Ong, 2011; Park & Ren, 2001; Park & Wang, 2010; Tsai, 2004). For instance, in the 1990s the PAMP became the largest component of the 8-7 Programme (Bislev, 2010), and since the early 2000s it has fallen under the umbrella of the Poor Village Investment Programme, which provides targeted funds for community-based activities in poverty-stricken villages, township, and counties that are designated at the national, provincial, and prefectural levels (Park & Ren, 2001; Park & Wang, 2010).<sup>1</sup> More recently the PAMP has been influenced by the general ideological shift towards more commercialised approaches to rural development, and now emphasises the need to 'follow the rules of the market in order to implement poverty alleviation and development' (JXPPAO et al., 2006).

Unlike the other two programmes, which are supposed to be provided in all rural areas, the PAMP it is only offered in officially designated poverty-stricken areas. There are two types of loans available through the PAMP. First, there are small loans for impoverished households. In order to be eligible for the loans, households need to have a special type of identification to prove that they are truly impoverished, which is usually provided by the township government. Second, PAMP funds can also be used to provide larger loans to companies, cooperatives, or government projects that 'reduce poverty' in some way – although the policies do not specify what counts as poverty reduction in this context. The interest rate for the household loan is set at 5 percent, and the rate for companies, cooperatives, and projects is 3 percent. The loans themselves are provided by participating financial

<sup>1</sup> Nationally designated poverty-stricken villages receive the most support followed by those designated at the provincial and prefectural levels. Unsurprisingly, therefore, villages actively lobby to be designated as 'poverty-stricken' making the final selection 'very much a political question' (Bislev, 2010, p. 99; Park, Wang, & Wu, 2002). In my experience, villages expend a significant amount of time and resources attempting to successfully apply, and it is usually the richest villages that end up getting selected (see section 3.2).

institutions at the township or county levels (usually RCCs or the ABC) that charge their normal interest rate of between 0.9 to 2.3 times the base rate set by the PBC. The difference between the subsidised rate and the rate charged by the financial institutions is jointly paid by the MoF at the central (80 percent) and provincial (20 percent) levels (JXPPAO et al., 2006; PAO, 2006).

Due to the fact that the Poor Village Investment Programme is supposed to be community based, with the needs of each poverty-stricken village being determined through a participatory approach (Park & Wang, 2010), technical aspects related to the application procedure and ultimate provision are left relatively open. For instance, there is no quota for the number of loans that should be provided, and there is no maximum or minimum amount for each loan. Moreover, local governments and PAOs have the power to determine whether they want to target households, companies, cooperatives, or projects.<sup>2</sup> Depending on the locality, different administrative units at different levels have more power and interest in the administration of the PAMP.<sup>3</sup> However, village committees are ultimately responsible for the organisation of the loans. Finally, local governments, PAOs, and the financial institutions actually providing the loans have discretion with regard to how the loans are secured, and can rely on guarantors (*danbaoren*), credit ratings, collateral, or can decide not to require any form of security (JXPPAO et al., 2006; PAO, 2006).

### **The rural credit cooperative microcredit programme (RCCMP)**

RCCs have a long history of providing small loans to rural individuals and households. For instance, in the 1970s they sometimes offered loans to cover illness-related expenses, and in the 1980s and early 1990s they provided some loans for agricultural inputs, such as seeds, feed, and fertiliser.<sup>4</sup> However, before the RCC reforms of the late 1990s, household loans were generally very

<sup>2</sup> Other studies have found that local governments overwhelmingly select to use the PAMP to fund local TVEs and/or government projects (e.g. infrastructure projects), which is framed as elite or government 'capture' of resources designated for poor households (Ong, 2011; Park & Ren, 2001). However, it is important to point out that according to the policy it is perfectly legal for loans to go to TVEs or local government projects, and it is unsurprising that localities choose to target these borrowers considering the lower interest rate for these types of loans and the fact that one large loan is much easier to administer than many smaller loans.

<sup>3</sup> Interview 16.

<sup>4</sup> Interview 01; Interview 35.

limited, and RCCs primarily lent to TVEs and local governments (Ong, 2006).<sup>5</sup> The RCCMP was initiated by the PBC in 1999 as part of the rural financial sector reforms in an attempt to redirect lending to rural households. It was first piloted in a number of counties across the country and then expanded nationwide in the early 2000s (Ong, 2009; Park, Ren, & Wang, 2003). Unlike the other two programmes, the RCCMP only provides loans for households, and not for companies, cooperatives, or projects. While there is no specific quota for loan numbers or loan amounts, every RCC in the country is directed to use at least 60 percent of their total savings for the RCCMP, and the policy states that RCCs that do not follow these guidelines will be 'dealt with severely' (PBC, 2001). Therefore, the RCCMP is the largest microcredit programme in China, and, based on the fact that there are over 30,000 RCC branches across the country, it could be claimed that it is the largest microcredit programme in the world.

The RCCMP has been heavily influenced by the global microfinance movement, and was initiated with the goal of providing credit to 'financially excluded' households. For this reason, the programme doesn't require borrowers to have any collateral or a guarantor. Instead, the RCCMP operates using a credit rating system, with each household's credit worthiness being determined by the village committee.<sup>6</sup> Therefore, households with a relatively low socioeconomic status or with a history of defaulting on loans will often be given a bad credit score, meaning that they are not able to borrow individually. In these cases, households can form joint-liability groups to borrow from the RCCMP – an approach emulating the original Grameen Bank (see Chapter 1) (PBC, 2001). Because the RCCMP is envisioned as a way to make credit easily accessible, the application process is supposed to be simple and straightforward. Prospective borrowers with a good enough credit rating are issued a loan card that they can use to borrow from the RCC at any time and receive the money immediately. The RCCMP utilises the progressive lending technique, so as soon as a loan is successfully repaid within the loan term, borrowers are eligible to borrow again at a higher limit. Upper and lower limits for loans are determined by local RCCs, but are usually between RMB 10,000 and RMB 100,000. Failure to repay a loan within the specified time limit results in a bad credit score and ineligibility for future loans (Du, 2008a; He, Du, Bai, & Li, 2009; PBC, 2001).<sup>7</sup>

5 Interview 01; Interview 05. Also see Chapter 2.

6 Other research has documented that, in some cases, the township government allocates credit ratings to entire villages largely based on their socioeconomic conditions (Ong, 2011).

7 Interview 55.

The RCCMP is also different from the other two programmes in the way that it is subsidised. While the subsidies for the PAMP and the EMP are paid directly by the MoF at the central and provincial levels, township RCCs are required to provide the RCCMP without any fiscal support from higher levels. The interest rate for the RCCMP is set at 1.2 times the PBC base rate (i.e. 4.35 percent as of October 2018), making it significantly lower than the rate that RCCs are normally allowed to charge for loans (i.e. up to 2.3 times the base rate). The fact that township RCCs are effectively required to subsidise the RCCMP, along with the fact that they cannot require security on the loans, puts significant financial pressure on the local institutions, which is magnified by the recent emphasis on RCCs achieving ‘financial sustainability’ (Loubere & Zhang, 2015).<sup>8</sup> That being said, township RCCs that do run into financial difficulties providing the RCCMP can apply for support from the county RCC union, which can subsequently apply for support from the provincial union. However, this is discouraged, with the mantra being ‘the centre supports but the local is responsible’ for the RCCMP and other RCC reforms (PBC, 2001; State Council, 2003).

### **The employment microcredit programme (EMP)**

Of the three programmes, the EMP was initiated most recently in 2002 by the PBC, the MoF, the State Economic and Trade Commission (SETC, which has since been incorporated into the Ministry of Commerce [MoFCOM]), and the Ministry of Labour and Social Security (MoLSS, which has since been transformed into the Ministry of Human Resources and Social Security [MoHRSS]).<sup>9</sup> As stated in Chapter 2, the EMP was formulated as the main pillar of the government’s re-employment campaign, which was devised as a response to the massive layoffs resulting from the restructuring and privatisation of SOEs in urban areas. For this reason, the EMP was initially only provided in urban areas to people in possession of official documentation proving their laid-off worker status, and the goal was to provide loans to those who could ‘help themselves’ through entrepreneurial activity (PBC, MoF, SETC, & MoLSS, 2002).<sup>10</sup> This represented a significant shift in responsibility for social welfare from the ‘work unit’ (*danwei*) to individuals and households (see Chapter 6 for more on shifting responsibilities).

8 Interview 01. Also see Chapter 2.

9 The EMP is jointly administered, but the MoHRSS has the most responsibility and makes a majority of the decisions (Interview 02; Interview 06; Interview 07; Interview 11).

10 Interview 11.

Jiangxi Province was selected as the first pilot site for the EMP, mainly due to the fact that over one million workers were laid-off from SOEs in the province between 1998 and 2002.<sup>11</sup> The EMP was then scaled up nationally, and in 2006 the programme was extended to rural areas under the banner of the XNCJS, which aimed to increase rural employment, and later in conjunction with the CXYTH, which aimed to modernise agriculture and standardise financial service provision across urban and rural areas. At the same time, the target group for receiving the loans was expanded to include returning migrant workers, farmers, and agricultural cooperatives (JXPMoHRSS, 2012; JXPMoHRSS & JXPRCCU, 2009; JXPPG, 2009; State Council, 2006, 2014). At the national and provincial levels, the programme has been deemed a success and is, for instance, credited with being directly responsible for 10 percent of all new employment in Jiangxi Province. For this reason Jiangxi has continued to expand the EMP in terms of total funding, target area, and target borrowers. The province now accounts for one-fifth of all EMP loans nationwide and is considered to be a 'national model' (JXPMoHRSS, 2009; JXPMoHRSS & JXPRCCU, 2009).<sup>12</sup>

In Jiangxi, the programme is subsidised by the central MoF, which pays 100 percent of the interest directly to the financial institutions providing the loans (meaning that borrowers pay no interest) at a rate of three percentage points higher than the prevailing interest rate set by the PBC.<sup>13</sup> While this is lower than interest rates state-owned financial institutions are usually allowed to charge (see above), at least the interest payment is guaranteed by the central MoF (Du, 2008b; JXPMoHRSS, 2012; JXPMoHRSS & JXPRCCU, 2009; JXPPG, 2009; MoF, 2008; State Council, 2008). Currently, EMP loans can be provided to individuals for a maximum of RMB 100,000 and to businesses, cooperatives, or government projects that 'promote employment'<sup>14</sup> for a maximum of RMB 4,000,000; however, businesses can only get 50 percent of the interest subsidised.<sup>15</sup> The maximum loan term is two years, but this is decided at the local level (county or township) and normally only one

11 Interview 11.

12 Interview 02; Interview 06; Interview 07; Interview 11.

13 In the more prosperous eastern coastal region, the provincial or prefectural MoF is required to pay the subsidy (MoF, 2008).

14 Similar to the concept of 'poverty reduction' in the PAMP, it is not clear what constitutes 'promoting employment' in this case.

15 In 2002 when the EMP began, the maximum loan amount for individuals was RMB 20,000. From the beginning policies left the door open for local governments to initiate projects with the loans, effectively allowing for the loans to be used in a 'local developmental state' mode (JXPMoLSS, 2002; NCCPBC, JXPMoF, & JXPMoHRSS, 2004).

year is given.<sup>16</sup> Localities can also determine how to secure the loans, the most common method being through a guarantor with connections to the local government or an SOE/TVE. That being said, the local MoHRSS is also allowed to accept credit ratings, mortgages, joint-liability loan groups, proof of assets, or nothing at all (JXP MoHRSS, 2012; JXP MoHRSS & JXP RCCU, 2009).

In rural areas, the application process for the EMP is slightly complicated. Prospective borrowers need to first apply to the township-level MoHRSS, and if accepted, their documents are sent to the county-level MoHRSS for approval. After the loan documents have been approved at both the township- and county-levels, they are then sent to an approved participating financial institution at the county level where the final decision is made on whether or not to issue the loan. All state-owned banks and RCCs are approved to provide EMP loans, but different financial institutions agree to participate in different localities. The financial institution's decision is supposed to be based on an approach that prioritises financial considerations, such as repayment and profitability. Unsurprisingly, considering the number of different actors involved at different levels, this process can take many months and can represent a huge expenditure of time for both applicants and administrators.<sup>17</sup>

### Spaces for local discretion

As with other centrally formulated development policies in China, there is significant room for local discretion built into all three of the government-subsidised microcredit programmes. This is both purposeful, through the delegation of responsibility to lower levels of government, and less directly due to vague and even contradictory ideological imperatives underpinning the programmes. The end result is local implementers deciding which parts of the programmes to implement largely based on value positions, the outcomes of local negotiations, and other context specific reasons. In other words, implementation emerges from the interfaces of interaction between actors at different levels, all of whom are embedded in distinct social, economic, and political contexts. For instance, while all three programmes have national guidelines, provinces are ultimately responsible for designing their own specific policies.<sup>18</sup> In the case of Jiangxi, county and

16 Conversation 01; Interview 07; Interview 08.

17 Interview 08; Interview 30.

18 This is consistent with research on other rural development frameworks and policies, such as the XNCJS and the New Cooperative Medical System (*xinxing nongcun hezuo yiliao*) (Ahlers & Schubert, 2013; Brown, de Brauw, & Du, 2009).

township governments and financial institutions usually have discretion to experiment within these national and provincial guidelines without asking for permission from higher levels of government,<sup>19</sup> which is rooted in the longstanding tradition of policy experimentation/modelling in the Chinese countryside – or ‘proceeding from point to surface’ (*youdian daomian*) (Heilmann, 2008, p. 2).

This local discretionary power is significant across all three programmes in that local implementers and financial institutions are permitted to choose how loans should be secured, whether or not a quota should be enforced, which types of loans to provide, and which groups to target (i.e. households, businesses, cooperatives, or projects) (JXPPAO et al., 2006; PAO, 2006), which effectively gives local governments the ability to utilise loans to push forward their own development agendas – e.g. promotion of agriculture, infrastructure projects, etc.<sup>20</sup> More significantly, national and provincial policies provide a massive loophole for local governments by stating that microcredit implementation should always be ‘based on the actual [local] situation’ (*genju shiji qingkuang*) – which is undoubtedly a modern adaptation of the revolutionary approach to implementing policy ‘in accordance with local conditions’ (*yindi zhiyi*) (Heilmann, 2008, p. 7) – effectively creating a situation where anything goes as long as it works (PBC, 2001; State Council, 2008). That being said, due to the practice of county-level institutions exerting control over some township agencies – also known as ‘soft-centralisation’ – it is not always clear which ‘local’ level groups actually have the discretion. For instance, with the EMP, the MoHRSS is sometimes controlled at the county level – as a ‘vertical agency’ – and sometimes controlled at the township level – as a ‘devolved work unit’ – meaning that the final decision makers differ across localities.<sup>21</sup> Similarly, local-level PAOs are often merged with other agencies and given a subordinated role, and it is difficult to assess how much power and independence township-level RCCs have in relation to local government bodies and county-level branches (see Chapter 4).

Compounding this designed discretion is vagueness and contradiction with regard to the ideological roots of the microcredit schemes. For instance, while all three of the programmes were originally designed to

19 Interview 02; Interview 05; Interview 07; Interview 11; Interview 16.

20 As stated in Chapter 2, in the microcredit literature this is usually criticised as ‘mission drift’ or government/elite ‘capture’, and is blamed for low repayment rates (Hofmockel, 2005; Ong, 2011; Park & Ren, 2001; Tsai, 2004).

21 For more on ‘soft centralisation’, ‘vertical agencies’, and ‘devolved work units’ see (Mertha, 2005; G. Smith, 2015).



target and assist relatively marginalised and vulnerable groups through the provision of inherently risky loans – i.e. provide a social service – they have since evolved to adhere, to a certain extent, to the commercialised ‘financial systems approach’ to microcredit. This approach prioritises repayment, ‘financial sustainability’, and even seeks profitability, thus perceiving market expansion as the solution to rural development problems (JXPMoHRSS, 2009; JXPPAO et al., 2006; State Council, 2009). Particularly over the past five years, the government agencies running the programmes and the participating financial institutions have been increasingly pressured to ensure that loans are repaid.<sup>22</sup> For instance, one township RCC director told me:

The central government has given us the responsibility to provide microcredit, but at the same time we need to meet our costs [...] We have less and less interest in providing these loans as the interest is low, and they are risky and unprofitable. We wish we could expand into more profitable business and charge higher rates of interest.<sup>23</sup>

This ideological paradox can also be seen in the financial and social capital requirements that are built into the architecture of the programmes. For instance, prospective borrowers are explicitly required to already have a sufficient amount of financial capital to ensure repayment (JXPMoLSS, 2002). Even without this requirement, the short loan terms of one to two years implicitly suggest that those without resources are not suitable to apply, as it is very difficult to start a profitable enterprise from scratch and fully repay the loan within such a short period of time. Moreover, the policies explicitly state that borrowers need to have a good reputation and high social standing in their communities. This is typified by the fact that the RCCMP is disbursed based on locally determined credit scores, and the EMP policy states that borrowers should be ‘honest and trustworthy’ (*chengshi shouxin*) (JXPPG, 2009). Ultimately, this means that local government agencies and financial institutions vet prospective borrowers – and their guarantors – based on socioeconomic status, effectively excluding many of the marginalised people and groups that the programmes were supposedly designed to assist.

22 Interview 01; Interview 08; Interview 11.

23 Interview 01.

### 3.2 A Tale of Three Townships: Microcredit Implementation at the Local Level

The combination of vagueness and contradictory ideology outlined above has opened up a significant amount of space for local discretion and has transformed the three government-subsidised microcredit programmes into what could be considered general development microcredit programmes – where the definition of development is determined through negotiations at the local level – as opposed to microcredit programmes specifically targeting certain groups as their names and original mission statements suggest. With this in mind, it is unsurprising that all three of these programmes have manifested themselves in very different ways in each of the three townships. This section details the reality of microcredit implementation in the AT, MWT, and DET, and the different ways in which the programmes have been perceived by implementers and borrowers. Table 3.2, Table 3.3, and Table 3.4 below summarise this information.

#### The PAMP in the AT

Despite being more agricultural, more remote, and both visibly and measurably poorer than the other two townships, the AT has no designated poverty-stricken villages at the national, provincial, or prefectural levels, while both the MWT and the DET do (see below). For this reason the township is not eligible for the PAMP, and none of the township or county officials had ever heard of the programme.<sup>24</sup> Rather than poverty alleviation, the township government saw agricultural modernisation and mechanisation as its priority, and the township PAO was run as a ‘hanging sign work unit’ (*gua paizi danwei*).<sup>25</sup> This allowed the township to allocate the resources that would have been spent on poverty alleviation work to agriculture and other priority areas.<sup>26</sup>

#### The RCCMP in the AT

In the 1980s and early 1990s there used to be RCC branches in a number of AT villages. But in conjunction with the rural financial sector reforms at

24 Conversation 01; Interview 04; Interview 05; Interview 07; Interview 08.

25 ‘Hanging sign work units’ are ‘phantom agencies’ with ‘no personnel assigned to them on a full-time basis’, basically created to appease inspection teams from higher levels of government (G. Smith, 2010, p. 607).

26 Conversation 01.

**Table 3.2 Implementation of the three microcredit programmes in the agricultural township**

	<b>Poverty Alleviation Microcredit Programme (PAMP)</b>	<b>Rural Credit Cooperative Microcredit Programme (RCCMP)</b>	<b>Employment Microcredit Programme (EMP)</b>
Level of administrative control	County	Township/County	County
Quota	None (no designated 'poverty-stricken villages' in the township)	RMB 50,000,000 for the township (set by the county)	RMB 1,100,000 for the township (set by the county)
Borrowers	N/A – Programme not implemented	Households – Primarily farmers	12-member farmer cooperative (all 22 loans)
Borrower selection	N/A – Programme not implemented	Prospective borrowers applied themselves	Social connection between the county MoHRSS and the leader of the farmer cooperative
Use	N/A – Programme not implemented	Agriculture – Primarily to rent farmland in neighbouring townships; also for agricultural inputs	Build two modern vegetable greenhouses
Loan security	N/A – Programme not implemented	Credit rating determined by village committees	Township government acted as guarantor
Loan amount (per person maximum)	N/A – Programme not implemented	No upper or lower limit – During fieldwork the smallest loan was RMB 3,000 and the largest loan was RMB 600,000	RMB 50,000
Loan term	N/A – Programme not implemented	1 year – Progressive lending so borrowers could immediately take out a larger loan after repayment	1 year
Perception (providers)	Ignorance – There are no villages with the 'poverty-stricken' designation in the township and poverty alleviation work was not a priority; the township PAO has been merged with other departments; township officials and the director of the township RCC have never heard of the PAMP	Respect – The township RCC director said that providing the RCCMP was challenging because of the high demand and limited number of staff, but that it was very effective and improved the lives of people in the township	Pride – The county and township MoHRSS both hoped this could become a 'new model' for the EMP
Perception (borrowers)	N/A – Programme not implemented, i.e. no borrowers	Respect/pride – Borrowers stated that the RCCMP helped them increase their income and improve their lives; they also believed that the loans should only be available for clever and hardworking people who were willing to take risks	Pride – The members of the farmer cooperative were proud to be involved in a 'new model' and to be using technology from a 'more developed' region (Jiangsu); they also believed that the vegetable greenhouses could increase their income and improve their lives

the end of the 1990s (see Chapter 2), these branches were closed and during fieldwork there was only one branch for the entire township located in the township seat.<sup>27</sup> However, since the early 2000s the AT RCC has set up 22 cash machines around the township, and it also started providing the RCCMP. The county designated a quota of RMB 50,000,000 per year for the programme in the township, and during fieldwork there were approximately 2,000 borrowing households – or about 20 percent of the total township households. That being said, the director of the AT RCC estimated that there was significantly more demand for the RCCMP loans – potentially up to RMB 100,000,000 – therefore many township households remained excluded from the programme.<sup>28</sup>

In accordance with the national guidelines, the township RCC did not require any guarantor or collateral for the RCCMP. Instead, credit scores were allocated to households by village committees based on their local reputations. Technically, joint-liability loans for borrowers with bad credit scores were available; however, the RCC director did not think that this method was ‘compatible with rural China’s situation’.<sup>29</sup> Since there was more than enough demand from applicants with good credit ratings, the RCC allocated its entire quota to individual household borrowers. Both men and women could apply for the loans, but since men are usually considered to be the ‘head of the household’ based on household registration documents, more than 90 percent of the RCCMP loans in the AT were disbursed to male borrowers. The vast majority of the loans were for agricultural activities, with the township RCC director saying: ‘Local farmers are the main beneficiaries of the RCCMP because they can develop traditional agriculture through borrowing. SMEs can borrow from the county’ (see the anecdote at the beginning of Chapter 1).<sup>30</sup> This was unsurprising considering that agriculture is the main activity in the township and the main priority of local development planners. Farmers from the AT have used the loans to rent over 200,000 *mu* of land in neighbouring townships and counties in order to scale-up their agricultural production.<sup>31</sup>

27 AT Contextual Observation Report; Interview 05; Interview 24; Interview 25.

28 Interview 05. It is important to note that the fact that households with good credit scores were sometimes unable to get loans undermined the goal of eliminating the loan application process and providing immediately accessible credit. This type of credit rationing mirrors Ane Bislev’s experience with some RCCs in the early 2000s (Bislev, 2010).

29 Interview 05.

30 Interview 05.

31 Conversation 01; Interview 05.

There were no upper or lower limits on RCCMP loan amounts in the AT, and loan sizes varied from RMB 3,000 to RMB 600,000, with the average loan standing at approximately RMB 25,000. The RCC charged 1.4 times the PBC base rate, which is higher than the amount permitted in the national policy guidelines (1.2 times the PBC base rate).<sup>32</sup> According to the director of the AT RCC, the programme has achieved 98 percent repayment, and borrowers only default due to accident or personal tragedy of some kind – a claim that was impossible to verify. The director also said that ‘residents of the AT are more trustworthy than people in other townships’ – an assertion that was repeated by others in the township during conversations and interviews.<sup>33</sup> This high repayment rate, along with the fact that 7.84 percent interest (1.4 times 5.6 percent) on a loan of RMB 25,000 is RMB 1,960 – or one third of the average income in the township – suggests that most RCCMP loans in the AT are, in fact, going to households that already have significant amounts of financial and social resources, as opposed to financially excluded segments of local society.

The director of the AT RCC saw the RCCMP as a necessary duty, telling me that:

We must carry out the programmes directed by the county and the province in order to support and serve the *sannong* [...] We do not worry about accounting or investments here in the township, we just carry out the programmes, such as the RCCMP.<sup>34</sup>

He said that the biggest challenge was the high demand for the loans, because the RCC only has four employees to deal with the entire township. However, he also said that he respects the RCCMP and that the loans have significantly improved the lives of township residents. At the same time, the RCCMP was described in positive terms by the borrowers themselves. For instance, one borrower (also the head of the township MoHRSS) who was using the RCCMP to rent over 100 *mu* of land from a neighbouring township said that it allowed him to double his income. He went on to frame himself and other successful borrowers as the rightful and deserving recipients of RCCMP loans, stating that:

Local people borrowing microcredit are mainly bold, intelligent, and hard-working farmers who, in order to live a better life, take more risks

32 As late as 2008 the RCC only charged an interest rate of 4.5 per cent (Interview 23).

33 Conversation 01; Interview 03; Interview 04; Interview 05.

34 Interview 05.

and earn more money [...] of course, there are also some complacent and lazy people who want to borrow, but they cannot get loans.<sup>35</sup>

### The EMP in the AT

The EMP was initiated by the county MoHRSS in 2008, with a quota of RMB 1,100,000 per township per year. The maximum loan size was set at RMB 50,000 over a one-year loan period.<sup>36</sup> In the AT the MoHRSS was controlled at the county level as a 'vertical agency', so county officials took the lead in the implementation of the EMP and decided that the programme should be used to support agriculture, increase farmer incomes, and help farmers become more entrepreneurial. Therefore, MoHRSS officials at both the county and township levels were instructed to target borrowers who would help achieve these goals.<sup>37</sup>

In the AT, the director of the county MoHRSS became aware of a 12-member farmer cooperative (*nongmin zhuanye hezuoshe*, hereafter FC) based in one of the township's villages through mutual friends with its leader – who was also the village party secretary.<sup>38</sup> This local leader was described by both county and township officials as being a very 'capable person' (*nengren*) who was good at organising the villagers and had gained technical knowledge of how to build vegetable greenhouses from a party-organised 'model tourism' trip to Jiangsu Province in 2006, which led to the construction of some small vegetable greenhouses in the village.<sup>39</sup> Through this social connection, the county MoHRSS directed the township MoHRSS to support the FC in an application for the entire township loan quota – 22 loans of RMB 50,000 each – to build two large modern greenhouses in order to scale-up the cultivation of more profitable vegetables year-round. Rather than applying for the larger EMP loan for companies, cooperatives, or projects (which is only half subsidised), the members of the FC were instructed to apply for loans individually in order to receive the full subsidy and thus pay zero-percent

35 Conversation 01. See also the anecdote at the beginning of Chapter 1.

36 Counties have the discretion to set EMP quotas for the townships. Quotas are not dependent on county or township resources, but are the outcome of negotiations between various actors at the county level (Interview 07).

37 Conversation 01; Interview 04; Interview 07.

38 This village was one of the original pilot villages for the XNCJS and has won awards for being an 'exemplary model'. It is also important to note that members of the FC had familial ties with members of the county government (Interview 25).

39 Interview 03; Interview 24. For more details on 'model tourism' see (Ahlers & Schubert, 2013). For more on vegetable greenhouses see (Wu & Zhang, 2013).

**Figure 3.1 Small vegetable greenhouses in the AT**



**Figure 3.2 Construction of a large modern vegetable greenhouse in the AT**



interest. The MoHRSS in both the county and the township then lobbied the township government to act as the guarantor for all the loans to ensure that the FC's application for the EMP would not be deemed 'too risky' by the county RCC. The fact that the officials in the county MoHRSS were on good terms with the county RCC director and other employees also helped with the EMP application process. The members of the FC then gathered together the necessary documentation with the support of the township MoHRSS and applied for the EMP. However, since there were only 12 FC members applying for the full quota of 22 loans, the household registration documents of other villagers were used in the loan application without their knowledge, which was effectively identity theft and meant that the FC added fictitious members in order to apply for the loans.<sup>40</sup> Ultimately, the FC's application for the EMP was successful, and during fieldwork the greenhouses were under construction.<sup>41</sup>

The people I spoke to who were directly involved in the EMP in the AT were proud of what had been accomplished, and were invested in ensuring that the programme became a 'success' in the township. The members of the FC felt pride in the fact that they were utilising farming technologies and methods that came from the 'more developed' and 'modern' eastern province of Jiangsu. They were also excited at the prospect of increasing their income and reducing the risks associated with rice as a single crop.<sup>42</sup> The local implementers in the county and township MoHRSS considered the AT experience to be a 'new model' for EMP provision that would allow for a more efficient, convenient, and secure service through group loans with one guarantor – in this case the township government. They also saw it as a means of promoting cooperative and agricultural development, and they hoped that it would be adopted in other places.<sup>43</sup> For instance, one official in the county MoHRSS said:

The EMP is one of the 'calling cards' (i.e. priority policies) of the provincial MoHRSS [...] We hope to make a breakthrough with this new model, which

40 This information was discovered when the county MoHRSS let me look at the loan application documents and I saw that some of the applicants were villagers who were not part of the FC and who did not seem to have knowledge of the EMP. The phenomenon of 'fictitious members' in Chinese FCs and 'fictitious groups' for other types of microcredit is not uncommon, see (Augustin-Jean & Xue, 2011; Bislev, 2010).

41 AT Contextual Observation Report; Conversation 01; Interview 03; Interview 07; Interview 25.

42 Conversation 01; Interview 03, Interview 24; Interview 25.

43 Considering that the AT experience with the EMP also came up in conversations with officials at the prefectural level (Interview 06), it seems as though their ambitions may be realised.



represents an innovation in EMP service, and is unique in the province. Of course, this innovation is within the permitted scope of the policy.<sup>44</sup>

### **The PAMP in the MWT**

Despite being significantly wealthier, more industrialised and less remote than the AT, the MWT is home to one official provincially-designated poverty-stricken village. The township was, therefore, eligible to run the PAMP (JXPPAO, 2011).<sup>45</sup> However, similar to the AT, the PAMP was not in operation in the MWT, mainly due to the fact that poverty alleviation was not a priority in the township. The PAO had been merged with a number of other departments in 2013 – including agriculture, forestry, water management, the XNCJS, and disaster/disease protection – into a new larger department called the Department of Agriculture, Technology, and Publicity. As in the AT, none of the township officials had ever heard of the PAMP – including the previous director of the township PAO – and they didn't show any interest when I told them about the programme. This indifference and apathy with regard to the PAMP was mainly due to the fact that most of the township officials did not believe that poverty alleviation work is important. Instead, they pointed to increasing economic growth, promoting infrastructure development, and attracting outside investment as the best methods for reducing poverty – essentially conflating ideas associated with the local developmental state and trickle-down economics. That being said, one of the vice-directors of the MWT cryptically urged me to 'look at the actual situation of poor households' myself, demonstrating that township officials also hold different opinions about the best methods of facilitating rural development.<sup>46</sup>

An interview with the director of the county PAO shed further light on the reasons for the PAMP being neglected in the township. Unlike the township officials, he did know about the programme, but told me that microcredit is not an effective method to facilitate poverty alleviation, saying:

The money isn't enough, and even though the interest is subsidised, the poor cannot afford to pay it. The application process is time-consuming and difficult, borrowers need too many certificates to prove they are poor, so it is not a good way to help the poor. Instead the poor should be

44 Interview 07.

45 Interview 12; Interview 15.

46 Interview 12; Interview 13; Interview 14; Interview 15.

**Table 3.3 Implementation of the three microcredit programmes in the migrant work township**

	<b>Poverty Alleviation Microcredit Programme (PAMP)</b>	<b>Rural Credit Cooperative Microcredit Programme (RCCMP)</b>	<b>Employment Microcredit Programme (EMP)</b>
Level of administrative control	County	Township/County	Township
Quota	None (no PAMP despite having one designated 'poverty-stricken village')	Unclear – Over RMB 50,000,000 for lending generally, not specifically for the RCCMP	RMB 600,000 (set by the county)
Borrowers	N/A – Programme not implemented	N/A – Programme not implemented	Friends and family of township officials
Borrower selection	N/A – Programme not implemented	N/A – Programme not implemented	Social connections between the borrowers and the head of the township MoHRSS
Use	N/A – Programme not implemented	N/A – Programme not implemented	Investment, consumption, informal on-lending
Loan security	N/A – Programme not implemented	Majority of RCC funds lent to the largest construction company in the township	Each borrower must find an eligible guarantor (i.e. needs to have a connection with local government or TVE/SOE)
Loan amount (per person maximum)	N/A – Programme not implemented	N/A – Programme not implemented	RMB 50,000
Loan term	N/A – Programme not implemented	Regular RCC loans had no upper or lower limit	1 year
Perception (providers)	Indifference/ignorance – Despite the fact that there is one provincially-designated 'poverty stricken village' in the township, poverty alleviation work was not a priority and the township PAO has been merged with other departments; township officials and the director of the township RCC have never heard of the PAMP	N/A – Programme not implemented	Indifference/annoyance – The township MoHRSS was under pressure to ensure 100% repayment from the county; the loan process was time-consuming and the officials had many other more important tasks
Perception (borrowers)	N/A – Programme not implemented, i.e. no borrowers	Regular RCC loans had various loan terms	Indifference/apathy – The borrowers had many other sources of credit (both formal and informal) and significant amounts of personal capital; the loans represented a small amount of extra capital for investment or consumption

helped with the minimum living standard guarantee (*dibao*), and if they need to borrow they can borrow from friends and family.<sup>47</sup>

He also said that poverty alleviation work in general is very difficult because it often is not clear who is really poor, and there are too many PAOs at different levels that do not coordinate their activities. He described his position as being a 'volunteer job with no real rewards'.<sup>48</sup> When asked about the designated poverty-stricken village in the MWT, officials at the village, township, and county levels said that the village is not actually very poor, but it is the job of the PAOs to help villages to apply for the designation so that the county can get additional funds from higher levels.<sup>49</sup> However, the county did not actually use all of these funds for the villages themselves, and instead of initiating projects or programmes – such as the PAMP – the county used some of the funds to send officials to the villages with money and food for poor households – which was described as being 'nothing more than a photo shoot' by township officials.<sup>50</sup> Ultimately, poverty alleviation work in the township mainly involved 'improving the environment and investing in infrastructure', and the actual work of helping the poor was left to the Ministry of Civil Affairs (MCA).<sup>51</sup>

### **The RCCMP in the MWT**

The director of the MWT RCC perceived the RCC's role very differently from his counterparts in the AT and DET, and described his work by saying:

The RCC gives the greatest possible support to farmers, provided they meet the conditions for this support [...] Our primary responsibility is to ensure repayment and to be financially sustainable. We cannot lend to risky borrowers, it is against our directives from the county.<sup>52</sup>

47 Interview 16.

48 Interview 16.

49 Interview 13; Interview 16. The situation of non-poor villages being given the poverty-stricken village designation has been documented in the literature (Park & Wang, 2010).

50 Interview 12; Interview 15.

51 Interview 16. It is interesting that infrastructure was identified as an important component of poverty alleviation work, but the county nevertheless neglected the potential to use the PAMP to invest in infrastructure projects.

52 Interview 10.

He then went on to describe the RCC's role in the township's development strategy:

We aim to build an industrial township. With the nearby industrial zone driving economic development, people's lives have improved. The government's policies are very good and support the XNCJS, and economic development promotes comprehensive growth. At the same time, local people's need for financial services has diversified to include business rather than just farming.<sup>53</sup>

For this reason, the RCC in the MWT operated very differently from the RCCs in the other two townships, and the RCCMP – while nominally being provided – was basically unrecognisable from the programme described in the policy guidelines. According to the director and RCC promotional material, the RCCMP was available to any borrower with a good credit rating, and the MWT had a quota of RMB 50,000,000 (the same as the AT), with loans being provided at between 6 percent and 8 percent interest (JXPRCCU, n.d.).<sup>54</sup> However, the director also said that the RCCMP was provided to both households and enterprises – which contradicts directives from central and provincial policies – and that loans were only provided to borrowers with collateral and based on the 'feeling' (*ganjue*) of the loan officer and other RCC employees.

Practically, this meant that very few households were borrowing from the RCC in the MWT, and despite an extensive search, I did not encounter any farming household borrowers. Interviews with RCC employees and small enterprise borrowers confirmed that it was not possible get a loan from the RCC without collateral and/or good social connections (*guanxi*), but that interest was indeed around 8 percent.<sup>55</sup> Further investigation revealed that the main reason for the seeming lack of credit from the RCC was due to the fact that the vast majority of the funds were being lent to the largest construction company in the township. In an interview, the company owner divulged that the company was borrowing RMB 50,000,000 from the township RCC at a rate of 5 percent per year – substantially lower than the PBC mandated rate.<sup>56</sup> This was not only the same as the amount

53 Interview 10.

54 Interview 10.

55 Conversation 05; Interview 30; Interview 40; Interview 46.

56 While the official rate was 5 per cent per year, the owner said that, in reality, he was paying approximately 15 per cent interest after all the 'grey costs' associated with successfully applying for the loan (Interview 45).

supposedly allocated to the RCCMP, but also the largest single loan to any company in the county. The loan was primarily used for investment in infrastructure and residential construction outside of the township, which were the company's key business activities.<sup>57</sup> Therefore, while the RCC claimed to provide the RCCMP, it is clear that the financial institution effectively circumvented the programme in favour of large-scale lending, and required collateral for smaller loans, which was justified by claiming that the RCC's primary objective was to achieve 'financial sustainability'. Nevertheless, the subsidised interest rates remained in place, with an especially low rate for the construction company.

### **The EMP in the MWT**

In the MWT the county MoHRSS initiated the EMP in 2008, and set a quota of RMB 600,000 per township per year, with loans ranging from RMB 10,000 to RMB 50,000 over a one-year loan period. The MoHRSS was controlled at the township level as a 'devolved work unit' with visibly less material and administrative support than its counterpart in the AT. It was located in an office with four people responsible for a number of other 'hanging sign work units' in addition to the MoHRSS. In reality, there was only one local official dealing with the EMP, and he also had a large number of other responsibilities for both the MoHRSS and other departments. Many of these arose suddenly and unexpectedly, such as dealing with inspections from higher levels of government. Moreover, the county MoHRSS basically delegated full responsibility to the township MoHRSS for finding and vetting borrowers, helping with applications, and ensuring that all the requirements were met. The county nevertheless retained final decision-making power over who received the loans.<sup>58</sup>

The county MoHRSS also set different 'development' goals for the EMP in the MWT than in the AT. Officially the programme was supposed to promote 'economic development' as opposed to support agriculture. Unofficially, however, the county MoHRSS ordered the township to achieve 100 percent repayment, as this resulted in a monetary reward for the county from the province amounting to one to two percent of the loan total. Due to the lack of time/resources and the top-down pressure to ensure repayment – and because there was no bottom-up pressure from cooperative groups or interaction between potential local borrowers and the county MoHRSS

57 Interview 45.

58 Interview 08.

as in the AT – the township official decided to target friends and family members that he knew he could trust to repay the loans, and who would be accepted by the MoHRSS and financial institutions at the county level with minimal problems. During the time of the interview, the entire quota had been lent to this target group.<sup>59</sup>

In contrast to the pride expressed by those involved with the programme in the AT, the implementation of the EMP in the MWT engendered feelings of exhaustion, annoyance, and/or indifference. The township official told me that the EMP caused a significant amount of stress, not only because it was getting increasingly difficult to find a sufficient number of new borrowers every year (each with a suitable guarantor) that he could trust to repay the loans, but also because the lack of engagement from the county MoHRSS meant that the entire process was time-consuming. In other words, the EMP was unappealing to potential borrowers and wasted his own time. However, he felt that he had no choice but to prioritise the programme, because he feared his job promotion prospects would be damaged if he did not continue to ensure a 100 percent repayment rate. He described the situation by saying:

We have four people working in the office, and besides the EMP we are also in charge of social security, health insurance, work placement, employment training, etc. – a lot of work, a multitude of things [...] The application and decision process for the EMP is too long. It takes at least one month and sometimes even two or three months for a decision, and the loans are often held up by the county MoHRSS or RCC, meaning that applicants cannot get the money for a long time.<sup>60</sup>

The local borrowers of the EMP were also largely indifferent. Some were using the money to add to other investments or for consumption purposes, and some were using it to lend to family who had no access to loans, or even to others in the community at a profit.<sup>61</sup> For instance, one EMP borrower told me:

In 2009 I received a loan of RMB 50,000 from the EMP. I didn't need the money, but I took it and lent it to others at 12 percent interest per year. From RMB 50,000 I could earn RMB 6,000!<sup>62</sup>

59 Interview 08.

60 Interview 08.

61 Interview 29; Interview 30.

62 Interview 30.

**Table 3.4 Implementation of the three microcredit programmes in the diverse economy township**

	Poverty Alleviation Microcredit Programme (PAMP)	Rural Credit Cooperative Microcredit Programme (RCCMP)	Employment Microcredit Programme (EMP)
Level of administrative control	County	County	Township
Quota	None (no PAMP despite having one designated 'poverty-stricken village')	None	None
Borrowers	N/A – Programme not implemented	All eligible applicants can receive a loan (currently 80% of households in the township were borrowing from the RCCMP)	2012 – Any eligible applicant 2013 – N/A (programme halted)
Borrower selection	N/A – Programme not implemented	Everyone eligible unless they have defaulted on a previous loan	2012 – Based on policy guidelines 2013 – N/A (programme halted)
Use	N/A – Programme not implemented	Various – Microenterprises, SMEs, consumption, etc.	2012 – Various 2013 – N/A (programme halted)
Loan security	N/A – Programme not implemented	No security necessary – Everyone eligible	2012 – Any approved method 2013 – N/A (programme halted)
Loan amount (per person maximum)	N/A – Programme not implemented	Progressive lending from RMB 10,000 to RMB 200,000	2012 – RMB 100,000 2013 – N/A (programme halted)
Loan term	N/A – Programme not implemented	1 year	2012 – 1 year 2013 – N/A (programme halted)
Perception (providers)	Indifference/ignorance – Despite the fact that there is one provincially-designated 'poverty stricken village' in the township, poverty alleviation work was not a priority and the township PAO has been merged with other departments; township officials have never heard of the PAMP	Pride/respect – Because the DET was one of the original national pilot areas for the RCCMP, local officials considered the programme to be a local model; the programme and other reforms of the RCC were credited with improving RCC performance	Indifference/annoyance – The loan process was time-consuming and the officials had many other more important tasks; For this reason they halted the EMP
Perception (borrowers)	N/A – Programme not implemented, i.e. no borrowers	Respect – Borrowers were happy with the RCCMP and said the programme allowed them convenient and quick access to capital; they took the programme for granted as something that the RCC must provide	Indifference/apathy – Many other sources of credit were readily available (both formal and informal) in the township; most people thought the loans were time-consuming (particularly the training element) and represented a small amount of money

However, overall the borrowers were not particularly interested in the EMP, and perceived the loans as simply representing a small amount of extra capital. In reality, most of the borrowers in the MWT had little trouble gaining access to substantial loans from other formal and informal sources. Therefore, rather than feeling grateful towards the township official for providing them with interest-free loans, some of the borrowers actually felt as though they were doing him a favour because the application process was so time consuming.<sup>63</sup> Moreover, even potential future borrowers who were interested in accessing the EMP for investment in local enterprises were hesitant to apply due to the time commitment involved.<sup>64</sup>

### **The PAMP in the DET**

The largest village at the centre of the DET was designated a provincial-level poverty-stricken village, meaning that officially the average income was less than RMB 2,000 per year (JXPPAO, 2011). However, in reality, this was the wealthiest village that I encountered in the three townships, primarily due to the fact that it is centrally located along a main road connecting two urban centres, and is, therefore, a hub of commercial activity. Interviews with village and township officials confirmed that the supposedly 'poverty-stricken village' was actually the wealthiest village in the township despite being the only one to receive the designation.<sup>65</sup> Nevertheless, neither the village nor the township received any direct financial support, and were instead only provided with 'technical support' from the county PAO.<sup>66</sup> This suggests that the county kept a significant portion of the poverty alleviation funds transferred from the province for other projects. As such, as in the other two townships, the PAMP was not in operation, and village and township officials had never heard of the programme. Therefore, despite the fact that it is supposed to be a key component in the government's flagship poverty alleviation programme, none of the local officials in these three townships were aware of the PAMP's existence.<sup>67</sup>

63 Interview 29; Interview 30; Interview 38.

64 Interview 42.

65 Conversation 20; Interview 18. Again, this points to serious problems with the process of designating poverty-stricken villages.

66 Interview 21. Despite further questioning on this matter, it never became clear what 'technical support' actually meant in this context.

67 Conversation 20; Interview 18; Interview 21.



## The RCCMP in the DET

The DET is located in one of the counties where the RCCMP was originally piloted. The programme was initiated in 2001 – earlier than other places – after a visit from Jiang Zemin and officials from the central PBC. During this visit a meeting was held in the township with the high-ranking officials asking local people what kinds of services they required from their RCC.<sup>68</sup> Because the RCCMP pilot was considered a success and was expanded nationwide in 2003 (see section 3.1), the county has continued to prioritise the programme and officials even refer to it as their own county's microcredit model, with the slogan: 'guided by the central bank, led by the RCC, supervised by the local government, and lent to rural households.'<sup>69</sup>

According to local officials and employees in the DET RCC, over 5,000 households are provided with loans through the RCCMP each year – or approximately 80 percent of total households in the township – which was much higher than the other two townships.<sup>70</sup> There was no form of security on these loans – no guarantor, collateral, or credit rating required – and any first-time borrower could apply for a maximum of RMB 10,000. Borrowers were provided with a card that could be used to get a loan at any time, and as soon as a loan was successfully repaid it was possible to borrow again at a higher limit, with the maximum loan size set at RMB 200,000. However, if a borrower defaulted on a loan they were no longer eligible for the RCCMP, and there were no joint-liability loans available. The annual interest rate on the loans was 6.5 percent, which is actually lower than the rate specified in the policy. In other words, aside from the lack of joint-liability lending, the RCCMP was being run in accordance with national and provincial guidelines.<sup>71</sup>

The high rate of participation in the RCCMP in the township and the fact that implementation has closely followed the policy guidelines was, of course, mainly a result of the DET being one of the original pilot sites for the programme. Local implementers and officials in both the county and the township had pride in, and took ownership of, the programme – seeing it as key to local development strategies. For instance, county officials have been quoted in national media discussing the programme's success in helping

68 Interview 19; Interview 60.

69 Conversation 39.

70 Conversation 39; Interview 18. This number was backed up by the high proportion of household interviewees who had taken out an RCCMP loan.

71 Conversation 20; Conversation 39; Interview 54; Interview 55; Interview 56.

rural people.<sup>72</sup> The RCCMP was also credited with improving the financial performance of the RCC by reducing non-performing loans from 25 percent to just 2 percent.<sup>73</sup> However, at the same time, township RCC employees were reluctant to discuss the programme with me, and the director of the township RCC actually refused an interview with the excuse that he did 'not want too many people to find out about how good the programme is and then apply'.<sup>74</sup> While this may have been merely a bad excuse to avoid talking to me, it is also possible that the RCC was finding it increasingly difficult to achieve 'financial sustainability' while simultaneously providing such a high quantity of subsidised RCCMP loans. This theory is also backed up by conversations I had with township officials who said that over the year preceding my fieldwork, the county had significantly tightened the township's budget and threatened them with layoffs if financial sustainability was not achieved.<sup>75</sup>

Borrowers were largely happy with the RCCMP, and particularly those with small businesses said that the programme helped them get quick access to capital to purchase necessary supplies and materials.<sup>76</sup> As far as most borrowers were concerned, the RCCMP also represented a transition into a more equitable mode of operation for the RCC. For instance, one borrower said: 'Before it was only possible to borrow from the RCC if you had social connections, and if you didn't repay the loan it didn't matter. Now anyone can borrow as long as they meet the conditions.'<sup>77</sup> However, they also seemed to take the programme for granted, and were surprised when I told them that the RCCMP was not operating in the same way in other townships. As far as the borrowers were concerned, the RCC had a duty to provide the RCCMP to any and all eligible borrowers.

### **The EMP in the DET**

Similar to the other two townships, in the DET the EMP was initiated in 2008, but the county MoHRSS did not set any quota for the number of loans that should be provided, or designate a development agenda for the

72 These sources are not referenced here in order to maintain anonymity with regard to the township location.

73 Conversation 39. This was impossible to verify.

74 Conversation 22.

75 Conversation 33; Conversation 34.

76 Interview 54; Interview 55; Interview 56; Interview 58; Interview 63.

77 Interview 54. This statement also sheds light on why the RCCMP might have improved the RCC's financial performance.

programme, such as agriculture in the AT and economic development in the MWT. As in the MWT, the DET MoHRSS was controlled at the township level as a 'devolved work unit'; however, it had visibly more resources than its counterparts in the MWT or the AT, including more staff, nicer work space, and no evidence of 'hanging sign work units'. Moreover, the officials responsible for the EMP were not pressured to ensure 100 percent repayment rates by the county. Therefore, the township MoHRSS initially provided loans to anyone who was eligible, and in 2012 they accepted 52 loan applications for RMB 100,000 each, while also facilitating a loan of RMB 300,000 to the largest components factory in the township. Similar to the FC in the AT, this loan was, in fact, a number of smaller loans packaged together in order to receive the full subsidy from the central MoF, rather than a larger loan meant for companies 'promoting employment' as stipulated in the policy.<sup>78</sup>

The loan application process was essentially the same as the other two townships, with one important difference – in addition to all the other requirements, borrowers also needed to travel to the county seat to complete a week of training on how to effectively use their loans. This meant that the 52 loans represented a huge amount of administrative work, not only for the township officials, but also for county-level MoHRSS officials, who needed to organise these trainings, as well as for the financial institutions providing the loans, who needed to vet a larger number of township borrowers and guarantors. Therefore, in 2013 the EMP was 'temporarily' halted in the DET in order to better allocate scarce time and resources to other 'more useful' activities and services.<sup>79</sup> Ironically, the lack of a quota set by the county – which originally resulted in a larger number of loans being provided than in the other two townships – ultimately became the justification for halting the EMP altogether, as the township MoHRSS could exercise its discretion and simply decided that no one was eligible.<sup>80</sup>

In the DET, the prevailing attitude towards the EMP was slight annoyance on the part of local officials – although not as pronounced as in the MWT – and indifference on the part of would-be borrowers. For instance, one household head told me:

I know about the EMP because I saw the government propaganda about the programme, but I think it is too troublesome and complicated. First

78 Interview 19; Interview 20; Interview 53.

79 Conversation 34; Interview 19; Interview 20. Although it was never explicitly stated during interviews or conversations, it seemed that 'temporarily' meant 'indefinitely' in this context.

80 Conversation 34; Interview 19.

it is necessary to get proof of unemployment from the village, then apply to the county government. Very troublesome, I don't want it.<sup>81</sup>

The owner of the largest components factory did acknowledge that his loan of RMB 300,000 was of substantial help to his business, but also complained because he was required to secure nine guarantors, which he described as being very troublesome.<sup>82</sup> Township officials felt that the programme was unnecessary – and therefore a waste of time – and as soon as there was consent from the county it was halted. Most of the households I spoke to either did not know of the existence of the EMP or, if they were aware of the programme, did not know that it had been halted. However, even those households that did know about the EMP and were considering applying for one of the microloans did not seem to be upset when they discovered that the programme was no longer running. This was mainly because of the prevalence of the RCCMP in the township, which was more attractive to many borrowers despite the higher rates of interest due to the fact that there was no application process, no need for guarantors, and because loans were provided immediately. For instance, one household said:

The RCCMP is convenient because I have a card that I can use to borrow. The EMP needs two guarantors with connections to the government. The RCCMP doesn't need any guarantors, but there is a limit depending on the situation of the household. Some can borrow RMB 6,000 while others can borrow up to RMB 100,000.<sup>83</sup>

Moreover, because the DET is wealthier and relatively well connected to urban centres and regional production hubs, there was more capital available for informal lending. Unsurprisingly, most households would rather borrow from family or friends (usually at zero-percent interest) than from institutions or microcredit programmes due to the convenience and lower transaction costs.<sup>84</sup>

81 Interview 58.

82 Interview 53. It should be noted, however, that this owner also used a portion of the EMP to lend to a friend at 12 per cent interest, just like in the MWT.

83 Interview 56.

84 This general sentiment was widely expressed in interviews with both borrowers and non-borrowers across the three townships.

### 3.3 Conclusion

Over the past three decades microcredit has undeniably become an important feature of the Chinese rural financial landscape. The rapid expansion of microcredit services in rural China has primarily been through the three government-run and government-subsidised programmes – the PAMP, RCCMP, and EMP. These programmes draw on global narratives associated with the microfinance movement, while simultaneously being framed within Chinese rural development discourses and movements, such as Deng Xiaoping Theory, the Three Represents, and attempts to create a Harmonious and Well-off Society. These programmes have also been co-opted by, and have formed essential components of, various rural development policy frameworks, such as the Poor Village Investment Programme, the XNCJS, and the CXYTH.

At the same time, they have been subjected to a general ideological shift towards commercialised approaches to financial organisation, which prioritise financial sustainability and profitability over social welfare considerations usually associated with development microcredit. These varied ideological influences, and the fact that policy guidelines for the programmes are often vaguely formulated at both the central and provincial levels, has left significant room for interpretation, negotiation, and discretion by local implementers. This means that, similar to other rural development interventions, government-subsidised microcredit programmes in China undergo processes of transformation as policy travels from the centre to the local, and therefore vary in how they are implemented across localities.

This chapter outlined the policy and practice of government microcredit programmes in rural China. It began by reviewing and synthesising primary policy documents formulated at both the central and provincial levels, followed by an analysis of the key areas/spaces left open to local discretion in the policies. The chapter then went on to detail the implementation realities of the three programmes in the three different townships, and illustrated the ways in which local implementers perceived the policies differently. The chapter illustrated how these implementers took advantage of loopholes that resulted in significant transformation of the policies as they manifested themselves at the local level, and tremendous variation in the implementation of each of the programmes across the three townships. We now turn to Chapter 4 to analyse the key factors shaping the heterogeneous implementation outcomes of microcredit in the AT, the MWT, and the DET.

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## 4 Variation in Microcredit Implementation

### Understanding Heterogeneity from a Relational Perspective

#### Abstract

This chapter starts with a review of the literature on policy transformation and variation in local implementation – both globally and in rural China – and outlines the key ways in which heterogeneous implementation is conceptualised with regard to development policy. The chapter then turns to examine the ways in which differentiated financial landscapes, pressures, and incentives, have been internalised and interpreted very differently by implementers across the three townships. This is followed by an analysis of local policy interpretation and implementation from a relational perspective. The chapter concludes by pointing out that heterogeneous implementation is ultimately a reflection of relational dynamics at different levels, which has serious implications for the role that external interventions play in local development.

**Keywords:** China, rural development, policy implementation, policy variation, relational approach, microcredit

The governor of the county has less power than one's direct supervisor  
(*xian guan buru xian guan*).  
– Old Chinese saying

Over the past half century there has been a general shift towards 'Neo-Newtonian' approaches in the social sciences, which emphasise quantification, generalisability, and replicability (Backhouse & Fontaine, 2010; Chambers, 2008). In the field of Development Studies, this has resulted in an increased focus on measurable results, and the popularisation of

approaches that seek to evaluate the impact of development interventions through ‘evidence-based decision-making’, in order to determine ‘best practice’ and ensure programmes are ‘cost effective’ or providing ‘value for money’ (White, 2010). Impact assessment has become its own distinct area of research – incorporating academics, policy-makers, and development practitioners – with most studies attempting to adhere to quantitative standards of rigour by utilising sophisticated statistical analysis tools and avoiding selection bias through randomised control trials (RCTs). For the most part, this type of impact assessment research starts from the assumption that it is possible to attribute impact to causal determinants and, in this way, identify the types of interventions that work best. Based on these determinations, successful development programmes are scaled up and standardised in an attempt to ensure uniform implementation (Centre for Global Development, 2006; Hobbes, 2014; White, 2010). This focus on measurability sees development as inherently linear, and implies ‘some kind of step-by-step process whereby policy [is] formulated, implemented and then followed by certain results’ (Long, 2001, p. 25).

This fixation on measuring impact is especially true with regard to microcredit, where the vast majority of research begins with a variant of the question: ‘Does microcredit work?’<sup>1</sup> In many ways this is to be expected, considering the fact that the modern microfinance movement has been portrayed as the development intervention that will, in the future, relegate poverty to a museum. Muhammad Yunus, who is often described as the father of the modern microfinance movement, has made statements along these lines at various points over the last three and a half decades (Bateman, 2010). The most recent example is his assertion that expanding financial inclusion will create ‘a world of three zeros’ marked by no poverty, no unemployment, and no net carbon emissions (Yunus, 2017).

This has resulted in a large number of ‘impact assessments’ being developed in an attempt to determine how microcredit programmes impact on their supposed beneficiaries. Some of these assessments utilise qualitative or participatory approaches to measure less quantifiable concepts, such as empowerment or well-being (Copestake, Johnson, & Wright, 2002). However, more often they are positivistic in nature and utilise quantitative methodologies to measure the usual development markers – such as income, expenditure, consumption, assets, etc. (Hulme, 2000). A subset of research also approaches microcredit

1 A Google search of the phrase ‘does microcredit work?’ yields half a million hits, and there are too many articles, books, and reports that have some version of this question as part of their title to cite here.

impact assessment from a 'financial systems approach' – defining beneficial impact in terms of financial sustainability, and the ability of programmes and MFIs to scale-up their activities – thus assuming that increased access to credit is inherently good (Yaron & Benjamin, 1997).

Unsurprisingly, these different definitions and methods of assessing impact have resulted in a variety of conclusions, with some research finding positive impact (Holcombe, 1995; Khandker, 2005; Pitt, 2014; Pitt & Khandker, 1998); some research finding negative impact and/or fundamental flaws in the concept of microcredit as a development intervention and microcredit impact assessment itself (Bateman, 2013; Bateman & Chang, 2012; Montgomery, 1996; Rogaly, 1996; Wood & Shariff, 1997); and still other research finding evidence of both positive and negative impact, minimal impact, or determining that there is not enough evidence to make a clear determination one way or the other (Angelucci, Karlan, & Zinman, 2013; Duvendack et al., 2011; Roodman, 2012) (see Chapter 1 for more on these debates). Based on these assessments of the effectiveness/ineffectiveness of microcredit as a development intervention, most research attempts to work backwards in order to understand what went right/wrong in the design and implementation of the microcredit programmes. These studies then tend to outline 'best practices' to improve the policy formulation and provision of microcredit in order to produce 'better impact' in the future (Hulme, 2000). Studies that find microcredit to be fundamentally flawed outline alternative development approaches that should be taken up. In this way policy formulation and implementation is perceived through an inherently technocratic, top-down, and structural-functionalist lens – where changes to programme design influence implementation and impact in a sequential causal chain of events, and assumes that standardisation can be achieved as long as 'best practices' are adhered to (Long, 2001).

At the same time, however, there has been a significant amount of critique of, and resistance to, these dominant ideas about impact assessment with regard to development interventions in general, and microcredit in particular. Recent research has pointed out that much impact assessment is top-down, reductionist, and prescriptive, and therefore fails to take into account political considerations and complex systems at various levels that fundamentally shape development interventions (Jones, 2012). For instance, Norman Long notes that that 'this separation of "policy", "implementation" and "outcomes" is a gross oversimplification of a much more complicated set of processes which involve the reinterpretation or transformation of policy during the implementation process' (Long, 2001, p. 25). From this perspective, the formulation and implementation of policies and programmes cannot be standardised based on 'best practices' with the expectation of producing specific and uniform

impacts, because development interventions are necessarily reconstituted in heterogeneous ways depending on the local context and people involved. This realisation has resulted in a shift in focus towards complexity (drawing on complexity science), chaos, local self-organisation, and emergence, in an attempt to understand development more holistically as sets of locally embedded processes, rather than attempting to identify universal models to scale up and adopt globally (Chambers & Loubere, 2017; Escobar, 2004; Hobbes, 2014; Ramalingam, 2013). Implicit in this is an actor-oriented understanding of development as inherently relational in nature (Mosse, Farrington, & Rew, 1998; Mosse & Kruckenberg, 2017), in that development processes are constituted by sets of interlinking relationships, which are characterised by social arenas where actors struggle over meaning and power, resulting in unpredictable outcomes (Long, 1999, 2001; Long & Long, 1992). In this way, the implementation of development interventions involves more than mere execution, and instead should be perceived as complex, dynamic, and co-produced pathways whose form and direction are continually under negotiation (Kruckenberg, 2015; Leach, Scoones, & Stirling, 2010).

Interestingly, an implicitly actor-oriented relational focus has been relatively common in research on local politics and local development in China. This is primarily due to the common acknowledgement of the importance of interpersonal relationships and social connections, or *guanxi* networks, in shaping social processes in Chinese contexts (Kipnis, 1997). It is also rooted in the widespread interest in the heterogeneous implementation of development interventions at the local level stemming from the fact that Chinese development policy is often left relatively open to interpretation and experimentation (Heilmann, 2008; Heilmann & Melton, 2013).<sup>2</sup> This has resulted in many studies taking the perspectives of local implementers as their point of departure and analysing the role that socio-political networks play in policy implementation, thus avoiding some of the mechanical top-down biases outlined above. In-depth studies have explored processes of transformation and variation in provincial-level development strategies (Donaldson, 2009), the campaign to Open Up the West (Goodman, 2004), the XNCJS (Ahlers & Schubert, 2013; Thøgersen, 2011), the New Cooperative Medical System (Brown, de Brauw, & Du, 2009), the abolition of agricultural

2 Interest in local discretion in implementation practices is not restricted to development policy/interventions. Due to China's large size and the traditional divide between central and local authority, heterogeneous implementation has been a key focus of much research on a variety of different types of policies, and has been utilised as a means of better understanding the workings of local societies in Chinese contexts (Chung, 2000; Heilmann, 2008; Lampton, 1987; Manion, 1991; Mertha, 2009; O'Brien & Li, 1999; Teets & Hurst, 2014).

taxes (L. C. Li, 2007), the Rural Tax and Fee Reform (Göbel, 2011), earmarked transfers from the central to local governments (Liu, Wang, Tao, & Murphy, 2009), the regulation of the FCs (Augustin-Jean & Xue, 2011), and agricultural industrialisation (Gao, 2011), just to name a few. What emerges from these studies is a picture of local implementers as ‘street level bureaucrats’, who are intimately involved in shaping, and even defining, development policy through their everyday decisions (Lipsky, 1980; Maynard-Moody & Musheno, 2003; Zang, 2016). In general, this is framed negatively as collusion (Tan, 2008; Zhou, 2010), or more positively as strategic innovation and/or pragmatism (Ahlers & Schubert, 2013; Thøgersen, 2011). While this body of research does not go so far as to explicitly explore complexity, self-organising systems, or emergence – and for the most part still perceives development policy implementation as linear with local implementers responding to external pressures and incentives – it does provide an in-depth understanding of local implementation processes, and the functioning of socio-political networks consisting of policy-makers, implementers, and users at various levels.

Surprisingly, microcredit schemes have been relatively overlooked in this large body of literature dedicated to shedding light on transformation and variation in the implementation of Chinese rural development policy. There has been some excellent research exploring the local workings of microcredit programmes, and exposing the ways in which their outcomes are negotiated by local actors, ultimately reflecting heterogeneous local socio-political and socioeconomic contexts (Bislev, 2010, 2012; Deng, O’Brien, & Chen, 2018; Hsu, 2014, 2017; Tsai, 2004). However, as stated in Chapter 2, the vast majority of research on Chinese microcredit has been structuralist and top-down in orientation. It has, therefore, been more interested in policy formulation and institutional organisation than with the actual operation of providers or implementation of policy at the local level (Du, 2008a; He, Du, Bai, & Li, 2009; OECD, 2003; Sun, 2008). When transformation/variation is discussed, it is often conceptualised negatively as mission drift and/or government or elite capture through the diversion and embezzlement of subsidised funds. This is depicted as microcredit being used improperly, which is invariably blamed on government interference through market-distorting subsidies and greedy officials/elites eager to take advantage of the programmes for individual gain (Hofmockel, 2005; OECD, 2003; Ong, 2011; Park & Ren, 2001). Implicit in these analyses is the view of microcredit as a market-based development intervention that functions optimally when allowed to operate based on market principles. What is missing, however, is an detailed analysis of the different types of interference that occur as microcredit policy ‘travels down’, becomes internalised in different localities, and is

reproduced locally in heterogeneous ways, which is ultimately vital to an in-depth understanding of the role that microcredit plays in socioeconomic development and livelihoods at the local level.

This chapter aims to situate research on the policy and practice of Chinese microcredit within the rich body of literature on the transformation and heterogeneous implementation of development policies and programmes in rural China. At the same time, it seeks to deepen our understanding of the diverse factors influencing and shaping this implementation by drawing on work in the field of relational-focussed and actor-oriented development studies, which depicts development processes as complex, self-organising, and ultimately emergent from the interfaces of interaction between diverse actors. In this sense, the chapter illustrates how the implementation of the microcredit programmes is inherently relational and emergent in nature, making the outcomes more than the sum of sets of easily identifiable variables and constants.

The rest of the chapter is organised as follows: Section 4.1 outlines how differentiated financial landscapes create segmented financial markets resulting in microcredit 'slotting in' to different positions across, and within, the three townships, and causing the programmes to be interpreted in a variety of ways by local implementers and prospective borrowers. Section 4.2 explores the ways in which top-down pressures and incentives influence the implementation of the microcredit programmes, ultimately shaping how microcredit fits into implementers' livelihood strategies. Section 4.3 examines how microcredit provision is negotiated at the interfaces of interaction between individuals and groups with uneven amounts of power, diverse goals and objectives, and varied understandings of the role that microcredit should play in local development. Section 4.4 shows how all these exogenous, endogenous, and relational factors combine to produce complex and emergent implementation realities that are difficult to predict, but which, nevertheless, provide important insight into the workings of local society, politics, and development. Section 4.5 concludes the chapter by setting the stage for the analysis of the differentiated roles that the microcredit programmes have played in local development and livelihoods across the research sites in Chapter 5 and Chapter 6.

#### **4.1 Differentiated Financial Landscapes and Segmented Financial Markets**

One of the key reasons that development policy in China has historically been designed to allow for local discretion and experimentation is the acknowledgement of the country's size and contextual diversity by central

policy-makers. This has led to policy being understood as flexible sets of guidelines or frameworks to be adapted to local conditions rather than specific instructions meant to be followed exactly (Heilmann, 2008; PBC, 2001; State Council, 2008). The utility of creating space for local policy experimentation and modelling is evident in the AT, MWT, and DET, as the three townships each represent distinct socioeconomic contexts, which have given rise to heterogeneous financial landscapes. These financial landscapes are differentiated in terms of their 'physical financial infrastructure' (i.e. formal/informal financial service providers), and also vary in the ways in which 'relations, norms, actions and processes' related to financial services are constructed and perceived by different actors (Bouman & Hospes, 1994, p. 1). This has resulted in financial markets that are differently segmented in terms of demand for, and access to, financial services, meaning that no one type of credit is universally desired or available (Hoff & Stiglitz, 1990; Tsai, 2004). Thus, different types of credit and their respective availability and utility are perceived in diverse ways by different individuals and groups – or 'market segments'. This means that microcredit programmes – as external interventions – necessarily 'slot in' to different positions, serving different segments of the market depending on the context, and in some cases even contributing or responding to the emergence of 'new market segments' (Bislev, 2010; Harper, 2012, p. 565). In this way, the three microcredit programmes are necessarily demanded, accessed, and understood in very different ways across the three localities, and even by different actors within each township, necessitating variation in implementation practice at the local level.

### **Demand for credit**

The different levels and types of demand for credit across/within the three townships were particularly evident. For instance, the AT is the most remote of the three townships and, because the township is flat and has a larger amount of good agricultural land, the main livelihood strategy has continued to be farming. In the words of one AT farmer:

After the reform and opening, there was large-scale economic development and many rural people went to do migrant work. However, because we [people in the township] have more land, we stayed in the village to farm.<sup>3</sup>

3 Interview 25.



This has led to widespread demand from many farming households for credit to support agricultural activities, such as purchasing inputs, purchasing and maintaining machinery, and the various costs related to supply and marketing. Additionally, since the ratification of the Land Rights and Transfer Agreement in 2008 – allowing for the contracting out of rural land – there has been demand for larger amounts of credit to scale-up agricultural production by renting unused farmland, particularly in neighbouring townships where many households have given up farming commercially. This demand has primarily been from wealthier households or groups who could be considered economic/political elites at the township and village levels, as poorer small-scale farmers do not have the means to scale-up their activities in this way.

Financial market segmentation in the MWT and DET, on the other hand, has been significantly more complex – consisting of a variety of different levels and types of demand for credit from a diversified range of actors. For instance, in the MWT there has been very limited demand for loans from village households, as most receive remittances from family members who are engaged in migrant work in urban areas. The majority of these households do not see any purpose in borrowing, as they are not interested in farming commercially or setting up a business.<sup>4</sup> Migrant remittances have also become a source of credit in and of themselves, as some households informally pool their remittance funds in order to set up mutual support groups similar to ROSCAs, and/or to invest in businesses either locally or outside the township. Therefore, demand for formal credit has further diminished, since the influx of capital from remittances allows for these types of informal arrangements, which are widely perceived to be more convenient than borrowing formally. That being said, there are also a variety of MWT businesses of varying sizes that require loans for day-to-day operation and expansion, and remittances or informal credit alone are often not sufficient, or sufficiently reliable, meaning that the owners have a demand for formal credit services.<sup>5</sup> For instance, the largest construction company in the MWT requires continuous large-scale financing from the RCC, and the main reason it moved its headquarters to the township from the city was because of an informal agreement that the company would be able to secure at least 50 percent of the RCC's lending capital.<sup>6</sup>

4 Interview 34; Interview 37; Interview 39; Interview 41; Interview 44. See Chapter 6 for more on self-exclusion.

5 Interview 40; Interview 46.

6 Interview 45.

In the DET, demand for credit is more complicated still due to the township's wide range of socioeconomic activities, and also due to the fact that individuals and groups often employ multifaceted livelihood strategies. This means that some actors simultaneously demand different types of loans – both formal and informal – for different activities. They therefore represent multiple market segments at any one time, resulting in financial market segmentation that is both dynamic and complex. For instance, the largest components factory in the township accessed an EMP loan of RMB 300,000 that was used for both investment in the factory, and also to engage in informal on-lending, which provided higher rates of return than the main business.<sup>7</sup> These multiple demands were not necessarily premeditated, but were instead flexible and responsive to the emergence of new opportunities. More commonly, households and businesses simultaneously accessed multiple sources of credit for a single project or consumption need. One household and operator of a microenterprise (a small bookstore) told me:

To help my son buy a house I borrowed more than RMB 10,000 from the PSBC. Friends and family also lent between RMB 20,000 and RMB 30,000, and my son also borrowed money himself from a variety of sources.<sup>8</sup>

Households and businesses also often demand loans to pay off other debts, which is referred to as 'destroying the west wall to build the east wall' (*chai xi qiang, bu dong qiang*).<sup>9</sup> Therefore, the credit demands of DET households and businesses often defied simple or static characterisations, making attempts to classify demand into a typology both difficult and ultimately meaningless.<sup>10</sup>

7 Interview 53. This was before the EMP was halted in 2013.

8 Interview 58.

9 This phrase was first mentioned in Interview 30 in the MWT, but also came up on other occasions in everyday conversation in the DET. Borrowing to repay other debts can obviously lead to destructive debt cycles (Taylor, 2012). However, in the DET most interviewees using this technique did not seem to be in danger of defaulting, but were instead balancing debts and time limits in order to minimise interest payments and gain access to needed capital at crucial moments.

10 There were of course some basic needs which households (particularly poorer households) across the three townships demanded credit for, such as housing and children's education. Access to, and exclusion from, the microcredit programmes for these consumption purposes will be covered in more detail in Chapter 6.

## Credit supply and constraint

The various credit demands outlined above are also linked to credit availability within and across the three localities. Credit has been particularly constrained in the AT, where the RCC is the only formal financial institution. This has resulted in a situation where only 20 percent of the population has access to RCCMP loans, but over 40 percent would like access to formal credit, meaning that the demand for loans for farming activities outlined above has largely gone unmet.<sup>11</sup> Moreover, due to the township's lack of socioeconomic linkages with more prosperous urban areas, there has been little capital readily available for lending on informal markets. Additionally, despite being the poorest of the three townships, since the AT is not home to any officially designated poverty-stricken villages, there has been no opportunity to utilise the PAMP as a means of meeting some of this demand. While the EMP has been used to provide credit to previously excluded village actors, the scale is currently too small – 12 loans of RMB 50,000 each – to seriously alleviate the overall level of constraint in the township. This has meant that the supply of credit, and the implementation of the microcredit programmes, has been primarily mediated by socioeconomic status and *guanxi* networks, as only local elites have been able to obtain the credit rating necessary to borrow from the RCCMP, and/or have friends or family with access to excess capital that can be used to provide informal loans on a consistent basis (see Section 4.3).

In the other two townships there were a variety of sources of formal and informal credit available to meet the more diversified demands and needs outlined in the previous section. There were also a greater number of socioeconomic linkages with actors in urban and peri-urban areas with more credit options. As stated above, in the MWT there has been a significant amount of capital inflow from migrant remittances, leading to increased stocks of local capital that can be used for informal pooling and lending. Therefore, despite the fact that the RCC was the only financial institution in the MWT, and that it provided very little credit to households and microenterprises, there has not been the same general perception of widespread credit constraint as in the AT.

The DET also has a much more vibrant informal lending market, and most people have utilised a combination of formal and informal credit when undertaking a project or making an investment.<sup>12</sup> At the same time, however,

<sup>11</sup> Interview 05.

<sup>12</sup> Non-financial informal lending was also widespread in the DET, with many households borrowing labour and/or construction materials from each other when building new houses and repaying in kind or in cash (Interview 60).

the DET was also home to formal lenders that are not present in the other two townships. For instance, the ABC provided loans for households and microenterprises secured by guarantors or joint-liability groups, but with a relatively complicated loan process and an interest rate slightly higher than the RCCMP. This has made the ABC less popular with individual borrowers, so the bank has primarily targeted the medium and large business market segment that has been excluded from the RCCMP.<sup>13</sup> Alternatively, the PSBC did not provide credit directly in the township, but has helped prospective borrowers prepare application documents for submission at the county branch. Similar to the ABC, the interest was higher and the PSBC mainly targeted larger-scale enterprises or projects.<sup>14</sup> In other words, formal and informal sources of credit have moved in to accommodate a number of the diverse market segments in the DET. That being said, poorer segments of the population with lower socioeconomic statuses have, nevertheless, continued to be excluded in the DET, as well as in the other two townships (see Chapter 6).

### **Differentiated interpretations of microcredit function and utility**

These different types of demand, supply, and constraint have meant that implementers, local businesses, and households perceive the three microcredit programmes, determine their relative usefulness, and appropriate them (or choose to ignore them) within their own strategies for inducing development and reproducing livelihoods in very different ways.<sup>15</sup> For instance, in the AT both implementers and borrowers immediately saw the EMP as an important source of capital in the context of severe credit constraint. This resulted in collaboration between officials (at the village, township, and county levels), farmers (in the form of an FC), and financial institutions at the township and county levels, in order to create a new model of EMP provision that would meet the needs of an underserved market segment and simultaneously fit in with the primary development strategy of the township and county – to support and modernise agriculture. The RCCMP was also perceived as a method for channelling capital to agricultural activities in the AT by providing funds to larger-scale farmers wanting to expand and

13 Conversation 36; Interview 55.

14 Conversation 37.

15 Different actors also have different amounts of knowledge, and sometimes knowledge is purposefully withheld from certain segments of the population, which has the potential to dramatically change the ways in which microcredit is supplied, demanded, and/or perceived. This is covered in more detail in Chapter 6.

scale-up farming activities by renting unused agricultural land. However, due to the limited amount of lending capital available through the RCC, this was mainly reserved for a few township elites who were able to use their connections to get the necessary credit rating.<sup>16</sup> In both cases the RCCMP and EMP were perceived as a means of supporting agricultural development, but the programmes still ended up fitting into different market segments, with the RCCMP being appropriated by township elites and the EMP being incorporated into the development strategies of officials at various levels and the livelihood strategies of village-level farmers who would have otherwise been excluded from the provision of formal credit.

The MWT, on the other hand, has similar credit constraints to the AT, but there is much less demand for formal credit due the fact that most households receive migrant remittances and there is more widespread access to informal sources of credit. Therefore, implementers have not considered households to be a target market segment for the microcredit programmes, and the RCCMP has mainly been directed towards larger-scale enterprises – which fits in with the township’s development strategy of maximising economic development. Meanwhile, the EMP and the PAMP were considered to be redundant and time consuming, so rather than attempting to adapt the programmes to provide credit to underserved market segments, implementers simply interpreted their microcredit implementation duties in ways that reduced their time and work commitments. In the DET, the RCCMP has been perceived to be a key duty of the RCC due to the fact that the township was an initial pilot site for the programme. For this reason, 80 percent of the township households borrow from the RCCMP, meaning that the programme effectively serves a variety of market segments. At the same time, there are a number of other sources of formal and informal credit available to households and businesses, which – as in the MWT – has resulted in the EMP and PAMP being perceived as unnecessary by implementers and prospective borrowers alike. For this reason, neither were provided during the fieldwork period.<sup>17</sup>

Ultimately, it is clear that the differently segmented financial markets have played a role in shaping perceptions of how microcredit should ‘slot in’ to each of the townships’ financial landscapes. At the same time, the programmes were also often perceived within the context of local development strategies, such as agriculture in the AT and economic growth in

<sup>16</sup> Interview 23.

<sup>17</sup> Despite the fact that the EMP has zero-percent interest, it still has a higher transaction cost, particularly due to the required training in the county (see Chapter 3).

the MWT. However, it is also important to note that these landscapes and markets are dynamic, meaning that the types of demand and supply are in a constant state of flux. Therefore, due to the flexibility built into Chinese development policy, the microcredit programmes have the potential to be reinterpreted to serve different market segments and play different roles in local development, depending on shifting financial and developmental landscapes.

## 4.2 Strategising and Rationalising Pressures and Incentives

Section 4.1 details the ways in which differently segmented financial markets in the three localities have resulted in microcredit being perceived in different ways by local actors. This type of focus on the economic principles of supply and demand is common in much of the literature on microcredit in China (Du, 2008b; X. Li, Gan, & Hu, 2011a; Xu, 2009; Y. Zhao, 2011), and, as the previous section demonstrates, certainly plays an important role in shaping the environmental conditions within which the microcredit programmes operate – albeit in more complex and dynamic ways than usually acknowledged. However, as development interventions and government policies, the three programmes are not only shaped by markets, but also by political considerations that fundamentally underpin the ways in which local implementers understand the programmes and incorporate them into their own livelihood strategies. Indeed, much literature on policy implementation in China points to the pressures and incentives influencing implementers, and stresses the importance of ‘scientism’ and the ‘audit culture’ associated with the ‘scientific development concept’ (*kexue fazhan guan*), which is conceived of as incentivising local officials to prioritise policy goals that are easily measurable and used to determine career advancement (Chung, 2000; Donaldson, 2009; Heberer & Trappel, 2013; O’Brien & Li, 1999; S. Zhao, 2007). In the case of microcredit, there can be no doubt that these types of quantifiable exogenous and endogenous pressures and incentives have played an important role in influencing the implementation of the three programmes. However, as this section will illustrate, seemingly similar pressures and incentives have resulted in different outcomes across the three townships, meaning that they have not always been perceived in the same way. Moreover, local implementers demonstrated an ability to change their understandings of pressures and incentives over time.

## Quotas

Local implementers have formulated different strategies to ensure that quotas imposed by higher levels of government are met in ways that limit time expenditure and risk, and fit into local development strategies. This is particularly evident with the EMP, where quotas have been determined at the county level. In the AT, county and township implementers decided to provide the entire quota of 12 loans to a single borrower (the FC) with one guarantor (the township government). This saved time and hassle by eliminating the need to find one or more suitable guarantors for each individual loan, and also reduced monitoring costs and risks associated with having multiple guarantors. In the MWT, the township MoHRSS official limited time expenditure and risk by lending the entire quota to friends and family that he knew were able to find suitable guarantors and ultimately repay the loans without any problem. In the DET, meanwhile, the lack of a county-imposed quota was initially perceived as a mandate to provide the EMP to anyone who met the eligibility criteria. However, this understanding was later revised by local implementers to mean that the programme could be halted altogether, thus completely eliminating time expenditure and risk.

The central government mandate that RCCs should use 60 percent of their lending capital for the RCCMP has also been interpreted differently in the three localities. The quota was followed in the AT, but since the township is relatively poor and there are fewer migrant remittances bolstering local savings, the township RCC has relatively less capital and was thus unable to meet the demand for RCCMP loans.<sup>18</sup> This meant that the RCC only provided loans to those with a high enough credit rating, which was obtained through socioeconomic status and good connections. This undermined one of the key principles of the programme – that all households should have the chance to borrow without the need for a guarantor and continue to borrow as long as they do not default.

In the DET, on the other hand, this principle of (almost) universal provision of the RCCMP was upheld primarily because of a combination of top-down pressure and bottom-up expectations resulting from the fact that the DET was one of the initial pilot areas for the programme. This has meant that 80 percent of the population borrows from the programme, which is possible, to a certain extent, because the DET is more wealthy and therefore has more savings capital than its counterpart in the AT. However, it is also

18 Interview 05.

likely that the RCC has been using more than the required 60 percent of total lending capital to finance the widespread provision of the programme.<sup>19</sup>

Finally, in the MWT the quota was met through a fundamental redefinition of the RCCMP, transforming it into a programme aimed at large-scale enterprises rather than households. This demonstrated the RCC manager's active (but perhaps subversive) imagination and ability to reinterpret the programme to function in a way that fit his goals and did not conflict with other top-down pressures related to the RCC operating in a financially sustainable way (see Chapter 3).<sup>20</sup> County officials in the MWT and DET similarly reinterpreted the meaning of the quotas associated with the PAMP so that the poverty alleviation funds could be directed towards other 'more productive' areas.<sup>21</sup>

### Career advancement

The role of policy implementation in influencing local officials' career prospects is another key exogenous pressure that is often cited in the literature. As Luigi Tomba points out, 'the process of policy selection by the central government has relied heavily on experiments engineered at the local level [...] The success of such experiments traditionally makes or breaks the careers of local leaders' (Tomba, 2012, p. N/A). The potential for the microcredit programmes to 'make or break' the careers of local officials was evident in the three localities. However, implementers again perceived this potential in significantly different ways. For instance, since the EMP does not feature prominently in the performance targets associated with the 'cadre responsibility system' (*ganbu zeren zhi*), or meet any of the four criteria in Graeme Smith's 'matrix of rural cadre decision-making' (G. Smith, 2013, p. 146),<sup>22</sup> it is unsurprising that the implementers in the MWT and DET saw the programme as a potential career speed bump and sought to mitigate the risks associated with its provision by focusing on achieving the most quantifiable element – i.e. repayment rates – or by cancelling the

19 This cannot be confirmed as RCC employees would not answer questions related to the total amount of capital used for the RCCMP; however, the attitude and comments of the director of the DET RCC during our brief conversation suggest that the RCCMP is particularly resource intensive (Conversation 22).

20 Of course, this reinterpretation also required the tacit consent of officials and RCC employees at the county level.

21 Interview 16.

22 The EMP is not particularly measurable, it does not raise revenue, it does not provide much benefit to local officials or the shadow state, and it is not conducive to mass mobilisation.



programme altogether. However, despite the programme not having an obvious or directly measurable benefit to their careers, county and township officials in the AT perceived the EMP as a means of creating their own 'model experience' (*dianxing jingyan*) (Heilmann, 2008), which they hoped would improve their career prospects,<sup>23</sup> thus contradicting established theory on how and why implementers decide to devote time and energy to certain policies and not others in the Chinese context.

Similar to the EMP in the MWT and the DET, the RCCMP is generally perceived to be a task that needs to be completed in order to avoid careers being adversely affected, rather than an opportunity for career advancement. In the AT, for instance, the RCC manager treated the RCCMP like a duty and simply followed the instructions of his superiors in the county.<sup>24</sup> In the DET, the RCCMP was already an established model, so there was significant pressure to maintain a certain implementation standard, but local implementers did not seem to perceive the programme as having the potential to provide for future career advancement in the same way that a new model or experiment may have.<sup>25</sup> In the MWT, career advancement for RCC employees was dependent on the institution operating in a 'financially sustainable' way based on market principles.<sup>26</sup> Moreover, the RCC manager had significant pressure from county and prefectural officials to provide large-scale loans to the largest construction company,<sup>27</sup> which probably also had a significant influence on his future career advancement. Therefore, the RCCMP was reinterpreted to meet these top-down imperatives.

The PAMP was not perceived as a useful means of career advancement in either the MWT or DET – the two townships where it could have been implemented. At the same time, it was not considered important enough to be detrimental to careers. It was thus ignored at the county level, and knowledge of the programme was not transmitted to township officials. To a certain extent this is understandable in the DET where the RCCMP has dominated the financial landscape, serving multiple market segments (see above). However, it seems to show a lack of imagination in the MWT, where officials could have used the loans for infrastructure development – which was permitted in the policy and would have fit in well with the township's

23 Interview 04; Interview 07.

24 Interview 07.

25 For this reason local implementers often try to make their mark with a new model rather than by improving or strengthening existing policies (Conversation 34).

26 Interview 10.

27 Interview 45.

stated development strategy. Conceivably, the programme could have served as a 'model experience' similar to the EMP in the AT.<sup>28</sup>

### Powerful actors and tipping points

The direct influence and/or imagined influence of powerful actors at higher levels also served as a potent exogenous pressure for local implementers. The implementation of the RCCMP in the DET is a particularly good example of this, as the programme pilot was initiated on the direct orders of Jiang Zemin and the governor of the PBC during a town hall meeting in the township in 2001.<sup>29</sup> This visit, which took place over a decade before my fieldwork, has remained fresh in the minds of local people. It was often brought up during interviews and conversations, with some people even showing pictures that they had saved from the event. For this reason, this town hall meeting and the powerful image of officials at the highest level directly sanctioning the programme can be considered a 'tipping point', which led to quick and sudden change (Chambers & Loubere, 2017). From this visit onwards, the programme instantly became a priority for county and township officials, and has now become normalised in the minds of local people as one of the RCC's primary duties. Indeed, everyone I spoke to in the DET knew about the RCCMP and it was discussed as something that local people took for granted.

To a lesser extent, the influence of powerful actors on RCCMP provision can also be seen in the MWT. The construction company is well connected with officials and RCC employees at the county and prefectural levels, and moved to the township based on the promise of cheap large-scale loans.<sup>30</sup> Therefore, the township RCC director felt pressured to reinterpret the institution's primary role, both directly – from county-level superiors – and indirectly – through the imagined high-level *guanxi* of the construction company boss.<sup>31</sup> In the AT, on the other hand, microcredit programmes seemed to be less influenced by these types of powerful actors. Instead, they were shaped more directly by county and township implementers. That being said, if the provision of the EMP in the AT becomes a model

28 The failure to utilise the PAMP might have to do with the fact that the programme has been around much longer than the EMP, so local implementers may feel that it has too much baggage and would not allow them to make their mark.

29 Interview 60.

30 Interview 45.

31 This reinterpretation is evident, since in the 1980s and 1990s there used to be small loans available for farming which have since been discontinued (Conversation 05; Interview 35).

that is replicated in other areas, the initial experimentation described in Chapter 3 has the potential to be a ‘tipping point’ leading to widespread and rapid change in the way that microcredit is understood in the township and elsewhere in the future.

### **Time and resource constraints**

Resource constraints due to the ‘hollowing out’ of the townships through the elimination of revenue sources – such as the abolition of rural taxes and fees – and the ‘soft centralisation’ of income generating governmental departments from the township to the county (Mertha, 2005; G. Smith, 2010), also represented a distinct set of pressures that microcredit implementers and other local officials felt acutely in all three sites. Again, however, these were perceived and reacted to in different ways. Officials at the township level generally considered their jobs to be especially challenging, with one official saying:

We not only have to report to our superiors at higher levels, but we often have to deal with ‘regular people’ (*laobaixing*) face-to-face as well. Sometimes regular people have problems and demands that are impossible to deal with, but higher-level officials do not take this into consideration, they just think we are not doing a good job if the regular people complain. County officials just have to give us orders, they don’t deal with people.<sup>32</sup>

Particularly in the MWT and DET, where the local MoHRSS offices are ‘devolved work units’ controlled and funded at the township level, EMP implementers said that their workload is unrealistic. The EMP is just one of many programmes that they are responsible for, meaning that they have to make decisions about which tasks to prioritise and complete on a daily basis.<sup>33</sup> Similarly, the AT RCC has only four employees for the entire township, which makes it very difficult for the RCC to effectively serve the diverse needs of different market segments.<sup>34</sup> This situation of overworked local officials has been exacerbated in recent years as township governments have been pushed to become more financially sustainable and seek out new sources of revenue in order to cover budgets and salaries. For instance, in the MWT the main priority of every township official is seeking outside

32 Conversation 34.

33 Conversation 34; Interview 08.

34 Interview 05.

sources of investment, particularly from large companies looking to relocate to the township.<sup>35</sup> In the DET this has been taken one step further, as the county government recently told township officials that if they did not bring in a certain amount of outside income annually they would face demotion and even layoffs.<sup>36</sup>

This situation has caused local implementers to come up with creative rationalisations for changing the provision of microcredit services in order to save valuable time and resources. Most obvious is the cancellation of the EMP in the DET after a 'reinterpretation' of the lack of a quota with the tacit agreement of the county (see above),<sup>37</sup> and the provision of the entire RCCMP quota to a large enterprise in the MWT. But even the provision of the EMP in the AT was designed to save time, as one MoHRSS official pointed out, saying: 'This village is a model of innovative service provision that reduces the time involved in providing services. It is also more convenient [for implementers] and promotes collective development.'<sup>38</sup> The non-implementation of the PAMP was also an obvious attempt to save time and energy, and to divert funds to 'more important' development causes. Local implementers rationalised this by framing the PAMP as an ineffective programme that is not useful for – or desired by – the poor, as the loan amounts are too low and repayment too difficult.<sup>39</sup> This went hand in hand with the general narrative espoused by many local implementers that microcredit is not a productive use of resources for development promotion, and that microcredit funds should be channelled into larger local enterprises and/or infrastructure that have the potential to scale-up development and provide taxes to the township governments.<sup>40</sup> At the same time, local implementers also rationalised saving time and resources through service transformation and/or reduction by drawing on popular narratives of 'Chinese exceptionalism' or the uniqueness of China's 'national conditions' (*guoqing jue ding*) – pointing out that 'local conditions' should shape implementation as stated in the policies (see Chapter 3).<sup>41</sup>

35 Interview 14.

36 Conversation 33. Township officials have also been told that they cannot have expensive meals or alcohol unless it is with a potential investor.

37 Interview 19; Interview 20.

38 Interview 07.

39 Interview 12; Interview 16; Interview 21.

40 These arguments are almost Keynesian in nature, and mirror some of the key arguments in the growing body of literature critiquing the fundamental underpinnings of the global microfinance movement discussed in Chapter 1 (Interview 12; Interview 16).

41 Conversation 34.

## Local implementers as strategists

The above examples illustrate that local implementers have been subjected to a variety of exogenous pressures and incentives, usually emanating from more powerful actors or centres. However, it also shows that local implementers have not uniformly perceived these pressures and incentives across the three localities. This, in many ways, confirms the findings from an increasing number of studies indicating that the personalities, attitudes, and background experiences of front-line implementers are perhaps the most important 'variables' shaping the final implementation of policy in China – often trumping top-down pressures and incentives – thus emphasising the need to understand the diverse motivations underpinning the behaviour of local officials (Ahlers & Schubert, 2015; Bislev, 2010; Chung, 2000; Donaldson, 2009; Mood, 2005; G. Smith, 2013). The highly differentiated interpretations of the benefits and risks associated with microcredit provision for implementer livelihoods across the three townships demonstrates that the local implementer cannot be reduced to a mere *homo economicus*, robotically responding to external stimuli to maximise personal gains. Instead, implementers must be understood as complicated individuals and groups with different personalities and life histories that shape the ways in which they understand microcredit as a means of facilitating development and other objectives.

This is clearly demonstrated in the provision of the EMP across the three localities. For instance, in the MWT and the DET, it is clear that the perspectives of local implementers were coloured by 'numbness' (*mamu*) resulting from being charged with too many tasks and having too few resources to accomplish them all (G. Smith, 2010, p. 611). The 'success' of the AT model, on the other hand, was credited to the 'enthusiasm of energetic officials' at the county, township, and village levels. In particular, the 'development spirit' (Ahlers & Schubert, 2013, p. 16) of the county official who had the imagination and drive to attempt to create a new 'model experience' despite few direct incentives, and the 'capability' of the local leader of the FC, who was able to acquire and transmit new technical knowledge at the village level. Obviously, environmental and exogenous factors played key roles in shaping the ways in which the programmes were implemented in these examples, but it was ultimately the personalities and decisions of those directly involved in the implementation at the local level that made the largest contribution to implementation outcomes.

Therefore, the examples of microcredit provision outlined in this study contradict commonly held binary conceptions of local officials as either

'principled agents' or (more nefariously) 'wily defiers' (O'Brien & Li, 1999, p. 168), who are unable to resist the temptation to engage in corrupt activities in order to 'capture' subsidised credit or other development funds (Ong, 2011; Park & Ren, 2001). For instance, while the cancellation of the EMP in the DET and the provision of loans to friends and family in the MWT could be considered collusion, 'elite capture', and 'shirking' as opposed to 'working' (O'Brien & Li, 1999, pp. 181-182), the decision-making processes of the local officials in these two places could also be described as a 'pragmatic strategy of resource allocation under the conditions of financial scarcity' (Ahlers & Schubert, 2013, p. 2), since local implementers ultimately innovated policy implementation to meet local developmental needs with the resources available. Additionally, local implementers in the AT 'colluded' in order to provide individual loans to the members of the FC rather than the larger group loan outlined in the policy, as the central MoF only covers 50 percent of the interest payment for the larger loans. In other words, this represented the 'capture' of central funds in order to benefit local actors, and could therefore be perceived as either local corruption or beneficial strategising depending on one's perspective. Even the RCCMP in the MWT, which could be seen as a classic case of local corruption and diversion of credit from households to elite large-scale business, could also be understood within the township's development strategy of attracting outside companies and investing in infrastructure in a local developmental state mode (Bateman, Duran Ortíz, & Maclean, 2011). In sum, while collusion and corruption at the local level undoubtedly exist, and are even widespread, it is certainly not always clear-cut or binary. Ultimately, the implementation of the three programmes has reflected the ways in which implementers perceive and understand microcredit as a development intervention, what microcredit means, and how microcredit can be most effective in the promotion of different conceptions of development at the local level.

#### **4.3 Interpersonal Relationships and Negotiations at the Interface**

Section 4.1 and Section 4.2 illustrate the ways in which local contexts and exogenous pressures and incentives shape microcredit implementation at the local level. At the same time, the above analysis clearly demonstrates that the perceptions of different actors towards these external factors are highly differentiated both within and across localities. These perceptions and interpretations are, to a certain extent, defined by the different

personalities and backgrounds of the individuals involved in the microcredit programmes. Therefore, understanding these individuals' worldviews and personal objectives can go a long way in helping us to better understand how and why they choose to steer development programmes, such as microcredit, in certain directions. Ultimately, however, it is not just individuals who determine the final implementation outcomes of development interventions. Rather, implementation realities are co-produced by groups consisting of diverse individuals, often with different worldviews and understandings of development. Therefore, underpinning the different types of heterogeneous implementation outlined above are discontinuities, struggles, and negotiations that take place at the interfaces of interaction between diverse actors at various levels. In the words of Norman Long, these inherently relational interfaces of interaction are where actors become engaged in each other's projects and 'locked into struggles over the attribution of social meanings to particular events, actions and ideas'. Moreover, despite dramatic power asymmetries, 'all actors exercise some kind of 'power', leverage or room for manoeuvre, even those in highly subordinate positions' (Long, 2001, p. 17).

### *Guanxi* interfaces in the Chinese context

In the context of rural China, these interfaces of interaction are largely understood as being the product of, or mediated by, overlapping networks of interpersonal relationships (*guanxi wang*). These networks have traditionally been based on lineage groups and rooted in local areas, but are increasingly incorporating larger groups of family, friends, and other social contacts extending regionally and beyond – primarily due to rural-urban migration and other processes related to globalisation (Gold, Guthrie, & Wank, 2002; Wang, Ye, & Franco, 2014). Particularly in rural China, much research on local society focuses on how the formation/production of social relationships (*guanxi*) – and the associated concepts of 'human feeling' (*ganqing*) and 'reciprocity' (*bao*)<sup>42</sup> that underpin and give these relationships meaning – is central to social, economic, and political life (Gold et al., 2002; Kipnis, 1997; Yan, 1996). In other words, Chinese society – and particularly rural society – can be conceptualised as being composed of overlapping

42 Reciprocity is key to *guanxi* production, as actors continually engage in reciprocal and mutually beneficial actions, which is also referred to as *lishang wanglai*. However, this does not simply imply material repayment, but is rooted in a philosophical tradition that understands the world as having balance and being based on the rules of cause and effect – with every action having an appropriate reaction (Chang, 2010; Yan, 1996; Yang, 1957).

and interconnecting ‘particularistic ties’ between individuals and groups, which are both instrumental in nature, but also reliant on reciprocal actions grounded in ‘human feeling’ in order to be maintained and remain operational (Wang et al., 2014).<sup>43</sup>

This understanding of society as being the product of overlapping relationships is strikingly similar to Norman Long’s conceptions of ‘actor interfaces’ and ‘social arenas’ described above and in Chapter 3. For instance, Fei Xiaotong – who is often referred to as the father of Chinese sociology – coined the term the ‘differential mode of association’ (*chaxu geju*) to liken the structure of Chinese society to ‘ripples formed from a stone thrown into a lake; each circle spreading out from the centre becomes more distant and at the same time more insignificant’ (Fei, 1992, p. 65). In this way, in any given social situation, the proximity of relationships (ripples) to the central ego, where these relationships overlap, and, of course, the relative power of the different actors in different situations, ultimately determines the nature of social reality and structures societal arrangements. However, Fei and other Chinese theorists take the social constructivism underpinning Long’s conception of actor-interface analysis one step further by pointing out that – in the Chinese context – even seemingly durable concepts such as morality or logic are contextually defined at these interfaces/arenas, meaning that all social interaction (including the processes involved in determining policy implementation) is invariably the product of relationships between implementers and other actors (both locally and non-locally). These relationships are not static, but are instead continuously being renegotiated. Therefore, social reality is inherently relational and context specific (i.e. dependent on who is involved), and in a continuous state of dynamic flux (Fei, 1992; Liang, 1963).

This means that, while local implementers can be considered strategists (as outlined in Section 5.2), they should not necessarily be considered ‘rational’ or ‘utilitarian’ strategists acting in a *homo economicus* mode or abiding by ‘western’ conceptions of static morality and logic. Instead, these *guanxi* relations at the interfaces of interaction can influence implementation in ways that are defined by different ‘logics’ that emerge from relationships, and trump considerations related simply to personal gain and/or development imperatives (Wang et al., 2014). Therefore, in order to analyse development policy implementation in-depth, it becomes necessary to expand on common

43 This element of instrumentality is one of the reasons that socio-political/socioeconomic activities are so often framed as collusion and/or corruption, particularly with regard to local officials (see Section 4.2).



conceptualisations of local government organisation in post-reform China, such as 'local state corporatism' and the 'entrepreneurial state' (Duckett, 2001; Oi, 1992), which, for the most part, depict local governments as unitary actors with singular strategies for increasing access to resources and promoting uncontested versions of development. This is not to say that these theories do not provide useful ways of understanding local governmental operation and behaviour, but rather that by incorporating actor-oriented approaches and interrogating the relationships and negotiations between diverse actors that underpin and shape everyday politics (Wang et al., 2014), it becomes possible to better understand why the operation/behaviour of local governments and officials results in specific (often unexpected) implementation outcomes.

### **Negotiating local constellations of power**

The fundamental importance of these social networks and interfaces of interaction in dictating the implementation outcomes of the three micro-credit programmes can be seen on a number of levels. For instance, even a seemingly structural factor – such as the township development strategies that shape local understandings of how microcredit should function – are not uniform or uncontested, but rather formulated through negotiations and struggles between different actors at the local and non-local levels. Therefore, even if one understands the formal hierarchies that supposedly determine relative levels of power, there are often hidden interests, social connections, and reservoirs of power that are not immediately observable – and are usually unquantifiable and relationally constituted – making it very difficult to truly determine where power and leverage lie in any given negotiation (Wang et al., 2014).

For instance, officials in the DET told me that the township party secretary is formally the highest-ranking local official, and therefore should have the most say when formulating local development strategies and priorities. However, in reality, the township people's congress and the township mayor had a closer relationship with each other than either had with the party secretary, and were able to join forces in ways that marginalised the party secretary during decision-making processes.<sup>44</sup> To make things more complicated, seemingly less powerful actors may have social connections at higher levels or be integrated into social networks that endow them with unexpected leverage in certain situations. For instance, in the DET there

44 Conversation 34.

were a few student cadres (*daxuesheng cunquan*)<sup>45</sup> working in the village and township governments, one of whom had family connections with high-level provincial officials. For this reason, township officials saw him as both potentially dangerous and as a potentially good future connection, and gave him more respect and autonomy than would be expected for a position so low in the official hierarchy. Because he was especially interested in issues related to socioeconomic development, he was even allowed to participate in negotiations over the township's development strategy. Therefore, the party secretary's voice was somewhat muted, and the current set of development priorities were largely determined by a group including the township head, the people's congress, and the student cadre, among others.<sup>46</sup> Of course, this singular example only provides a superficial view of one set of complex negotiations that determine how development policy is interpreted and implemented at the local level. Nevertheless, it does illustrate that local development strategy, which shapes how microcredit is understood by local implementers, is ultimately the outcome of negotiations at the interfaces of interaction between individuals and groups. It also shows that it is not always clear who has the most power or leverage in any given situation, what is feeding reservoirs of power, or the ultimate long-term goals of those involved in negotiations.<sup>47</sup>

### Negotiating microcredit provision

With regard to microcredit implementation specifically, the provision of the EMP and RCCMP loans were the direct result of social networks and negotiations between implementers and other actors, some of whom were located outside the townships and wielded considerable amounts of power. For instance, the provision of the RCCMP in the MWT was determined through negotiations between actors at the prefecture, county, and township levels. This is because the construction company was able to leverage its connections with officials and RCC employees in the city and the county, and therefore entered into negotiations with the township RCC from a

45 Student cadres are recent university graduates who are posted to a village or township to work as a local cadre for one or two years in order to learn about local government before becoming a full cadre, often at higher levels.

46 Conversation 23; Conversation 33; Conversation 34. This lack of a powerful unitary vision may be the reason that the DET does not have a clearly defined development strategy.

47 For detailed examples of how negotiations and struggles over power and resources at various levels of government can influence policy implementation in unpredictable ways, see (Wang, Ye, & Franco, 2014).

position of significant power. At the same time, by agreeing to provide the loans to the construction company, the township RCC manager effectively integrated himself into the company's powerful *guanxi* network, which increased his local socio-political status.<sup>48</sup> Ultimately, this allowed the company to secure large-scale loans that should have been set aside for households, thus redefining the RCCMP in ways that were fundamentally contradictory to the programme's goals. Nevertheless, despite coming from a dominant power position, the owner of the company was still required to observe the norms surrounding the local production of *guanxi* by inviting local officials and RCC employees to meals and offering gifts, which he estimated cost approximately 10 percent of the loan total.<sup>49</sup> Similarly, in the DET the owner of the largest components factory told me how his connections with the county government provided significant leverage in local negotiations, saying:

Politically the government has helped a lot. For instance, my wife is now a representative in the county people's congress, and I am a member of the people's political consultative conference and the vice-president of the county business federation. This has given the company a better platform for development.<sup>50</sup>

In particular, these connections helped him to negotiate access to the EMP before the programme was halted. However, as with the construction company in the MWT, this required the maintenance of *guanxi*, which was both time and resource intensive.

In other cases implementation outcomes were determined by negotiations at the very lowest levels. For instance, the provision of the RCCMP in the AT was based on credit scores, which were decided by village committees. Therefore, in order to be eligible to apply for loans in the township, prospective borrowers needed to have good connections with village officials, imbuing these local actors with significantly more power than their counterparts in the MWT or DET. Negotiations also took place between individuals and groups at different levels in the hierarchy with seemingly very different amounts of power. For instance, the provision of the EMP in the AT was the

48 The RCC manager in the MWT seemed to have a higher status than other township officials. For instance, he was smoking cigarettes that were far more expensive than those of the township officials, and he spoke to the vice-director of the township like a subordinate.

49 Interview 45. Also see Chapter 3.

50 Interview 53.

product of negotiations between county officials, township officials, the township RCC, and local farmers. Because the farmers had formed an FC, they were more visible and had collective bargaining power, which allowed them to enter into negotiation with the more powerful county officials on more equal terms – albeit still from a clientelist position of weakness – and gain access to a valuable resource that would not have been available to them individually. Finally, the provision of the EMP in the MWT is the most obvious example of *guanxi* dictating microcredit implementation, as the loans were only provided to those with close personal ties to the implementer. However, in this situation the operationalisation of *guanxi* networks was not for corrupt purposes, but instead represented trust, demonstrating that the concepts of ‘human feeling’ and ‘reciprocity’ that underpin these types of social relations are often more important considerations than the stated goals of development policy or even short-term individual gain, such as ‘capturing’ subsidised funds for personal use.

Ultimately, the commonality across the microcredit programmes in all three localities is that implementation outcomes were forged by negotiations between a variety of different actors. These negotiations were defined by *guanxi* networks and were, therefore, relational in nature. Instrumentality was a key feature of these relationships, as actors approached the negotiations over programme implementation with their own interests at heart. However, these interests were diverse and not always based solely on short-term material gains as would be expected by the classic *homo economicus*. Instead, they were intricately linked to wider relational considerations involved in the maintenance of social connections, and underpinned by reciprocity and ‘human feeling’. In this sense, the role of the programmes in each locality emerged from particularistic relationships, rather than from a static implementation logic or morality dictating how provision ‘should’ occur and how development ‘should’ proceed. This means that, while we do understand the basic social frameworks structuring implementation behaviour, it is still nearly impossible to accurately predict what form implementation will take in different situations because the relational dynamics are not based on durable principles, but are instead in constant states of flux.

#### 4.4 Emergence and Complexity in Implementation Outcomes

The inherently relational nature of microcredit implementation outlined above, resulting in unpredictable outcomes, echoes David Mosse’s statement that conventional understandings of policy implementation processes and

impact assessment are ‘nonsense’ because they are ‘based on a very mechanical notion of pulleys and levers’ (Mosse & Kruckenberg, 2017, p. 199). This is because top-down linear conceptions of development and impact generally ignore or obscure ‘messy partnerships and relationships’ (Chambers, 2008, p. 174) at different levels, which ultimately define implementation realities. This points to the need for actor-oriented perspectives that recognise ‘the central role played by human action and consciousness’ (Long, 2001, p. 13), and allow us to ‘deconstruct the concept of planned intervention so that it is seen for what it is – namely, an on-going, socially constructed and negotiated process, not simply the execution of an already-specified plan of action with expected outcomes’ (Long, 1999, p. 4).

This type of actor-oriented, relational approach challenges the assumption of linear causality that underpins much of the research on local-level implementation of development projects and policies, both in China and elsewhere. In this mainstream linear-oriented research, the intervention itself is reified, and variation in implementation is understood through the identification of causal variables and determinants that are depicted as causing distortions. From this perspective, policy and its implementation are perceived as scalable universal models that can be consistently replicated across time and space – as long as best practice is adhered to and distortions are eliminated (Chambers & Loubere, 2017; Hobbes, 2014; Ramalingam, 2013). It is this imagined ‘ability to make one’s research framework apply to greater scales, without changing the research questions, [that] has become a hallmark of modern knowledge’ (Tsing, 2015, p. 38)

Alternatively, by shifting focus to negotiations and relationships, it is possible to understand development interventions – and their associated sets of constants and variables – as being co-produced and reconstituted at the local level. Indeed, the previous sections outline a large number of variables and determinants, each contributing in different ways to the heterogeneous implementation outcomes of the microcredit programmes. At the same time, these factors were largely context specific in that they were the products of specific times, places, and people that were in states of continual and rapid dynamic change. Therefore, rather than starting at the top (i.e. central policy formulation) and working down in an attempt to understand all the ways in which policy implementation and its associated ‘impact’ is influenced along the way, actor-oriented relational approaches prompt us to start from the bottom and look at processes of interaction. Rather than perceiving these development policies and interventions as reified entities, we should instead conceptualise them as ‘self-organising systems on the edge of chaos’ that are being forged in zones ‘of diverse, self-organising and emergent complexity

which lies between top-down rigidity and random chaos' (Chambers, 2008, p. 174). From a relational perspective there are no 'self-contained units, its units are encounter-based collaborations. Without self-contained units, it is impossible to compute costs and benefits, or functionality, to any "one" involved' (Tsing, 2015, pp. 33-34). In this way, development programmes and policies do not really 'travel down' from the centre to the local level, getting 'distorted' along the way – but are instead necessarily locally produced. This means that implementation outcomes are not simply the sum of their parts, but are emergent in nature and can only be understood by observing the bottom-up processes from which they originate. Therefore, the idea of assessing impact in order to outline 'best practice' is inherently flawed, as these processes are not linear, durable, or reproducible, but rather take different forms each time. In the words of Robert Chambers, 'it's Heraclitus, you can't step in the same river twice' (Chambers & Loubere, 2017, p. 46).

As stated in Section 4.3, this understanding of development policy implementation as emergent from complex negotiations mirrors established theories of the structure of Chinese society, which depict social reality in China as being composed of interlinking and overlapping social relationships and networks (Fei, 1992; Liang, 1963; Yan, 1996). This relational policy implementation is evident in all three of the microcredit programmes, but is particularly obvious in the provision of the EMP in the AT. In this case, two key individuals – the head of the FC and the head of the county MoHRSS – were the primary actors engaged in negotiation over how the programme would be implemented. In this way, these two actors effectively served as 'linchpins' in the emergent social process of implementation, in that without their involvement the implementation and associated outcomes would have surely transpired much differently. However, it is not just their individual agency, or 'development spirit' (Ahlers & Schubert, 2013), which was responsible for the creation of the AT model of EMP provision. Rather, it was the relational bonds that these actors formed with each other and others, creating new *guanxi* networks both locally and non-locally, which ultimately resulted in the particular implementation outcome of the EMP in the township. Only by focusing on these relational dynamics and acknowledging the role of self-organising complexity in producing emergent outcomes – while also acknowledging the importance of environmental, structural, and exogenous factors in shaping these processes – is it possible to gain an in-depth understanding of how and why microcredit programmes – or development programmes more generally – are implemented at the local level in China and elsewhere.

Of course, by focusing on actors themselves – and rapidly shifting social networks, interfaces, and arenas of interaction – making generalisations or predictions becomes a much more difficult, and perhaps even impossible task. Moreover, impact assessment and determinations of ‘best practice’ become meaningless as uniform impact gives way to multidimensional impacts and multiple understandings of impact by different actors. As Norman Long points out, at the local level there are “multiple realities”, which imply potentially conflicting social and normative interests, and diverse and discontinuous configurations of knowledge’ (Long, 2001, p. 19). This means that rather than understanding heterogeneous implementation in normative binary terms as a ‘danger or a blessing’ (Thøgersen, 2011, pp. 183-184), it is instead necessary to acknowledge that development policy implementation is usually simultaneously beneficial and detrimental depending on the focus of analysis and the perceptions of the actors involved (Lu & Lora-Wainwright, 2014). Indeed, the implementation processes and outcomes of the microcredit programmes in the three townships were perceived as actively contributing to rural development and diverse livelihoods by some, while others saw the programmes as useless or even detrimental to their livelihoods and understandings of how development should be promoted. Therefore, by analysing these different understandings, processes, and impacts involved in, and emanating from, the microcredit programmes, it becomes possible to shed light on the ways in which development manifests itself locally, and, ultimately, what this means for the structure of local society.

#### 4.5 Conclusion

This chapter has explored the key factors leading to the heterogeneous implementation of the EMP, RCCMP, and PAMP in the three townships. Section 4.1 outlined how the different socioeconomic, socio-political, and geographical conditions led to the formation of differentiated financial landscapes in the three localities. This resulted in the microcredit programmes ‘slotting in’ to different positions within segmented financial markets and being interpreted differently by a variety of local actors. Section 4.2 detailed the different types of exogenous top-down pressures and incentives that local implementers have been subjected to, and the diverse ways that these seemingly similar pressures and incentives have been perceived across the localities, thus shaping the ways in which microcredit has been understood by frontline implementers and incorporated into their development and livelihood strategies. Section 4.3 began by showing how actor-oriented

relational approaches to understanding policy implementation both mirror and complement classic conceptions of the structure of rural Chinese society. It then went on to show how microcredit implementation outcomes were ultimately the result of negotiations at the interfaces of overlapping and interlinking *guanxi* networks. Finally, Section 4.4 served as a discussion of how all these factors combined to produce complex and emergent outcomes at the local level.

Based on the above, the chapter concludes that the heterogeneous implementation of the microcredit programmes in the three townships has been influenced by a number of exogenous, endogenous, and environmental factors, which have shaped the ways that programmes have been internalised by diverse actors and reconstituted at the local level through processes of negotiation. This has resulted in implementation outcomes that are complex, emergent, and highly unpredictable, as they are more than the sum of their parts and inherently relational in nature. This means that it is often not possible to determine or predict singular linear/causal 'impact' or prescribe a certain set of 'best practices' for development-oriented microcredit programmes in rural China, because the programmes themselves are understood and internalised differently by different actors in different contexts. For this reason, the chapter turns to actor-oriented relational analyses of policy implementation that focus on complexity and emergence. These types of actor-oriented approaches provide a novel and effective way to analyse the implementation of development policy/interventions (such as microcredit) in China and beyond, as they do not ignore structural and environmental factors, or the fact that implementers are embedded within local contexts, but instead link these factors to the importance of personalities and networks of interpersonal relationships. Actor-oriented approaches also go beyond simplistic characterisations of implementer and other local actor behaviour as that of the classic *homo economicus* – i.e. merely attempting to maximise material gains – and instead acknowledge the ways in which agency, morality, and logic are relationally determined at the interfaces of interaction and negotiation, resulting in multiple realities, multiple impacts, and the complex emergent outcomes discussed above. We now turn to Chapter 5 and Chapter 6, which analyse the ways in which the three microcredit programmes have simultaneously held different meanings for different actors, and played multiple and sometimes contradictory roles in livelihood strategies and the facilitation of socioeconomic development at the local level.



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## 5 Microcredit as Modernisation and De-marginalisation

### Abstract

This chapter begins by outlining the linear progression development paradigm, which depicts socioeconomic development as following predetermined stages, and conceptualises underdevelopment as being the result of marginalisation and detachment from the 'modern' world. This is followed by an analysis of how microcredit programmes have been envisioned as facilitating de-marginalisation and local development based on this paradigm. The chapter then examines how the microcredit programmes have been perceived as facilitating urban to rural transfers of technology, knowledge, and financial capital; creating new linkages between rural and urban areas; and promoting livelihood diversification. The chapter concludes by observing that microcredit has been successful in contributing to certain types of de-marginalisation based on the linear progression development paradigm, but that these apparent benefits have not been equally distributed.

**Keywords:** China, rural development, microcredit, marginalisation, modernisation, linear development

The key to ending extreme poverty is to enable the poorest of the poor to get their foot on the ladder of development [...] the poorest of the poor are stuck beneath it. They lack the minimum amount of capital necessary to get a foothold, and therefore need a boost up to the first rung.

–Jeffrey Sachs<sup>1</sup>

<sup>1</sup> Cited in (Bateman, 2014)



The aim of this dictatorship is to protect all our people so that they can devote themselves to peaceful labour and build China into a socialist country with a modern industry, agriculture, science and culture.

– *Mao Zedong*<sup>2</sup>

The conceptualisation of development as something that can be instigated through external intervention – such as microcredit – is firmly embedded within what I will refer to as a ‘linear progression development paradigm’ that sees society as moving from a traditional (less developed) to modern (more developed) state of existence. Within this paradigm, poor rural areas and their inhabitants are usually depicted as being positioned on the margins of society – far away from the developed centres. Because of this separation and distance from these centres of modernity, rurality is seen as ‘backward’ and therefore representing a lower stage on the evolutionary developmental ladder. Rural development interventions, therefore, aim to de-marginalise rural areas by bringing them closer to the centres where development emanates from. Microcredit seeks to facilitate this type of development by providing the capital necessary to allow those marginalised places and people to enter the modern world through integration into regional, national, and global markets. In this way, it is reasoned, marginal people will be able cast off their traditional modes of socioeconomic organisation which are not compatible with integration into the modern market-based society and economy. This market-oriented version of the linear progression development paradigm provided the philosophical basis for each of the microcredit programmes studied in this book. Indeed, despite their different targets and the highly heterogeneous implementation, all three of the programmes implicitly sought to extend the ‘benefits’ of the modern financial industry to excluded rural areas, thereby incorporating the rural population into the wider market system operating in contemporary China. This was justified as an attempt to reduce the dichotomous and unequal relationship between urban and rural areas and people.

This chapter explores the ways in which the microcredit programmes have – in certain cases and for certain actors – managed to achieve this market-oriented de-marginalising imperative. This has occurred in various and often unpredictable ways, and to different extents due to the complex and emergent implementation outcomes outlined in Chapter 3 and Chapter 4. The rest of this chapter is organised as follows. Section 5.1

2 Cited in (Mao, 1966)

begins by providing a background of the 'linear progression development paradigm'. The section then goes on to illustrate how contemporary Chinese visions of development – while being ideologically diverse – have adopted discourses that emphasise the need to de-marginalise rural areas through social and economic transformation and modernisation. Section 5.2 looks at the ways in which this imperative to develop through de-marginalisation has been variously interpreted at the local level, resulting in diverse understandings of how development should proceed and shaping the role that microcredit has played across the three townships. Section 5.3, Section 5.4, and Section 5.5 go on to outline how the microcredit programmes have been successful in de-marginalising the townships and certain segments of the local populations based on the market-oriented linear progressive version of development – namely through transfers of capital and knowledge from central to local areas; the formation of new socioeconomic and socio-political linkages between rural and non-rural regions and people; and the promotion of local cooperation, new forms of employment, and increased 'financial inclusion'. Section 5.6 then turns to analyse the ways in which these forms of de-marginalisation have influenced the livelihood strategies and outcomes of implementers and borrowers in the three localities. Section 5.7 concludes the chapter.

## 5.1 The Linear Progression Development Paradigm

While contemporary understandings of the 'developed' and 'underdeveloped' world have their roots in classical theories of political economy and colonial economics from the 1800s, it was in the aftermath of the Second World War that the global development system was established and the linear progression development paradigm was firmly cemented as the dominant method of defining what development means and how it occurs. In this context, underdevelopment became a fundamental problem for countries and regions to tackle – especially in post-colonial areas – and was perceived by local leaders and the international community alike to be a policy priority. In particular, in communist and capitalist countries alike, the underdeveloped were prompted to promote economic growth through industrialisation and technological modernisation in order to facilitate beneficial socioeconomic progression along predetermined 'stages

of development' (Escobar, 1995; Nederveen Pieterse, 2010).<sup>3</sup> In the words of Norman Long, this linear progression development paradigm:

visualises development in terms of a progressive movement towards technologically and institutionally more complex and integrated forms of 'modern' society [...] through a series of interventions involving the transfer of technology, knowledge, resources and organisational forms from the more 'developed' world or sector of a country to the less 'developed' parts. In this way, 'traditional' society is propelled into the modern world [...] (Long, 2001, p. 10)

Perceptions of how this linear development process does and should play out – and who benefits from it – have been ideologically varied, but are nevertheless primarily based on different strands of 'western' political economic theory, such as (neo)classical economics, capitalist growth, Keynesianism, and various (neo)Marxist theories. In the capitalist bloc development was essentially conflated with 'westernisation' through the replication of North American and Western European models (Escobar, 1995; Long, 2001). In this way, the linear progression development paradigm has served to dichotomously divide the contemporary world into sets of 'imaginative geographies' (Said, 2003) consisting of socio-political, socioeconomic, and cultural spaces defined as developed and underdeveloped. These spaces correspond with centres and margins/peripheries, thus assigning developmental identities to places and people, and delineating development within shifting boundaries that, for the most part, still shape how the socioeconomic ordering of the world is understood today (Escobar, 1995).

Over the past few decades, and particularly since the 1990s with the fall of the Soviet bloc, the linear progression development paradigm has been increasingly dominated by neoliberal ideology. This has meant that development and modernisation have come to be associated with a version of globalisation that requires the standardisation of the world economy by imposing 'neoclassical economics on the south, [and] applying western standards of policy and systems of accounting to align economies and financial and credit regimes' (Nederveen Pieterse, 2010, p. 5). This nearly wholesale adoption of a neoliberal version of the linear progression development paradigm has resulted in the creation of modern cosmopolitan centres that are integrally interconnected with world society, but are nevertheless

3 For explicit examples of development being broken down into inevitable 'stages' that the underdeveloped must progress along, see (Rostow, 1960).

situated within marginal regions and countries. In most of the 'underdeveloped world' this has served to reinforce the dichotomous distinction between urban centres and the peripheral rural margins – the latter being depicted as the embodiment of economic and social 'backwardness'. In this way, rural areas are identified as being the culprits of wider national underdevelopment in relation to the western world, rendering rural development through rural de-marginalisation a chief development priority. This de-marginalisation entails integrating the peripheral rural sectors into the modern market economy, and in so doing commoditising rural society. In the words of a World Bank report from the 1970s, 'rural development is concerned with the modernisation and monetisation of rural society, and with its transition from traditional isolation to integration with the national economy' (Long, 2001, pp. 250-251). In other words, the neoliberal ideological turn has reinforced a particular understanding of the linear progression development paradigm, depicting rural areas and people as occupying a lower rung on the evolutionary ladder of development. This has prompted regions, countries, and the international community to devise various types of intervention, such as microcredit, in order to allow marginal spaces and people to help themselves 'catch up' with more developed centres through integration into the world economy.

This perception of development 'as an inevitable, evolutionary trajectory' (Barabantseva, 2012, p. 66) towards a modernised end state has dominated the way that government, intellectuals, and the populace as a whole have understood China's socioeconomic situation and position in the world since the 19<sup>th</sup> century (Tong, 2000; Wheeler, 2005). China's perceived embarrassment on the international stage during the 'century of humiliation' (*bainian guochi*) – beginning after the Opium Wars in the 1800s – served to embed a persistent discourse within the national imagination emphasising the need to abandon the traditional and weak China, and develop towards a modern and strong Chinese state able to take back its rightful place at the centre, rather than on the margins, of world society (Barabantseva, 2012; Tong, 2000). The fixation on achieving modernity, development, and de-marginalisation has been the primary motivation for Chinese leaders across the political spectrum, and Chinese development history over the past century and a half can be seen as a series of top-down interventions. These developmental attempts have been shaped by different ideologies and modelled on different examples, but have nevertheless all aimed at eliminating underdevelopment domestically in an effort to produce a strong China on the international stage. Indeed, in the first half of the 20<sup>th</sup> century the Nationalist government sought to remove the country's shackles

**Figure 5.1** Traditional village intersected by a modern high-speed railway line



of ‘traditional weakness’. Since the establishment of the PRC, successive governments with different ideological leanings have sought to instigate the ‘Four Modernisations’ (*sige xiandaihua*) – i.e. industry, agriculture, national defence, and science and technology – but have taken different approaches to achieve this goal (Barabantseva, 2012; Ong, 1996; Sanders, Chen, & Cao, 2007; N. R. Smith, 2015; Wang, 2011; Wen, 2007; Yang, 1996).

After the reform and opening, China’s development goals were reframed within a market-oriented approach – the ‘socialist market economy’ (*shehui zhuyi shichang jingji*) – which mirrored the dominant global neoliberal turn outlined above (Barabantseva, 2012). This shift towards market orientation adopted a ‘trickle-down’ economic approach that prioritised first developing

certain areas, sectors, and people based on the promise of more widespread development in the future, thus bringing about rapid, but unequal, economic growth (Zhang & Sanders, 2007).<sup>4</sup> At the same time, the Chinese government emphasised the need to adopt a quantified scientific approach that sought to de-politicise and standardise development through the removal of ‘subjective factors’ (N. R. Smith, 2015). Chinese development has thus increasingly been portrayed in quantifiable terms, such as increasing economic growth, joining international organisations – e.g. the World Trade Organisation – and moving up the global rankings of various socioeconomic indicators, like the World Bank’s Country Income Groups indicator (Barabantseva, 2009). The dominance of this quantitative and neoliberal version of the linear progression development paradigm is evident in policy and academia, and in some cases scientism is taken to the ridiculous extreme. For instance, a recent National Development and Reform Commission (*guojia fagaiwei*) study determined that China has now reached 62 percent of some quantifiable developmental endpoint seemingly modelled on a Westernised conception of what development entails (Zhong, 2012). The necessity of measurable ‘progression’ based on neoliberal ideals has also embedded itself within the public imagination, and people in the townships where I did fieldwork articulated the need for continuous forward movement by saying things like:

Everyone needs to progress every day. Take business for example – every year a business needs to earn money. If you don’t earn money and don’t lose money, a year has still passed, so it is really a loss. So every day we must progress or else we will fall further and further behind others.<sup>5</sup>

Based on this it is clear that China’s development ideology has changed, becoming more market oriented. Nevertheless, post-reform China has remained embedded within a linear progression development paradigm, continuing its attempt to achieve a modern and developed society through advances in technology and industrialisation. That being said, this development obsession has taken on increased significance since the reform and opening, as these goals have shifted to become the main policy priority through the de-politicisation of development, in contrast to the explicitly political goals of revolution or class struggle in the pre-reform era (Barabantseva,

4 The most obvious espousal of this transition to ‘trickle-down’ economics is Deng Xiaoping’s (in)famous quote – let some people get rich first’ (*rang yibufen ren xian fu qilai*) – which is covered in more detail in Chapter 6.

5 Interview 40.

2009; N. R. Smith, 2015). This continued adherence to the linear progression development paradigm has resulted in Chinese development being defined as 'a series of dichotomies and oppositions' (Barabantseva, 2012, p. 64) – both as a country in relation to the rest of the world, and domestically, with certain areas and groups being classified as developed or underdeveloped in relation to each other. The most obvious of these internal development dichotomies is the one between China's emerging modern cosmopolitan urban centres and the 'backward', 'traditional' rural areas that are perceived as being disconnected from the modern world. Admittedly, this dichotomy between rural and urban China is not just a contemporary phenomenon, and rural and urban spaces and people have historically been defined in opposition to each other in China and elsewhere (Murphy, 2004).<sup>6</sup> But it has only been since the republican era at the beginning of the twentieth century that this rural-urban dichotomy began to be perceived as 'holding China back'. This framing explicitly situated rural areas in subordination to cities, resulting in concerted external intervention efforts attempting to bring the countryside and 'peasants' in line with a modernising China (N. R. Smith, 2015).

Particularly in the post-reform era, due to the rapidly increasing development gap between rural and urban areas, the marginal nature of rural China has come to be perceived as not only detrimental to China's development and modernisation goals, but also potentially dangerous for social and political stability (Hsu, 2015). Therefore, rural marginalisation has come to be conceptualised as a set of problems (the *sannong wenti*) that need to be solved through large-scale intervention (Day, 2008, 2013). For this reason, undoing the historical development dichotomy between rural and urban China has become a key policy priority, and has been pivotal to the government's Number One Central Documents, 5-year plans, and National Economic and Social Development Plans, especially since the early 2000s (Day & Hale, 2007; Fan, 2006; National Development and Reform Commission, 2015; State Council, 2004, 2014). This has given rise to the overarching policy frameworks of the XNCJS and the CXYTH discussed in earlier chapters, which have emphasised the need to modernise agriculture, increase consumption, and extend modern urban amenities to rural areas – such as pensions, healthcare, education, and financial services (Ahlers, 2014; Brown, de Brauw, & Du, 2009; Harwood, 2013; N. R. Smith, 2015; State Council, 2006).

6 After all, Fei Xiaotong – widely considered to be the father of Chinese sociology – depicted rural society as being based on rituals and customs (*lisu*), which are fundamentally at odds with the emerging modern urban society grounded in law and reason (*fali*) (Fei, 1992).

**Figure 5.2 Slogan for the construction of a new socialist countryside**

At its core, this renewed policy attempt to break down the rural-urban dichotomy is a call to bring rural areas and people in from the margins and create a more uniform development landscape across the country by accelerating rural China's progression up the developmental ladder. These development efforts seek to de-marginalise rural places and their inhabitants in three key interlinking ways. First, they aim to *spatially de-marginalise* geographically remote and unconnected areas and people by increasing physical and economic linkages – for instance through infrastructure development and increased trade. Second, policy seeks to *materially de-marginalise* the rural places by increasing basic consumption, and facilitating access to the types of modern commodities, services, and technologies enjoyed by the urban citizenry – the trappings of a modern life. Third, interventions have been formulated to *temporally de-marginalise* rural China by eliminating 'backward' modes of socioeconomic organisation through the improvement of the rural population's 'quality' (*suzhi*), 'consciousness' (*yishi*), 'ability' (*nengli*), and 'mentality' (*xinli*) (Barabantseva, 2012; Murphy, 2004). In other words, contemporary Chinese rural development strategies essentially aim to make rural China more like urban China (Yan & Chen, 2013), and in this way bring an end to the traditional 'peasant' society whose existence at the peripheral margins has been perceived as holding the country back from achieving modern development (Day, 2013).

## 5.2 Local Interpretations of Microcredit as a Means of De-marginalisation

In the context of this imperative to incorporate rural China into the modern urban-based, market-oriented economic system, the three microcredit programmes have been conceptualised as policy tools to facilitate spatial,



**Figure 5.3 Slogan for the creation of a civilised countryside**

material, and temporal de-marginalisation in line with the overarching development strategies and plans outlined above. In particular, the PAMP – as an integral part of early poverty alleviation efforts, the 8-7 National Poverty Reduction Programme, and the Poor Village Investment Programme – represents an attempt to increase consumption and the material well-being of the poorest and most marginalised rural areas and people (JXPPAO, JXPMoF, & JXPABC, 2006; Park & Ren, 2001; Park & Wang, 2010). The EMP, on the other hand, has been designed to de-marginalise areas spatially, by incentivising migrant workers to return to their rural origins and engage in entrepreneurial activities, thus providing investment and creating new linkages between rural and urban areas. The EMP is also seen as a means of de-marginalising rural areas temporally by re-integrating migrant workers who have learned modern skills and values in the cities back into rural areas (JXPPG, 2009; State Council, 2014). Finally, the RCCMP aims to achieve comprehensive spatial, material, and temporal de-marginalisation by promoting financial inclusion through the expansion of financial infrastructure and services to rural areas. This inclusive finance is perceived as having the ability to increase consumption, allow microentrepreneurs to scale up their activities through widened access to financial capital, and promote the development of a modern type of ‘financial consciousness’ in rural areas that can replace traditional forms of financial organisation (He, Du, Bai, & Li, 2009; PBC, 2001; Sparreboom & Duflos, 2012; State Council, 2003).

Despite the ideological coherence framing microcredit's role in facilitating spatial, material, and temporal de-marginalisation through integration into the market-oriented financial system, perceptions of how de-marginalisation should be promoted by the different microcredit programmes were shaped by negotiations over meaning between actors at various levels, and were diverse. Indeed, while everyone I spoke to who was involved in microcredit at the local level agreed that the programmes' main role was to de-marginalise rural areas and people, the ways in which microcredit was perceived as a catalyst for de-marginalisation differed markedly across the three townships, resulting in the complex and heterogeneous implementation outlined in Chapter 3 and Chapter 4. This complexity and emergence in the implementation of the programmes can be understood as representing 'multiple developmentalisms' (Ong, 1996), which are, nevertheless, still bounded by the overarching linear progression development paradigm. In practical terms, this means that the microcredit programmes have played significantly differentiated 'developmental roles' across and within the townships – and, thus, facilitated spatial, material, and temporal de-marginalisation in a variety of ways, or not at all.

In general, the ways in which the programmes were successful in producing de-marginalising outcomes often aligned with local development strategies, which were shaped by local socioeconomic contexts and understandings of development. In the AT, for instance, local development was largely defined in terms of de-marginalising farmers and agriculture through technological improvements, scaling up production, and increasing market access.<sup>7</sup> The microcredit programmes were, therefore, mobilised to meet these goals. Conversely, in the MWT farming was considered to be a 'backward' livelihood strategy. For instance, one resident told me that only 'young people who have not developed well and the elderly stay in the village to farm. Most intelligent young people do migrant work outside or do business in the township.'<sup>8</sup> Thus, in the MWT industrialisation, external investment, and improving transportation infrastructure were perceived to be the best methods of achieving socioeconomic development and de-marginalising the township by bringing in taxes and expertise from 'more developed' areas and actors.<sup>9</sup> For this reason, the microcredit programmes were reformulated to meet the needs of larger-scale business and development projects in the township. In contrast, because of the high

7 Conversation 01; Interview 03; Interview 05; interview 07.

8 Interview 09.

9 Interview 08; interview 10; Interview 14.

level of socioeconomic diversity in the DET, perceptions of how development should occur were less uniform than in the other two townships. For this reason, different actors understood de-marginalisation as emanating from a combination of investment in large- and small-scale businesses of varying types, farming, and/or the formation of political and economic linkages with outside regions and people.<sup>10</sup> Therefore, microcredit was perceived more flexibly as having a variety of de-marginalising potentials.

To summarise, microcredit 'slotted in' to diverse understandings of development and de-marginalisation at the local level, which were, nevertheless, still embedded within a neoliberal version of the linear progression development paradigm. We now turn to examine the ways in which these differentiated 'developmentalisms' reflected in the heterogeneously-implemented microcredit programmes were able to facilitate different processes of de-marginalisation in the three townships.

### **5.3 Microcredit as De-marginalisation Through Capital, Knowledge, and Technology Transfers**

One of the primary ways that local actors depicted microcredit as promoting de-marginalisation was by pointing to the programmes' ability to facilitate flows of capital, knowledge, and technology from 'more developed' areas to the townships and villages. In this way, the programmes were seen as reducing development inequalities by reallocating resources and expertise to the peripheral margins that had previously been retained in economic and political centres. These flows were usually framed within a 'trickle-down' economics narrative, which characterised rural areas as the beneficiaries of more rapid development in other parts of the country.

The formulation of the three microcredit programmes represents a concerted effort to transfer financial capital to rural areas in order to counter the notorious 'scissors gap' or rural-urban capital outflow – i.e. the historical regime of extracting rural surpluses, such as savings, and transferring them to urban areas where there are more profitable investment opportunities (Feng, He, & Ljungwall, 2013; Tang, 2006; Tsai, 2004, p. 1503). From this perspective, the three microcredit programmes were each successful in redistributing financial capital to the margins or retaining resources that had previously been extracted from rural areas, albeit in a variety of ways. For example, despite the fact that the PAMP was not implemented in either the MWT or the DET, funds

10 Conversation 24; Conversation 34; Interview 53; Interview 62; Interview 65; Interview 66.

earmarked for the programme were still transferred from the province to the counties. These funds were then used for county-level development projects and infrastructure, thus directly de-marginalising county governments materially in relation to the more prosperous provincial governments by helping to alleviate budget shortfalls.<sup>11</sup> At the same time, these development projects have the potential to produce further indirect de-marginalisation for other local actors at the county, township, and village levels.<sup>12</sup>

The EMP also facilitated capital flows from the centre to the margins through direct transfers from the central MoF to county-level financial institutions to cover interest payments (see Chapter 3). At the same time, it also spatially and materially de-marginalised rural residents who would not normally be considered eligible for formal credit. This is due to the fact that the county institutions providing the EMP loans are usually uninterested in lending to those with a rural household registration because their houses are located on collectively-owned rural land and, therefore, cannot easily be used as collateral.<sup>13</sup> In the AT, these flows of capital covering interest and facilitating increased access to loans allowed the members of the FC to increase their incomes through the sale of profitable vegetables. In the DET, before the programme was halted, the EMP allowed local households and enterprises to gain access to extra capital for projects – including ‘consumption’ projects, such as investment in improved housing. In other words, the EMP was successful in de-marginalising county financial institutions through capital transfers, and the programme also de-marginalised rural actors in relation to the county financial institutions by providing expanded access to investment capital.

The RCCMP, on the other hand, does not facilitate capital flows from the centre to the local, as there is no central subsidy. Instead, it serves to block capital from exiting rural areas through the mandate that at least 60 percent of RCC loans must go to local actors. This is a major change from the situation in the 1980s and 1990s where a majority of RCC deposits were invested in urban areas by the ABC and PBC (see Chapter 2 and Chapter 3). In the AT, this retention of local capital for lending has allowed local ‘elite’ farmers – who are rich in comparison with other farmers in the township, but still marginal in comparison with county- or prefectural-level actors – to use the RCCMP to rent large tracts of farmland both in the AT and in neighbouring townships

11 While county governments have not been suffering the same kind of budgetary crises that ‘hollow out’ township governments (G. Smith, 2010), their financial situation has, nevertheless, worsened in recent years (Interview 16).

12 Interview 12; Interview 13; Interview 15; Interview 16; Interview 21.

13 Interview 01; Interview 07.

and counties. In total, AT farmers have rented approximately 200,000 *mu*, which has allowed them to substantially scale up and mechanise their agricultural activities. At the same time, it has positioned the AT at the centre of a larger agricultural system, thus de-marginalising the township as a whole. Indeed, despite the fact that only the relatively wealthy farmers were able to take advantage of the RCCMP in this way, even some excluded actors perceived the programme as contributing to local de-marginalisation, with the head of one non-borrowing household saying: 'Giving loans to large-scale farming households so they can earn more money is a good thing because they can promote the overall development of the village.'<sup>14</sup>

In the MWT, the RCCMP loans were packaged together. Rather than de-marginalising a number of smaller actors, the entire amount allocated to the programme – RMB 50,000,000 – was provided to the larg construction company, which had moved to the township due to the exclusion and marginalisation that it had faced as a 'small fish in a big pond' in the city.<sup>15</sup> The retention of capital through the RCCMP allowed the construction company to, paradoxically, become de-marginalised by moving to a more marginal location. In contrast, in the DET the RCCMP was utilised by households and microenterprises for a wide range of de-marginalising activities, including productive investments and consumption spending. For instance, the RCCMP was used by some poorer households to send their children to university, which they would not have been able to afford otherwise. These children then often found jobs in urban areas where the universities were located, and were able to send remittances back to their families, thus spatially and materially de-marginalising their households and the township more generally through the creation of new socioeconomic linkages (see Section 5.4) and increasing household income.<sup>16</sup> One rural resident emphasised the importance of this by saying: 'If my children receive a good education, they can go out to work and in the future they can return and build a house for me.'<sup>17</sup> Indirectly, the increased access to formal finance provided by the RCCMP also resulted in increased amounts of informal finance available, often at no interest, for friends and family members of eligible borrowers in emergencies. This helped prevent exacerbated marginalisation that often occurs during and after crises.<sup>18</sup>

14 Interview 23.

15 Interview 45.

16 Interview 55; Interview 57; Interview 60.

17 Interview 58.

18 Interview 29; Interview 54.

The programmes also managed to facilitate temporal de-marginalisation through the transfer of knowledge, technology, and expertise to the three townships from areas that were perceived to be 'more developed'. For instance, in the MWT the RCCMP funds were used to convince the large construction company to relocate. This move brought knowledge and expertise of new and more sophisticated construction techniques and materials from the city. While the company only engaged in a few projects in the township itself, these projects did influence the ways in which other smaller construction companies operated, to a certain extent diffusing new types of knowledge, which changed the way that real estate and infrastructure were developed locally.<sup>19</sup> Similarly, in the DET the EMP was used to fund the largest components factory, which represented a transfer of manufacturing and logistical technology and knowledge from the 'more developed' manufacturing centres in eastern Zhejiang Province to rural Jiangxi Province.<sup>20</sup>

In the AT, the EMP was also specifically utilised for temporal de-marginalisation by transferring the knowledge of agricultural technology – i.e. how to build vegetable greenhouses – gained by the village secretary during a 'model tourism' trip to Jiangsu Province. This knowledge and technology transfer was significantly different from the examples in the MWT and DET outlined above, in that it was not initiated by outside business interests seeking to establish a presence in the township. Instead, the adoption of new agricultural technology was initiated by local people themselves based on what they felt would be most useful and beneficial. In this way, the transfer of technology was more horizontal and egalitarian, at least amongst the members of the FC. It also reflected local perceptions and needs, rather than being based on an intervention imposed by powerful external actors, which can often be unsuitable and result in unexpected outcomes causing more harm than good (Harriss-White, 2011). Indeed, other research has shown that new agricultural technologies, and vegetable greenhouses in particular, have the potential to spread much more quickly through this type of horizontal transfer of information – also referred to as 'farmer innovation circles' – creating a de-marginalising domino effect (Wu & Pretty, 2004). This literature is backed up by my observation of the rapid adoption of the vegetable greenhouse technology by the members of the FC. Moreover, the fact that the FC's use of the EMP has been designated as a model by the county and prefectural branches of the MoHRSS, means

19 Interview 45.

20 Interview 53.

**Figure 5.4 Rural modernisation through new vegetable greenhouses**



that this type of locally-led technology diffusion network might become a pilot programme that is encouraged and supported by local governments in other areas. It thus has the potential to facilitate wider ‘sustainable’ de-marginalisation through the transfer of agricultural technologies to the surrounding townships and counties (Wu & Zhang, 2013).

#### 5.4 Microcredit as De-marginalisation Through the Formation of New Socio-political and Socioeconomic Linkages

In addition to facilitating and reversing flows of capital and knowledge, the microcredit programmes have also aided in the creation of new socio-political and socioeconomic linkages between the townships and ‘more developed’ areas through the formation of new *guanxi* networks. These linkages and networks have the potential to help integrate the relatively marginal areas and actors into the expanding modern capitalist system – e.g. through production networks, supply chains, etc. – thus de-marginalising them spatially. At the same time, this spatial de-marginalisation has made certain township actors more visible to the political establishment at higher

levels, thus providing new types of access to, and influence in, reservoirs of power that were previously off-limits or unattainable due to their marginal status.

For instance, the use of the RCCMP to attract the large construction company to the MWT not only resulted in flows of capital and knowledge from the city to the township, but also represented the formation of new business and political networks between rural and urban areas. By moving the company headquarters to the township, the construction company created a business centre in a previously marginal space that became a hub connecting suppliers, manufacturers, and clients across the region, while also setting up new supply chain relationships with other township actors. In this way, the construction company changed the nature of the development landscape, and increased connectivity between the township actors and the wider market. At the same time, the construction company also linked the township and certain local actors into its extensive and expansive *guanxi* network, spanning officials and businesses at the national, provincial, prefectural, and county levels. This was particularly significant for the manager of the township RCC, who was able to integrate into this network through the provision of the large RCCMP loan and effectively increase his importance and power in relation to other officials locally.<sup>21</sup> In other words, the case of the construction company in the MWT represents multifaceted de-marginalisation on a number of levels for various actors. For one, the company itself becomes – paradoxically – de-marginalised by moving to the more marginal township (see Section 5.3). At the same time the company de-marginalises the township by locating it at the centre of a business with tens of branches across Jiangxi Province and Guangdong Province. Finally, it also de-marginalises low-level officials by integrating them into wider political networks.

In the DET, RCCMP loans were used by small components factories and other micro/small enterprises to create business linkages regionally and with the manufacturing centres in Zhejiang Province, thus connecting the township with wider economic networks.<sup>22</sup> Additionally, the largest components factory moved to the DET in order to reduce the cost of labour, as DET labour is 1/3<sup>rd</sup> the cost of Zhejiang labour.<sup>23</sup> Like the construction company in the MWT, the factory owner also sought to make his business

21 Interview 10; Interview 45.

22 Conversation 24; Interview 55; Interview 56; Interview 63; Interview 71; Interview 74; Interview 78.

23 Conversation 29; Conversation 31; Interview 53.



less marginal and more competitive through the move, saying: 'Because labour and rent in Yiwu are so expensive, there was little profit. Also, because it is easy to enter the market there, competition was fierce, so I left Yiwu.'<sup>24</sup> Once the components factory de-marginalised itself by establishing its headquarters in the DET, it then used local loans, including the EMP, to form a network of branches of smaller factories across the county, and in this way created a diffused network of connections between marginal areas regionally and the 'more developed' centres in the east of the country. Additionally, both the factory owner and his wife were able to leverage their economic position and connections to gain influence in the county government, thus creating new socio-political connections between the township and the county (see Chapter 4).<sup>25</sup>

The use of the EMP to fund the FC in the AT also played an important role in producing new socioeconomic and socio-political linkages between actors at different levels. For one, as a 'model experience', the EMP-funded vegetable greenhouses created new ties between officials and RCC employees at the village, township, and county levels, and also brought the work of these officials to the attention of the prefecture MoHRSS. In addition to generally de-marginalising the implementers by connecting them to higher levels of government, these new connections and the perceived success of the 'AT model' has the potential to improve the job prospects of everyone involved by helping them progress up the career development ladder through promotion to less marginal areas in the future, such as from the county to the prefecture. At the same time, the members of the FC were able to utilise new socioeconomic networks to sell their vegetables in previously untapped urban markets, expanding their *guanxi* networks and integrating themselves into the urban market economy, thereby transforming themselves into non-marginal actors within a marginal space.<sup>26</sup>

Ultimately, these new socioeconomic and socio-political linkages initiated by the microcredit programmes served to de-marginalise the townships and certain inhabitants spatially, materially, and temporally through increased connectivity between marginal and non-marginal spaces and actors. This was accomplished through new or strengthened connections between governments and financial institutions at different levels, through linkages between local actors and urban markets and/or suppliers, and by attracting

24 Interview 53.

25 Interview 53.

26 Conversation 01; Interview 02; Interview 03; Interview 04; Interview 06; Interview 07; Interview 24; Interview 25.

large enterprises from non-marginal areas to the townships, thus co-opting their *guanxi* networks and also bringing much-needed tax revenue to local governments with severe budgetary shortfalls. In other words, by facilitating the formation of new socioeconomic and socio-political linkages, the microcredit programmes were successful in de-marginalising the townships in certain ways. However, the de-marginalising effects were not uniform across the three localities, and the actors involved varied substantially.

### 5.5 Microcredit as De-marginalisation Through Employment, Local Cooperation, and Financial Inclusion

The microcredit programmes have also played a role in temporally de-marginalising the three townships by transforming local traditional socioeconomic structures and modes of organisation. For instance, by attracting and supporting businesses to relocate from urban centres to the townships, the programmes have promoted new forms of modern employment that replace or complement agriculture – considered to be ‘backward’ – and migrant work, which extracts talent from the townships. Both the construction company in the MWT and the components factory in the DET have created over 200 jobs in their respective localities. These jobs have been popular with local residents, and have also attracted some migrant workers from even more marginal nearby areas to relocate to the townships. This is because this type of wage employment paid up to RMB 100 per day,<sup>27</sup> significantly more than the income from farming or from running most microenterprises – particularly small shops.<sup>28</sup> At the same time, the RCCMP in the DET has also allowed for the establishment of a variety of smaller components factories and other businesses by returning migrant workers. These returning entrepreneurs often emulated the modern modes of employment they experienced while working in ‘more developed’ areas, and their enterprises usually paid workers between RMB 10 to RMB 100 per day.<sup>29</sup> In general, the working conditions were better than rice farming, which is gruelling work, and the local wage employment allowed families to stay together by reducing the necessity for migrant work. It should be

27 Construction work generally paid RMB 100 per day, while the components factory pay was based on the amount of work done, which can also be around RMB 100 per day if working quickly/efficiently and for long hours.

28 Interview 45; Interview 53; Interview 61.

29 Conversation 29; Conversation 31; Interview 61; Interview 63.

noted, however, that the air quality and safety standards in some of the smaller components factories were questionable at best.<sup>30</sup>

In addition to facilitating material de-marginalisation through higher incomes, these new types of employment also had a temporal de-marginalising effect by providing workers with new types of freedom and inclusion in the labour market. In particular, the components factories tended to hire women and the elderly, many of whom were not previously engaged in wage-earning activities due to local customs dictating the role of different family members within the household unit. Some of the component factories even allowed women and the elderly to work out of their own houses at a reduced salary, meaning that they could earn income while simultaneously carrying out their traditional duties, such as caring for children, cooking, cleaning, etc.<sup>31</sup> In this way, the new forms of employment effectively transformed women and the elderly into modern citizens with an income, thereby integrating them into the wider capitalist system, and changing their socioeconomic role and status in relation to the household unit and local society more generally. The owner of the large components factory proudly explained how the jobs provided by his factory benefited local people and the economy by drawing on wider narratives – both contemporary and traditional – of ‘harmonious society’ and ‘harmonious familial relations’ (*jia he wanshi xing*), saying:

My factory has a good impact on local society. For instance, some old people have no money. If their children don't give them any money, then the family might not be happy. Now people in their 60s and 70s can work in my factory and earn RMB 500 to 600 per month, which lets them buy things for their grandchildren, so the familial relationship will be more harmonious. It can also have a good impact on the relationship between husbands and wives, because originally only the man was working, so the wife would usually play *majiang*, wasting time and money [...] In terms of economic impact, my factory has also increased incomes. These good impacts are the result of government support by providing loans with no interest.<sup>32</sup>

In contrast to the new forms of employment outlined above, which played a role in transforming local society, microcredit also facilitated

<sup>30</sup> Interview 24; Interview 61.

<sup>31</sup> Conversation 24; Interview 60; Interview 70; Interview 78.

<sup>32</sup> Interview 53. RMB 500-600 per month assumes that the elderly are working slowly from their own homes while also taking care of the grandchildren.

de-marginalisation by actively strengthening pre-existing social cohesion and local modes of socioeconomic organisation. The most striking example of this is the EMP in the AT, which provided RMB 1,100,000 to the 12-member FC to undertake a large project involving both group coordination and individual responsibility, and hinging on group dynamics to spread risk. In the words of one FC member: 'Every household borrows RMB 50,000 and the total amount is transferred to the FC. The FC coordinates the use of the money and each household is issued with their own farming responsibilities'.<sup>33</sup> This enabled the FC, which is an organisation originally based on a local kinship group, to substantially scale-up a project that had been previously initiated through communal pooling and savings arrangements, thus magnifying existing cooperative organisation, cohesion, and action.<sup>34</sup> In the DET the RCCMP also promoted local cooperation, as groups of households composed of friends and family were able to pool their loans together in order to mobilise substantial lump sums to fund larger projects, such as building a new house or investing in a business. In addition to the RCCMP loans, households often mobilised other types of capital to achieve their goals, such as savings, informal loans from other sources, and non-financial loans of materials and labour.<sup>35</sup> In this way, the formal RCCMP loans were incorporated into, and magnified, informal modes of financial organisation similar to traditional ROSCAs.

Therefore, in both the AT and the DET the microcredit programmes provided extra capital that allowed groups and their individual members to scale up projects – increasing income and improving livelihoods. This represented more than just material de-marginalisation, as it also gave the groups increased visibility and leverage with more powerful, and less marginal, actors. For instance, through the process of successfully applying for the EMP loans, the FC in the AT became visible to government officials and financial institutions at the township, county, and prefecture levels, and ultimately became the subject of a proposed pilot programme, thus investing others in their success. This form of empowerment has significantly spatially de-marginalised the FC, and has also allowed the group to assert a form of collective bargaining to gain access to resources that would not have been available to them individually, or even to the group as a whole, without the existence of the EMP.

33 Interview 25.

34 Interview 23; Interview 25. Research on microcredit often points to the potential for programmes to facilitate local cooperation, particularly with regard to women's groups, thus empowering marginalised individuals (Sanyal, 2014).

35 Interview 55; Interview 57.

Another metric of success for the programmes was simply expanding financial service provision based on the belief that providing credit access to excluded segments of the society is inherently de-marginalising in and of itself (Sparreboom & Duflos, 2012). Based on this, the programmes were successful at facilitating de-marginalisation by increasing financial inclusion in all three of the townships, albeit in different ways for different actors. For instance, as stated above, the programmes have indirectly instigated increased financial inclusion by adding capital to the informal financial market – as EMP loans were used for on-lending and RCCMP borrowers frequently informally pooled their funds.<sup>36</sup> This increase in ‘curb market’ activity is consistent with Kellee Tsai’s observation that sometimes ‘the scale of informal finance actually increases in communities that have been targeted for a greater supply of official credit’ (Tsai, 2004, p. 1488). It can also be perceived as a beneficial development, as informal financing is viewed as necessary by the vast majority of rural people and was used by well over 90 percent of interviewees.

The programmes also promoted financial inclusion more directly through the general increase in access to formal credit across the three townships. For instance, in the AT the EMP provided the FC with access to formal credit that was previously unavailable, and the RCCMP provided increased access to loans for large-scale farmers. In the MWT, the RCCMP was used to provide a large amount of capital to the construction company that had been excluded by financial institutions in the city. Most notably, in the DET 80 percent of the population was included in the formal financial system thanks to the RCCMP. This is because any household that was able to meet the basic requirements could borrow, whereas in the past households had to rely on good *guanxi* with RCC employees in order to get loans.<sup>37</sup>

This increased formal financial inclusion was perceived as temporally de-marginalising borrowers by instilling in them a modern ‘credit consciousness’ based on ‘law’ and ‘reason’ rather than ‘traditional’ *guanxi*-based understandings of credit grounded in local customs. This new sense of a modern credit consciousness was praised as beneficial progression for rural people, transforming them from ‘backward’ peasants into ‘modern’ citizens with a higher level of ‘quality’. For instance, the RCC director in the AT said: ‘The biggest change has been in the local farmers’ mindsets. Before they just focussed on saving, now they also think about borrowing.’<sup>38</sup> This

36 Interview 30; Interview 53.

37 Interview 18; Interview 54; Interview 55.

38 Interview 05. See Chapter 1.

understanding of formal credit was also equated with other beneficial traits associated with modernity, such as 'creditworthiness', which were then ascribed to groups and communities, thus depicting them as more modern and developed than their more marginal counterparts in other places. For instance, the director of the MoHRSS in the AT attributed the success of the RCCMP to a uniform localised 'modern' culture by saying: 'The township has been able to lend out so much money each year because of the local customs and culture. Local farmers in this township are trustworthy.'<sup>39</sup>

The increased use of formal credit was also seen as facilitating wider temporal de-marginalisation by spreading knowledge of other formal financial services, thus fostering a wider financial consciousness amongst the marginal rural population. For instance, in the 1980s and 1990s rural residents often hid money in their homes (e.g. in closets, walls, beds, etc.), which was sometimes stolen or lost.<sup>40</sup> However, after using formal credit services rural people often gained a greater appreciation for, and trust in, local financial institutions and their ability to provide a more secure method of saving financial capital.<sup>41</sup> In this way, through a change in 'mentality', rural people shifted from using insecure 'traditional' methods of saving, to safe 'modern' formal accounts in the RCC. This transition into formal savings also allowed the RCC to mobilise local deposits for investment and increased lending locally. Similarly, formal loans also introduced local actors to the RCC remittances service, which provides households with the ability to send money within the province free of charge. In the past, residents would often use the PSRB (which became the PSBC after 2006) to remit money. However, the service was slow and relatively expensive, so some migrants would informally remit their earnings by bringing large amounts of cash with them when they returned home to visit their families.<sup>42</sup> This was a very dangerous proposition, particularly during festival periods when many people are travelling, and there have been some high-profile cases of migrants losing huge amounts of savings (Anon., 2013). Therefore, the RCC remittances service provides increased security for migrant workers sending money home through the modern financial network for consumption purposes or for local investment that has the potential to diversify

39 Conversation 01.

40 In the MWT I was told a story about a household that had saved RMB 60,000 to pay for their child's future wedding. They hid the money in the walls, but one night it was stolen and the culprit was never caught (Conversation 18).

41 Interview 05; Interview 31; Interview 32; Interview 48; Interview 56; Interview 70.

42 Interview 07; Interview 38; Interview 41; Interview 48; Interview 56; Interview 74; Interview 76.

and improve local economies.<sup>43</sup> Unsurprisingly, the DET had the highest level of this type of formal financial consciousness, most likely due to the prevalence and wide coverage of the RCCMP.<sup>44</sup>

## 5.6 Microcredit and Local Livelihood Improvement

By facilitating the different types of de-marginalisation outlined above, the microcredit programmes were credited with playing a beneficial role in the (re)production of local livelihood strategies and outcomes. In particular, microcredit helped shape the ways in which rural actors went about acquiring and securing consumption and economic necessities, how they coped with challenges, and how they responded to opportunities. The programmes also played a role in moulding local values and identities, which underpinned ‘individual belonging and [...] aspirations for social and economic transformation’ (Christiansen, 2010, p. 141; Long, 1997).

For instance, in some cases the microcredit programmes became integrated into the livelihood strategies of the local implementers themselves – paving the way for easier access to economic resources and allowing implementers to take advantage of opportunities that would not have been possible without the programmes. Most obviously, EMP implementers in the AT were able to utilise the programme in order to become more visible to their superiors at higher levels of government, allowing them to chart new livelihood trajectories that were integrally linked the successful outcome of the model experience. Similarly, in the MWT the director of the township RCC was able to package the RCCMP into one large loan for the construction company in order to take advantage of the opportunity to link into wider socioeconomic networks at the county and prefecture levels, thereby increasing his power in relation to other local officials. In both of these cases the microcredit programmes made it possible for local implementers to improve their job prospects and potentially increase their incomes and access to financial, social, and political resources. At the same time, the programmes also played a more profound role in the identity formation of the implementers in both the AT and MWT. In both cases implementers

43 Interview 40; Interview 53.

44 That being said, I still encountered many households that refused to use modern financial and insurance services because they did not trust or understand them. Even one jewellery shop with over RMB 1,000,000 in merchandise purchased a safe rather than insurance (Interview 26; Interview 39; Interview 47; Interview 51; Interview 71).

proudly identified themselves as effective leaders and/or policy innovators. They also perceived themselves as being leading contributors to the rapid development and de-marginalisation of rural China through its integration into the urban-based market system. For instance, the director of the RCC in the MWT was proud that the institution was ‘financially sustainable’ unlike RCCs in other areas.<sup>45</sup> This identity based on a capitalist vision of rural development and de-marginalisation, in turn, shaped how these actors perceived opportunities – for themselves and for other local actors – and how they went about acquiring livelihood resources.

The programmes had their most visible de-marginalising impact in the instances where they directly improved borrower livelihoods. For instance, in the DET the RCCMP, and the EMP before its cancellation, helped local inhabitants take advantage of the opportunity to open businesses, thus increasing income and access to livelihood resources. In the words of one local entrepreneur: ‘The EMP has had a big impact on our household, it solved the issue of my wife’s employment and improved our economic situation [...] If we didn’t get the EMP we couldn’t have opened our shop.’<sup>46</sup> Microcredit also allowed existing local microenterprises in the township to take advantage of investments and business opportunities that would have been impossible without the fast access to capital. One such example was an aquaculture microenterprise that used the RCCMP loans to pay for the expenses involved in making business connections with customers in neighbouring Zhejiang Province, thereby spatially de-marginalising the business by linking it into regional supply chains.<sup>47</sup>

In the MWT, the EMP did not obviously contribute to borrower livelihood improvement, as the loans were often perceived as redundant sources of capital. However, in some cases households did increase income through on-lending,<sup>48</sup> and other households used the loans for investment in urban-based stock markets. While this was ultimately a risky use of the credit, it did de-marginalise the households by allowing them to participate in the modern financial market in a way that was not possible for much of the rural population.<sup>49</sup>

The EMP in the AT was the most obvious example of a microcredit programme playing a beneficial role in the livelihoods of borrowers by

45 See Chapter 3, Interview 10.

46 Interview 56.

47 Interview 78.

48 Interview 30.

49 Interview 38.



allowing the members of the FC to take advantage of the opportunity to invest in the vegetable greenhouses. Not only did this investment make the borrowers' lives easier, as vegetable farming is significantly less grueling than rice farming, it also substantially raised incomes. The vegetable greenhouses allowed the FC members to grow more profitable 'cash crops', such as chilli peppers and *Artemisia*, which could earn RMB 6,000-7,000 per *mu* per year – as opposed to the RMB 600-700 per *mu* per year for rice farming. This meant that some members of the FC were able to earn over RMB 80,000 per year, and even spatially de-marginalise themselves by using the extra income to invest in valuable property in more urbanised areas.<sup>50</sup> Overall, the EMP was described as helping the members of the FC to achieve the next step in a linear progression of self development and livelihood improvement in the context of rural China's perceived inevitable march towards a 'developed endpoint' with better conditions for its inhabitants. In the words of one member of the FC:

The 1970s were very difficult, sometimes we even didn't have food and farming was very hard. With the beginning of the household responsibility system in the 1980s life got better year on year, but farming was still difficult. In recent years, since we have been using the vegetable greenhouses, life has gotten much better.<sup>51</sup>

In addition to generally improving borrower access to consumption and economic necessities, the programmes also permitted borrowers to take advantage of opportunities to diversify and secure livelihoods, which is vital to the sustainable (re)production of livelihood strategies (Hospes & Lont, 2004). In particular, by investing in vegetable greenhouses, the members of the FC in the AT transitioned from single-crop rice farming to multiple crops, thus diversifying their sources of income and reducing the risks of crop failure.<sup>52</sup> In the DET, the RCCMP allowed households to open micro-enterprises that contributed to multifaceted livelihood strategies including farming, migrant work, and even wage income in the local components factories, thus making households more resilient to shocks and crises.<sup>53</sup> More generally, the loans also had the potential to help microenterprises 'smooth over' periods when business was slow, and allowed households to

50 Interview 23; Interview 24; Interview 25.

51 Interview 25.

52 Interview 23; Interview 24; Interview 25.

53 Interview 55; Interview 56; Interview 58; Interview 61; Interview 66.

diversify their future livelihood strategies through investment in necessary consumption activities and human capital, such as building houses or paying for their children's education, while maintaining savings for emergencies.<sup>54</sup> In other words, by allowing households and businesses to take advantage of opportunities to diversify income sources and become more financially secure, the microcredit programmes helped borrowers to 'help themselves' overcome structural constraints that had previously marginalised them.

These tangible livelihood benefits outlined above had a very real and important impact on how borrowing households constructed their identities and defined themselves within the wider development landscape. For instance, as stated in Chapter 3, the members of the FC in the AT were proud that they were utilising modern agricultural technologies. Like the EMP implementers, FC households perceived themselves as being at the forefront of rural China's rapid development. When asked why others were not able to get loans, many of the FC members drew on neoliberal discourses and narratives – such as Deng Xiaoping's famous quote 'let some people get rich first' – that justified and framed their privileged status as necessary for rural China's ultimate future ascension to a state of 'development'. In this way, they identified themselves as the rural elite whose role it was to lead the way to de-marginalisation through 'positive' actions, such as astutely noticing and exploiting entrepreneurial opportunities, and being willing to take risks.<sup>55</sup> At the same time, they placed the blame for the exclusion of others from the microcredit programmes squarely on the shoulders of the excluded themselves, with statements like: 'The wealthy are courageous people who dare to take risks and intelligent people who are ready to innovate. The poor are generally complacent and lazy. They envy the rich people, but also can recognise their own incompetence.'<sup>56</sup> These borrowers also continually pointed out that successful de-marginalisation required hard work, and that the poor and marginalised should not blame the government – saying things like:

In the past the emperors levied agricultural taxes to pay for the army. Now the Party's policy is good, they have eliminated agricultural taxes and introduced agricultural subsidies, so we are very satisfied. However, the income gap continues to widen, even within rural areas. The main reason is because people do not want to work.<sup>57</sup>

54 Interview 22; Interview 38; Interview 57; Interview 78.

55 Conversation 01; Interview 25.

56 Interview 04.

57 Interview 25.

Similarly, in the MWT, households that were able to borrow from the EMP or the RCC stressed that the poor had no one to blame but themselves. They prescribed more individual effort as the route to de-marginalisation,<sup>58</sup> with one borrower saying: ‘Through their own efforts they should improve their social standing, and also ensure that they have the ability to repay the loans.’<sup>59</sup> The owner of the large construction company also justified his capture of the RCCMP by saying that most of the residents in the MWT did not have ‘credit consciousness’ and therefore did not deserve loans because they were not as trustworthy as his company.<sup>60</sup> Due to the easier access to the RCCMP in the DET, this discourse of individual responsibility for exclusion was even more widespread, with most households saying that only the untrustworthy were not allowed to borrow. Ultimately, therefore, inclusion into the programmes played a key role in borrowers constructing identities as local social and economic elites, positioned at a higher stage of linear development than non-borrowers. These identities shaped the ways in which both borrowers and non-borrowers (re)produced their livelihood strategies and perceived their roles in the development landscapes.

To sum up, the microcredit programmes have – in some cases and for certain actors – improved livelihoods by allowing implementers and borrowers to gain access to resources, diversify livelihood strategies, and take advantage of opportunities. This has resulted in enhanced career prospects, scaled up businesses, more house construction, easier access to education, and the provision of a financial buffer for investments and emergencies – all of which have had substantial de-marginalising effects. Moreover, the programmes have been utilised by implementers and borrowers alike as a means of increasing and strengthening social networks, which has been identified by other research as a key element in improving sustainable livelihoods and facilitating local development (Ye, Wang, & Long, 2009). Microcredit has also allowed actors to identify themselves as successful members of the ‘winning’ cohort, contributing to the modernisation and development of rural China, albeit based on a neoliberal version of the linear progression development paradigm. Therefore, all of these ‘improvements’ are perceived as being symptomatic of modern livelihoods, which are increasingly standardised based on ‘developed’, and largely urban, modes of existence – thus positioned in contrast to traditional livelihood modes, which are then depicted as being ‘backward’ and ‘uncultured’ (*meiyou wenhua*).

58 Interview 09; Interview 32.

59 Interview 29.

60 Interview 45.

## 5.7 Conclusion

This chapter begins by showing how the three microcredit programmes have been framed within a neoliberal version of the linear progression development paradigm, which depicts rural areas and people as being backward and peripheral, and therefore in need of modernisation and de-marginalisation through integration into the wider market economy. This is in-line with the general global discourse of development, and also reflects contemporary Chinese understandings of development as technological progression, modernity, and de-marginalisation – both domestically and on the world stage. Within these paradigmatic confines, it is clear that in all three townships, microcredit has successfully facilitated de-marginalisation and livelihood improvement for certain actors and in certain ways. Indeed, this chapter illustrates how the microcredit programmes have contributed<sup>61</sup> to spatial, material, and temporal de-marginalisation by initiating flows of capital, knowledge, and technology from central urban areas to the three townships; by facilitating the creation of new socioeconomic and socio-political linkages between marginal and non-marginal areas/actors; and by modernising employment, providing platforms for local cooperative action, and expanding financial inclusion.

However, despite the ideological coherence, the nature of this de-marginalisation varied significantly across the three localities for two key reasons. First, as with all rural development interventions, and particularly those in the Chinese context, implementation at the local level was highly heterogeneous and emergent from complex negotiations at the interfaces of interaction between diverse actors (see Chapter 4). Second, while rural development itself was uniformly understood as the need to spatially, materially, and temporally de-marginalise rural areas and people – there was little consensus on how these processes of de-marginalisation should proceed, with different localities and actors pushing completely different sets of priorities. Therefore, each of the programmes in each of the townships can be considered to have produced de-marginalisation, just in different ways. Even the programmes that would widely be considered to have failed – such as the elite capture of the RCCMP in the MWT – still resulted in de-marginalisation for certain actors. Therefore, this chapter challenges the assumption that top-down best practice to ensure a specific type of

61 It is important to note that we cannot attribute causation here, but instead should recognise that the programmes contributed to de-marginalisation within the wider developmental landscape.

de-marginalisation can be identified, as the de-marginalisation outcomes were ultimately reflections of local perceptions of what rural development means, and which development paths should be followed in order to reach the 'next stage' of linear development.

Because de-marginalisation was not uniform, but instead benefited certain areas and actors, the microcredit programmes also played a role in widening the gap between the newly de-marginalised and the still marginal – usually based on existing social, economic, and political segmentation at the local level. Rather than being a flaw in the formulation or implementation of the microcredit programmes, this is a fundamental feature of the linear progression development paradigm, particularly in its neoliberal form. In this sense, the linear progression development paradigm produces the very divisions between 'developed' and 'underdeveloped' that it seeks to eliminate, while 'concealing the fact that both exist within unequal relations between centre and periphery-relations that involve domination and subordination' (Wang, 2011, p. 95). Therefore, while microcredit has successfully instigated some processes of de-marginalisation, it has simultaneously contributed to deepening local discontinuities. This has exacerbated exclusion, inequality, and distress in various ways for different actors. We now turn to Chapter 6 to explore these undercurrents of marginalisation in more depth.

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## 6 Microcredit, Precarious Livelihoods, and Undercurrents of Marginalisation

### Abstract

This chapter opens with a critique of the linear progression development paradigm and modernisation discourses outlined in Chapter 5. It then goes on to show how China's rural margins and urban centres have been relationally mutually constituted, necessitating the marginalisation of the countryside to produce urban modernity. This is followed by an illustration of how microcredit and other development interventions implicitly reproduce patterns of marginality by facilitating the extraction of resources from rural areas; by exacerbating patterns of socioeconomic exclusion; and by aggravating already precarious livelihoods through exploitation and risk transfer. The chapter concludes by analysing how the heterogeneous implementation of microcredit ultimately reflects, magnifies, and/or transforms unequal relationships of power, thereby facilitating de-marginalisation for some while feeding into undercurrents of marginalisation for others.

**Keywords:** China, rural development, microcredit, marginalisation, precarity, relational approach

Microfinance does not simply smooth over contemporary processes of agrarian change. Rather, it tends to reflect and reproduce their central contradictions and power dynamics.

– *Marcus Taylor*<sup>1</sup>

Deng Xiaoping said 'let some people get rich first'. The clever will get rich first and the lazy will fall behind. Everyone's situation is different and more conservative people will usually be left behind.

– *Interview 29*

<sup>1</sup> See (Taylor, 2012, p. 609)

The shift towards a market-oriented rural development strategy in China since the reform and opening has meant that beneficial progression along the linear path towards a higher stage of development has increasingly been understood as coinciding with integration into the wider market system. This market-based development ideology sees rural de-marginalisation as resulting from the promotion of entrepreneurial activity and competition at the local level.<sup>2</sup> As a recent National Development and Reform Commission report states, the Chinese government's development policy now seeks 'to establish a sound, unified, and open nationwide market system that ensures orderly competition, puts forward more reform measures to invigorate the market, and turns the new benefits of reform into a new driving force for development.' (National Development and Reform Commission, 2015, p. 18). While it is acknowledged that this type of competition results in increased inequality through the creation of 'winners' and 'losers', this situation is depicted as a necessary and inevitable side-effect of development, and something that is accepted by society at large – even the segments of the population that are not directly benefiting. In the words of one wealthy household in the MWT:

The income gap has been increasing. Before we were all farming and none of us had any money. Now some people go out to earn money and some stay in the village to farm, so the gap is growing. However, this increasing gap does not affect the relationship between the rich and poor villagers. The poor acknowledge the rich villagers' achievements.<sup>3</sup>

As stated earlier, microcredit as a development intervention mirrors this understanding of development and de-marginalisation as emerging from individual entrepreneurial effort at the local level as a means of expanding economic integration. For this reason, microcredit programmes seek to include the previously excluded marginal areas and actors into the modern financial system, and provide the capital necessary to produce the type of entrepreneurial activity that is seen as allowing rural people to 'develop themselves' through engagement with the wider market economy. In this way, proponents of microcredit – both in China and globally – envision microloans, and the ensuing local entrepreneurship, as playing an important

2 Entrepreneurial activity can, of course, be perceived in very different ways. For instance, in the AT the FC was considered to be entrepreneurial for building greenhouses. In the MWT, migrant work was considered an entrepreneurial pursuit.

3 Interview 43.

role in improving local economies by lifting entire communities out of their ‘underdeveloped’ and ‘backward’ modes of existence, thereby de-marginalising them spatially, materially, and temporally. For this reason, microcredit is seen as allowing the benefits of modern capitalist society to ‘trickle-down’ to marginal rural areas and actors, thereby justifying uneven development as necessary in order to instigate the type of progress that will eventually benefit everyone. As a development intervention, it is a physical manifestation of the theory that ‘a rising tide lifts all boats’.

Microcredit, thus, depicts underdevelopment and marginalisation as simply being symptoms of disconnection from the wider market. This ignores or obscures the ways in which developed/central and underdeveloped/marginal spaces and people are dichotomously co-produced and mutually constituted in relation to each other within development landscapes that are fundamentally shaped by unequal relationships of power and subordination (Weber, 2006). By focusing on these unequal connections, it becomes clear that commercialised interventions like microcredit do have the ability to facilitate rapid development and de-marginalisation for certain areas, groups, and individuals (see Chapter 5). However, these development approaches simultaneously reflect – and often reproduce and/or exacerbate – inequalities and patterns of marginalisation in China and other developing contexts worldwide.

This chapter outlines these varied undercurrents of marginalisation that were part and parcel of the de-marginalising outcomes recorded and analysed in Chapter 5. In this way, this chapter (and the continued discussion in Chapter 7) represents a critique of the role that microcredit can, and should, play in local development strategies and the (re)production of livelihoods in rural China and beyond. The rest of the chapter is organised as follows: Section 6.1 outlines the literature critiquing the linear progression development paradigm, and illustrates how the paradigm itself actively produces the underdevelopment and marginality that it purportedly seeks to eliminate. The section then goes on to show how marginalisation needs to be understood as sets of unequal and mutually constituted dichotomous relationships, or ‘relational marginality’, rather than reified as a ‘backward’ mode of existence that can simply be eliminated through external intervention aimed at instigating progress through integration. Section 6.2 analyses how this concept of ‘relational marginality’ has characterised the development landscape in rural China. It shows how development interventions, such as microcredit, have shifted and sometimes transformed relationships of marginalisation, but have ultimately done little to change the underlying causes and conditions of marginality itself. Section 6.3, Section 6.4, and

Section 6.5 outline the heterogeneous and complex ways in which the microcredit programmes have produced undercurrents of marginalisation in the three townships. In particular, the sections show how microcredit has facilitated the diversion and extraction of rural resources, excluded certain actors and areas from development opportunities, and aggravated various types of risk, distress, and social strife at the local level – all of which have had significant negative impacts on the ways in which local actors (re) produce their livelihood strategies and construct their identities. Section 6.6 concludes and leads into the final chapter of the book.

### **6.1 The Unequal Foundations of Development and Relational Marginality**

As outlined in Chapter 5, contemporary definitions of the concept of development have invariably been grounded in the linear progression development paradigm, which depicts cultures and societies, countries and regions, as moving – step by step – from a marginal traditional ('backward') state of existence to a more modern ('civilised') one. The work of those involved in the field of global development has, therefore, been to assist the 'underdeveloped' places and people to adopt policies and modes of societal organisation that will best facilitate this transition. However, while the linear progression development paradigm has undoubtedly maintained its position as the dominant way of understanding and attempting to instigate development in China and globally, in recent decades it has come under increasingly strong critique – both for its perceived failure, and for being conceptually and theoretically unsound.

In particular, critics have pointed to the fact that the global development project has not lived up to its promise to reduce the stark gaps between the developed world and the global south. Indeed, regardless of how progressive development is defined or measured, inequalities have persisted worldwide – narrowing in some places and expanding in others – and there is little consensus on whether even basic progress towards a standard level of development, such as through the reduction of global poverty, has been achieved (Kirk, Brewer, & Hickel, 2015; Nederveen Pieterse, 2010; Reddy & Minoiu, 2007). The perceived failure of development is seen to have become more acute with the rise of the neoliberal version of the linear progression development paradigm since the 1980s, as the logic of unfettered free market capitalism as a means of promoting development has 'resulted in systems in which the few benefit at the expense of the many' (Escobar,

2004, pp. 349-350), primarily through the 'dispossession, confiscation or privatisation of crucial livelihood resources' (Mosse, 2010, p. 1171), thus pushing disadvantaged groups and people further to the margins of the economy and society.

In addition to the empirical failure of the global development project, recent research on 'alternative development' and 'post-development' has increasingly pointed out that the conceptualisation of linear progressive development itself is, at best, problematic. This is primarily due to the fact that it is grounded in teleological thinking and, rather than allowing for the emergence of complex and multiple non-uniform modernities, produces a falsely dichotomous relationship between 'traditional' and 'modern' modes of existence. These modes are then normatively framed as negative/inferior and positive/superior in relation to each other based on western-centric socioeconomic and socio-cultural forms (Barabantseva, 2012; de Sousa Santos, 2004; Gibson-Graham, 2005; Long, 2001; Tipps, 1973; Wheeler, 2005). Fundamental to this critique is the observation that the knowledge underpinning the concept of development, and the ability to define what development actually means, emerges from regimes marked by unequal structures of power. In the words of Arturo Escobar: 'development has relied exclusively on one knowledge system, namely, the modern Western one. The dominance of this knowledge system has dictated the marginalisation and disqualification of non-Western knowledge systems' (Escobar, 1995, p. 13). In this way, it is the very concept of development itself that is responsible for instigating the further marginalisation and disempowerment of the underdeveloped world, through its control of the knowledge that defines the binary oppositions of margin vs. centre, traditional vs. modern, uncivilised vs. civilised, etc. (Escobar, 1995, 2004; Long, 2001). This situation has resulted in widespread movements both globally and in China, which seek to opt out of the linear progression development paradigm by adopting multiple and sustainable forms of development based on local practices and cultures (Day, 2013; de Sousa Santos, 2004; Escobar, 2004; Gibson-Graham, 2005; Hale, 2013; Morris-Suzuki & Soh, 2017; Wen, 2007).

From this critical perspective, development and underdevelopment are mutually constituted through the (re)production of 'development dichotomies'. These dichotomies are, in turn, composed of sets of interlinking unequal relationships at different levels, which produce the patterns of spatial, material, and temporal marginalisation that characterise the development landscape in China and beyond. Development and underdevelopment – and their corollaries wealth and poverty – are 'created by people [...] one cannot be separated from the other' (Hickel, Brewer, & Kirk,

2015). In the same vein, Charles Tilly coined the term 'durable inequalities' to refer to the most persistent unequal social and historical relationships between individuals, groups, and areas. Tilly's work demonstrates that these inequalities are the result of the 'institutionalization of categorical pairs', such as minority/majority race, male/female, citizen/non-citizen, and – most importantly for this book – urban/rural (Tilly, 1998, p. 8). Consequently, marginalisation is the result of inequality, and cannot be detached from the social and historical contexts that have given rise to its existence. Thus, 'relational marginality' emerges from these unequal dichotomous relationships, and marginal places/people are defined in relation to non-marginal and developed centres. In this way, marginality or 'remoteness is not simply a static condition found somewhere out there beyond the pale; rather, it is always being made, unmade, and transformed [...] edges and remote spaces are intimately bound up in the construction of centres' (Harms et al., 2014, pp. 362, 365). Simply put, a centre can only exist in relation to the margins, just as development can only be understood in relation to underdevelopment (Mosse, 2010; Pfaff-Czarnecka & Kruckenberg, 2017).

It is important to note that these interlinking marginal relationships exist at different levels of analysis. For instance, rural areas are marginal in relation to the city just as a poor village household is marginal in relation to a local elite, or a disempowered family member is marginal in relation to the head of the household. Moreover, these marginal relationships are 'situated in dynamic fields of power' (Harms et al., 2014, p. 364), which are constantly being contested but are, at the same time, shaped by the persistence of historical power imbalances represented by longstanding durable inequalities embedded within sociocultural contexts (Tilly, 1998). Consequently, marginal places and people are characterised by their relative lack of power. This results in their exploitation and exclusion from opportunities and access to resources by elites – referred to by Tilly as 'opportunity hoarding' (Tilly, 1998) – which has obvious implications for the ways in which identities are formed and society is structured. Top-down external development interventions seek to eliminate the various types of exploitation and exclusion resulting from marginalisation. However, the formulation and implementation of these interventions is invariably shaped by the same socioeconomic conditions and relationships that give rise to the very inequalities and imbalances that produce the marginalisation in the first place. In other words, they are embedded within a development paradigm which has given rise to global and local development dichotomies, and are thus constituted within – and play a role in creating – a system that is responsible for (re)producing the 'third world' (Escobar, 1995).

This is particularly evident with interventions that are grounded in a neoliberal version of the linear progression development paradigm – such as microcredit – as they perceive marginalisation and underdevelopment as conditions that arise from a lack of connection with markets located in non-marginal centres. In this way, marginalisation is conceived as being detached from the sets of interlinking unequal relationships, and underlying constellations of power, that have given rise to and sustained it. The condition of marginality is reified and localised by attributing its existence to the inherent characteristics of the people and places that are afflicted with it (Appadurai, 1997; Barabantseva, 2009). Simply put, marginality is de-historicised and de-contextualised – it is depicted as existing in a vacuum out of space and time, and responsibility for its existence is shifted to the marginalised themselves. The implication is that marginal existences can be eliminated by merely transforming the ‘backward’ nature of the afflicted, and strengthening the connections with the very centres that produced – or at least contributed to – their marginalisation in the first place. In the case of microcredit, marginality has been framed as the result of disconnection with the wider market economy, and the remedy is perceived to be the inclusion of marginal areas and actors into the formal financial system by issuing them with formal credit (and debt), thus attending to certain symptoms of marginalisation, while ignoring the underlying causes (Weber, 2006). Therefore, it should be no surprise that attempts to de-marginalise rural areas, groups, and individuals through microcredit or other market-oriented interventions simply shift marginalisation around – reducing it in some places and exacerbating it in others – without actually eliminating it.

## **6.2 The Rural-Urban Dichotomy and Relational Marginality in the Chinese Context**

As stated in Chapter 5, rural and urban areas in China have historically had a dichotomous relationship based on an unequal distribution of power and resources. This has resulted in rural areas being socially and economically constructed as the marginal periphery, while urban areas have been positioned as the modern centres. This durably marginal relationship between rural and urban areas has persisted in paradoxical ways despite ideologically-diverse external attempts to eliminate it over the past century. For instance, throughout the Mao period rural society was subjected to radical restructuring efforts aimed at creating a modern peasantry, rural industry, and industrialised agriculture. At the same time,



however, surpluses were extracted from rural areas in order to facilitate a more ambitious modernisation development agenda in urban areas aimed at catching up with the cities of the 'developed world' (Brown, 2012; Sanders, Chen, & Cao, 2007; N. R. Smith, 2015; H. X. Zhang & Loubere, 2015). In the post-reform era, on the other hand, the adoption of market-based approaches to economic management has resulted in rapid but extremely unequal economic growth, which has allowed for the transformation of China's urban areas into 'modern' cosmopolitan centres that are integrally connected to the world economy. However, this has often been at the expense of rural areas that are left behind and sometimes pushed even further into impoverishment and marginalisation due to their inability to gain access to, or retain, development resources.

Much research has pointed to the liberalisation and marketisation of the rural economy as driving rural development and improving the lives of the peasantry, particularly through the reduction of absolute poverty (Wang, 2013; Yao, 2000; Zhou, 1996). Moreover, the majority (but not all) of the people I spoke to during fieldwork said that their lives had improved over the past decades, particularly pointing to the fact that rural diets had been enhanced with meat being more readily available. That being said, my respondents also uniformly pointed out that the gap between rural and urban areas, and between the rich and the poor locally, had grown at an astounding rate since the reform and opening. This indicates that the market orientation of the Chinese development model has left rural China and its population in a more tenuous position in relation to the rapidly-developing cities, thereby actively exacerbating the historical marginal relationship between rural and urban areas for a number of reasons – albeit to different extents in different places. For one, the encouragement of market-based competition and the application of financialised organisational systems emphasising efficiency and profit over social goals have pushed rural resources and people to flow to more profitable urban areas or risk 'failing' at the margins (Loubere & Zhang, 2015; Sanders et al., 2007). Moreover, local governments have been systematically defunded – or 'hollowed out' – in favour of governments at higher levels, while also coming under increased pressure to achieve financial sustainability and even profitability. This has reduced their capacity to provide rural areas and people with basic and necessary services (G. Smith, 2010; Wen, 2005). At the same time, macro-level historical institutional and structural inequalities and patterns of marginalisation have been maintained or strengthened – such as the dichotomous division of household registration documents into rural and urban – which disadvantages rural actors through various types of policy discrimination, particularly in terms

of work, benefits, resources, and services (Chen & Chun, 2004; Sanders et al., 2007; L. Zhang, 2007).<sup>4</sup> This has resulted in a solidified and more durable unequal relationship between marginal and non-marginal China, which is best represented by what Wen Tiejun refers to as the ‘three big disparities’ – between regions, income, and urban/rural areas (Wen, 2007). At their most extreme, these disparities manifest themselves as seemingly intractable rural impoverishment, and by the early 2000s some nine percent of the rural population was living in a type of absolute poverty that had become ‘increasingly impervious to change’ (Sanders et al., 2007, p. 30).

Market-oriented development has not only made the rural more marginal in relation to the urban, it has also served to exacerbate local inequalities within rural areas themselves. For instance, the widespread privatisation movement in the 1990s and early 2000s has allowed managers and other local elites to buy out or appropriate the profitable TVEs that played a vital role in rural China’s industrialisation throughout the 1980s and early 1990s (Herrmann-Pillath, 2009b), thereby transferring nominally public resources to private hands and creating a class of wealthy rural business elites, often with strong ties to local government. For example, the previous manager of the only natural gas station in the MWT is now its owner and one of the richest people in the township with an annual income of over RMB 1,000,000. He is also the village head of the largest village in the MWT, and has good connections with officials in the township and county.<sup>5</sup>

At the same time, *in situ* urbanisation, or ‘townisation’ (Guldin, 2001), and increased transportation and communication linkages between rural and urban areas have resulted in many rural spaces having a type of ‘remote proximity’ to urban centres (Harms et al., 2014). While this would seem to break down rural-urban dichotomies and reduce marginalisation, in reality the dichotomies shift, but persist, resulting in the rural being both less and more marginalised. This is because only some rural actors are able to link into centres and access certain elements of urban modernity, while others cannot make these connections and are thus left behind, becoming even more marginal in relation to other rural actors and the rapidly developing cities.<sup>6</sup> This situation has both reinforced existing local unequal relationships

4 The reformulation of the rural as a subaltern and marginal space that is lower on the evolutionary scale can also be seen in popular discourse, with terms such as the ‘left behind’ women, children, and elderly being used to depict rural areas as undesirable places only home to those with no escape (Lin, Yin, & Loubere, 2014; Ye, Wang, & Zhang, 2010).

5 Interview 32.

6 At the same time, marginal zones have increasingly emerged in non-marginal urban areas, resulting in slums and the emergence of ‘urban villages’ (*chengzhongcun*).

– e.g. between elite and poor households, farmers, and businesses, etc. – and has also formed new marginal relationships that were not present before the shift to a market-oriented approach. Ultimately, therefore, marginal and non-marginal actors and spaces have been increasingly positioned in close proximity to each other, making the rise of extreme inequality more visible and obvious. At the same time, the transition towards a commercialised mind-set has shifted the responsibility for the unequal nature of these relationships of marginality to the marginal actors themselves, framing them as ‘lazy’, ‘stupid’, or ‘without ability’, and prompting them to ‘work harder’ and to be more ‘clever’ in order to escape from their marginal state (Loubere, 2017d).<sup>7</sup>

The durability and recent exacerbation of the unequal relationship between rural and urban areas was evident during fieldwork. Despite the formation of new socioeconomic and socio-political connections with urban areas (see Chapter 5), it was clear that the townships’ historical marginal positions in relation to the nearby cities had become more entrenched. For instance, township officials in the DET expressed their desire for urban benefits and services to be extended to rural areas in order to reduce the growing rural-urban development gap, and they complained that townships and villages now receive less support from higher levels of government than before, making their jobs much harder. These local officials concluded that programmes like the CXYTH are futile because there are too many rural areas that are very poor, and as urban China gets richer more people will want to move and/or invest there, making it impossible to overcome the historical divide between rural and urban areas.<sup>8</sup> Poor households were also acutely aware of how urban living standards had been improving rapidly in relation to the living standards of those at the margins, and the head of one household expressed his frustration at the extremity of this discrepancy by pointing out that rural people are even marginal in relation to animals in urban areas, saying:

On the TV I often see people [in the city] spending lots of money to raise dogs and cats as pets, but I think they should use this money to help poor people. So many people are very poor and have hard lives; people are more important than animals! If I could get some help I could finish building my house and rent it to increase my income.<sup>9</sup>

7 Conversation 01; Interview 25; Interview 26; Interview 29.

8 Conversation 34.

9 Interview 59.

At the same time, it was uniformly acknowledged that the gap between the rich and the poor had been increasing within all three townships, with interviewees making statements like:

The income gap has been growing. Now there is labour freedom and freedom to earn money. Those with money can earn more money, and those without money will not earn much. The rich get richer and the poor get poorer.<sup>10</sup>

These local inequalities were often simply exacerbated versions of longstanding marginal relationships based on historical hierarchies and structures of power at the local level. Indeed, local socioeconomic stratification was reflected in the division of land after the initiation of the household responsibility system in the early 1980s, as marginal households received farmland of poorer quality and in worse locations.<sup>11</sup> Additionally, township residents with non-local household registration documents were systematically marginalised through exclusion from local services, such as access to healthcare and formal financial institutions.<sup>12</sup> That being said, the market orientation of rural economic management and development strategies has exacerbated this local relational marginality in the three townships in a number of ways. For one, costs have risen across the board while the income of poor households has stagnated. In particular, the cost of food has increased, causing some poor households to have less food security than during the pre-reform period.<sup>13</sup> Additionally, the fees associated with education have risen substantially, making it difficult for poor households to provide for their children's future success, thus creating the conditions for the continuation of relational marginality.<sup>14</sup> One rural resident in the AT explained how the increasing costs had marginalised his household:

How can we improve our living standards? My grandchildren are now in school and I need to pay the tuition fees for them. Next year my grandson will attend high school in the county where the fees will be higher [...] We don't spend much on food. We mainly eat what we grow and sometimes

10 Interview 57.

11 Conversation 07; Interview 17; Interview 33.

12 Interview 64.

13 Rural people often refer to the cost of pork as an indicator of rising living costs and inflation. In 1958 one *jīn* (0.5 kilograms) of pork cost 0.7 *jiao* (0.1 RMB); during fieldwork the price for one *jīn* was RMB 12 (Interview 27).

14 Conversation 34; Interview 26; Interview 51; Interview 76.

buy some meat for our grandchildren. Our main expense has been the schooling fees. Before it was for my children, now for my grandchildren. But now it is too expensive so my granddaughter cannot attend high school.<sup>15</sup>

In addition to food and education, poor households also pointed to housing as a visible indicator of marginality, complaining that their houses were shabby – and sometimes verging on uninhabitable – in relation to the wealthy segments of society who had all built new houses within the past decade. Even when marginal households were able to scrape together enough capital to invest in housing, they were often unable to get permission to build or fix their houses due to their lack of social connections.<sup>16</sup> This situation led the head of one poor household in the MWT to ask: ‘We are all supposed to have a moderately prosperous (*xiaokang*) life now, but how is this possible if we don’t even have adequate housing?’<sup>17</sup>

This local relational marginality was most pronounced in the inequality between farmers and the emerging class of rural entrepreneurs, often with government connections and financed with remittances from migrant work. In the words of one local entrepreneur: ‘The inequality gap in rural areas is widening because some people have businesses, which earn much more money than farming. Farmers have the lowest status, the hardest lives, and earn the least amount of money.’<sup>18</sup> To give a specific example of this socioeconomic disparity, one rural resident in the MWT said:

Since the reform and opening the average income in the village has increased by over 10 times. Now people do not want to farm because farming even one *mu* is very hard work and it can only earn RMB 300 [per month]. In the township the average wage for one day of work is RMB 120-130. My son has opened a roast duck restaurant in Shanxi and in one day he can earn RMB 700-800 – some days he even earns RMB 1,000! Doing business is the best way to earn money.<sup>19</sup>

In other words, households who were not able (or willing) to engage in migrant work or open a business have quickly become severely marginalised in

15 Interview 28. It is important to note the durable gender inequality implicit in this statement, as the little money that is available is utilised to provide the grandson, rather than the granddaughter, with an education.

16 Conversation 38; Interview 33; Interview 52.

17 Interview 36.

18 Interview 30.

19 Interview 17.

relation to those who could.<sup>20</sup> Moreover, the position of farmers has become more precarious since the market reforms of the 1990s led to the closure of the Agricultural Technology Extension Stations (*nongye jishu zhan*) and the Grain Management Offices (*liangguan suo*), which has forced agricultural producers to deal with middle-men on the open market, thereby pushing up the price of agricultural inputs – seed, fertiliser, and pesticides – and pushing down the price of rice.<sup>21</sup> Ultimately, the vast majority of interviewees agreed that farming is hard, risky, backbreaking work, with low remuneration and no security, such as health benefits or a pension. This leaves farmers in a very tenuous situation in the long term as their health invariably fails due to the gruelling nature of the job.

Top-down development interventions aim to reduce these growing inequalities between rural and urban areas, and within rural areas themselves, in order to alleviate some of the most damaging side effects of market liberalisation. However, due to the embeddedness and durability of these development dichotomies at different levels, external interventions have often served to reproduce and strengthen relational marginality rather than eliminate it. Even basic welfare interventions not based on market-oriented rationalities that explicitly target the poor in an attempt to reduce absolute poverty and create a standard level of development have, inevitably, been incorporated into sets of unequal marginal relationships. For instance, the Minimum Living Standard Guarantee Programme (*dibao*), which aims to provide a basic level of income for very poor rural households, did not reach its target group in any of the three townships, and was instead distributed to relatively rich households based on existing socioeconomic networks.<sup>22</sup> In the words of one poor household: ‘We don’t know any officials and have no connections, so we cannot get the minimum living standard guarantee. However, many households that have money and connections are able to get it even though they don’t need it.’<sup>23</sup> Unsurprisingly, therefore, microcredit, as a market-oriented intervention that necessitates the creation of ‘winners’ and ‘losers’, played an even more explicit role in reproducing marginal relationships – both between rural and urban areas and within townships. This ultimately increased risk, distress, and destabilised the livelihoods of marginal actors in a variety of ways. We

20 Interview 60; Interview 66; Interview 70; Interview 78.

21 Interview 58; Interview 74.

22 Interview 17; Interview 21; Interview 33; Interview 34; Interview 37; Interview 44; Interview 52.

23 Interview 51.

now turn to look at how these undercurrents of marginalisation manifested themselves across the three townships.

### 6.3 Microcredit as Resource Diversion and Extraction

Microcredit has actively facilitated the transfer of resources from the marginal to the non-marginal. Chapter 5 illustrates how the three programmes played different roles in countering the notorious ‘scissors gap’ by instigating flows of capital, knowledge, and technology from central to marginal areas. However, because the programmes were embedded within the wider market-oriented financial system that encourages investment in profitable and secure urban areas over less profitable and risky rural ones – and due to the fact that their implementation was shaped by unequal structures of power at the local level – the PAMP, EMP, and RCCMP also facilitated the diversion of resources to local non-marginal actors (often depicted as ‘elite capture’), and the extraction of resources from the villages/townships to urban areas. Ultimately, these processes of diversion and extraction undermined much of the de-marginalisation outlined in Chapter 5.

For instance, while it is true that the PAMP in the MWT and the DET represented an inward flow of financial capital from the more central provincial MoF to the relatively marginal county governments, the funds were originally intended to be disbursed to even more severely marginal poor households. Therefore, the PAMP was effectively diverted from the very marginal to a relatively non-marginal local actor. Similarly, the EMP facilitated capital transfers from the central MoF to local financial institutions in order to pay the interest on loans to marginal actors. However, while this de-marginalising goal was accomplished, in all three townships the EMP required that borrowers have guarantors with connections to the local governments, thus ensuring that only the relatively well-connected and non-marginal local actors would be able to get loans. In the MWT the EMP was only provided to actors with close connections to the township MoHRSS official in charge of implementation and a sufficient amount of savings to ensure repayment. In the AT the FC was composed of the elite village households, including the village secretary. Additionally, the use of the EMP for on-lending in the MWT and DET – primarily to those excluded from the formal financial system – represented the transfer of capital from the marginal (and often desperate, see Section 6.5) to the less marginal through the payment of high interest rates on loans that were originally interest free.

The RCCMP, on the other hand, has nominally served to slow down the direct rural-to-urban capital outflow of RCC deposits that occurred in the 1980s and 1990s by mandating that RCCs lend at least 60 percent of their savings within the township (see Chapter 2).<sup>24</sup> However, with the exception of the DET, the RCCMP funds have largely been funnelled to relatively non-marginal actors, primarily due to the commercial imperative pushing the RCCs to achieve financial sustainability. In the AT, for instance, RCCMP borrowers were required to have a good credit score and the approval of RCC employees. This meant that only relatively rich farmers with substantial resources at their disposal and good local connections were able to get the loans in order to scale-up their activities. In the MWT, on the other hand, the entire amount earmarked for the RCCMP was diverted to the largest construction company. While this did serve to de-marginalise both the company and the RCC manager (see Chapter 5), it also represented a diversion of financial capital meant for rural households and small enterprises to the largest and least marginal business in the township.<sup>25</sup> This has substantially changed the role of the RCCs, as in the 1980s and 1990s farmers were able to get small RCC loans in order to buy seed and fertiliser.<sup>26</sup> One poor household described the situation by saying: ‘Only the rich who don’t need loans can get them but the poor who need them cannot.’<sup>27</sup> And the owner of the MWT construction company conceded that, due to the focus on financial sustainability, the RCC is now ‘suspicious of the poor but loves the rich’ (*xianpin aifu*).<sup>28</sup> Ultimately, therefore, while the three programmes undoubtedly managed to de-marginalise certain local actors in relation to less marginal actors at higher levels, these same beneficiaries could also be considered non-marginal in relation to other more marginal actors, many of whom were the original stated targets of microcredit. Simply put, the microcredit programmes diverted funds towards local ‘winners’, which allowed them to continue to accumulate resources and solidify their

24 The policy clearly states that 60 per cent of local deposits should be lent through the RCCMP. However, one county-level official pointed out that the restructuring of the financial system has put RCCs under the administration of county and provincial unions, saying: ‘All branches of the RCC are part of the same system, so the county can mobilise township savings and redeposit them in a higher level branch... This is not a great help for rural development’ (Interview 07). For more on this restructuring and the de-localisation of the RCCs, see (Loubere & Zhang, 2015).

25 It should be noted that the RCCMP in the MWT also fed into local corruption, as the company was required to spend approximately 10 per cent of the entire loan capital in ‘entertainment’ costs in order to ensure continued receipt of the credit (Interview 45).

26 Interview 17; Interview 32; Interview 34; Interview 35; Interview 36; Interview 51.

27 Interview 33.

28 Interview 45.



local elite status. In this way, the programmes served to reproduce certain marginal relationships, e.g. county vs. household, elite vs. non-elite, business vs. farmer, etc., rather than eliminate them.

As stated in earlier chapters, this is widely depicted as systemic 'elite capture' of subsidised credit (Ong, 2011; Park & Ren, 2001). However, this is misleading for a couple of reasons. First, the elites 'capturing' the microcredit are different in each locality. Therefore, the suggestion of a uniform local elite class does not really exist. Second, these local elites can also be considered to be marginal in relation to actors at higher levels, and since the programmes were designed to be implemented flexibly, they are often just as eligible (if not more so) to receive the credit than more marginal actors, even if they are not the original stated targets. Therefore, 'elite capture' cannot be blamed solely on local corruption or poor implementation, but instead should be understood as a reflection of relational marginality at different levels that is a fundamental feature of the market orientation of microcredit.

In addition to exacerbating local relational marginality through the diversion of microcredit funds, the programmes have also served to aggravate the unequal relationship between the townships and urban areas by facilitating the outflow of valuable resources. For instance, while the largest construction company in the MWT has invested in some local infrastructure projects, thus promoting local employment, the vast majority of its business is conducted outside the township, often in more urbanised areas with higher returns on investment. Moreover, the company primarily invests in speculative infrastructure, such as commercial real estate, rather than more 'productive' transportation or communications infrastructure. In other words, the company essentially takes local capital – primarily local household deposits – and transfers them to less marginal areas in search of quick profit.<sup>29</sup> This trend of investing the loans and/or profit made through the loans outside the townships, often in more profitable urban areas, was common across the programmes and localities. For instance, in the AT some members of the FC used their earnings from the vegetable greenhouses to purchase urban investment properties and RCCMP borrowers used the loans to rent land in neighbouring townships. In the MWT, EMP borrowers often used the loans to invest in businesses outside the township, with some even using the funds to play the stock markets in Shenzhen and Shanghai.<sup>30</sup>

Moreover, even the forms of de-marginalisation resulting from increased socioeconomic and socio-political interconnectedness between

29 Interview 45.

30 Interview 23; Interview 25; Interview 31; Interview 32; Interview 38.

the townships and urban centres/markets outlined in Chapter 5 are not necessarily durable or sustainable. For instance, the owner of the largest components factory in the DET said that his profits have been decreasing due to competition and rising costs, and indicated that in the future he may opt to move to an even more marginal area with lower costs.<sup>31</sup> This would eliminate jobs that local people have come to rely on and extract the investment that was made possible through local deposits and subsidies. The owner of the construction company in the MWT also complained about the 'grey' costs of gaining access to the loans (i.e. bribes and 'entertaining'), and did not rule out moving in the future if a better opportunity arose elsewhere.<sup>32</sup> It was also not clear from the interview whether or not the construction company actually repays the entire loan at the end of each loan term, or if it simply pays the interest and indefinitely postpones the repayment of the loan capital as so often happens with RCC loans to large industry and local governments (Ong, 2006). Therefore, the diversion of the funds earmarked for the RCCMP to the construction company ultimately represents a low return on investment of local deposits – because of the below market interest rate of five percent – that may not even be fully repaid and is, for the most part, not reinvested into the local economy.

While the microcredit programmes did facilitate certain types of knowledge and technology transfers from 'more developed' areas to the townships (see Chapter 5), they also indirectly facilitated the extraction of local talent and associated resources. Children's education was a priority for households across the three townships and paying for school fees and materials often necessitated borrowing money, either from microcredit or informal sources. However, none of the three townships had a high school, meaning that children needed to move to the county in order to study, and attending university obviously entailed moving to the city. Therefore, in order to ensure a high quality education for their children, rural households were required to transfer large amounts of financial capital to urban and peri-urban areas to pay for fees, materials, and living expenses – which are significantly higher than living expenses in the township. This situation also resulted in the most accomplished rural students leaving the township – at least those who could afford to – and often permanently relocating to urban areas for work. While this may have been good for individuals and their households, it also resulted in the extraction of human resources from rural areas, thus further marginalising the townships more generally. Moreover, while some

31 Interview 53.

32 Interview 45.

successful children were able to get good jobs and remit financial capital back to the townships, more often entire rural households and extended families needed to continue to send money to the children to help pay for oppressively expensive housing in the cities, which was seen as a family investment and a necessity in order for the children to find a spouse.<sup>33</sup> In other words, while the loans did aid in the 'self improvement' or 'self de-marginalisation' of local actors through increased access to education, they also facilitated the extraction of money, energy, and skills from the townships to non-rural areas.

These examples point to the fact that the programmes reflected some of the fundamental characteristics of a neoliberal version of the linear progression development paradigm. Namely, that more resources should be distributed to local 'winners' so that they can continue to push forward development through further integration into the market system; and that resources should flow to urban areas where investments are more secure and profitable. In this way, microcredit was a facilitator of flows of capital and knowledge from the centres to the margins, but only within a logic that necessitated the ultimate repatriation of the original resources back to the centre along with additional valuable resources that had previously been held at the local level. This resulted in the overall exacerbation of the marginal relationship between rural and urban areas.

#### 6.4 Microcredit as Elite Capture and Exclusion

At the heart of these processes of diversion and extraction are shifting patterns of socioeconomic inclusion/exclusion at the macro, meso, and local levels, which are implicit in the phenomenon of relational marginality. With regard to microcredit in the three townships, this meant that, while certain actors were 'financially included' and thus de-marginalised through the formation of new socioeconomic/socio-political linkages and integration into the wider market system (see Chapter 5), other actors were simultaneously marginalised due to their exclusion. This inclusion in, or exclusion from, the microcredit programmes often reflected both longstanding durable inequalities and more dynamic unequal relationships based on local contexts and the wider political economy of development.

For instance, microcredit implementation was embedded in the unequal relationship between different levels of government, with higher-level

33 Interview 60.

(more urban) governments often having the ability to dictate inclusion and exclusion from the programmes. Most obviously, the non-implementation of the PAMP in the MWT and DET represents the countywide exclusion of both the townships' PAOs, which should have been responsible for the funds, as well as the poor rural households who should have been the recipients of the credit. County PAO officials justified this exclusion of the more marginal township and village actors by saying that the microcredit funds would be wasted on the poor, marginalised households in the poverty-stricken villages because they did not believe microcredit was an effective development strategy. Instead, they advocated consolidating the microcredit funds at the more-developed county in order to fund development projects whose benefits would 'trickle-down' to the marginal areas/actors in the long term. The unequal relationship between business and farming was also reflected in exclusion from the programmes. This is because farming is an inherently risky activity with relatively low returns on investment. This means that it is difficult for farmers to predict if or when they will be able to repay loans, rendering them unattractive borrowers for officials and financial institutions increasingly pressured to operate in a financially sustainable way. Conversely, businesses – particularly larger businesses – are both more profitable and more able to predict future cash flows, and are thus a safer bet for financial institutions lending based on market logic and requiring repayments on a strict schedule. Finally, non-locals were also systematically excluded from the programmes, as township or county financial institutions required local household registration documents for all loan applications. Notably, this requirement was conspicuously absent with regard to large or wealthy actors, such as the non-local construction company in the MWT or the components factory in the DET. Therefore, in order to engage in entrepreneurial activities, non-elite outsiders either needed to borrow from the financial institutions in their hometowns, or borrow informally at higher rates of interest.<sup>34</sup>

Gender was also an important point of exclusion, as the vast majority of loans were taken out by household heads who were invariably male.<sup>35</sup> This was primarily due to the fact that the institution of the household in rural

34 Conversation 12; Interview 48; Interview 62; Interview 64. Non-locals also find it difficult to borrow informally, as they do not usually have large *guanxi* networks and are thus considered to be untrustworthy.

35 This is in contrast to the global microfinance movement that overwhelmingly targets women operating in joint-liability loan groups in an attempt to promote female empowerment and challenge the durable inequality between the genders (Maclean, 2013; Marr, 2012; Sanyal, 2014) (see Chapter 1).

China, and its formalisation through the household registration system, 'is patriarchal, patrilineal and virilocal' (Jacka, 2013, p. 1001), as marriage requires a female to leave her family and join her husband's family, both physically (often in a different township) and legally (by joining the husband's household registration documents).<sup>36</sup> Since the household registration documents are used to apply for microcredit – or any other loan – the vast majority of loans were disbursed to the head of the household, who was a male. Technically, of course, females could apply for loans themselves, as long as they had a local household registration and met all the requirements. However, in practice, 90 percent of all loans went to males.<sup>37</sup> The subordinate and marginal position of the female within this system is clearly demonstrated by the fact that if a local woman marries an outsider and brings him to live in the township, neither of them can access formal sources of credit locally because they would have a non-local household registration.<sup>38</sup> Moreover, if one member of the household defaults on a loan, then no one else with the same household registration can borrow. This adversely affects females, especially those who are separated from their husbands but not officially divorced.<sup>39</sup>

Inclusion in the programmes was also highly dependent on socioeconomic status, and almost everyone I spoke to confirmed that without *guanxi* it is impossible to get any kind of credit, particularly subsidised microcredit. One household in the AT described this need for social connections to get the RCCMP by saying:

Borrowing from the RCC is very difficult. It is necessary to have a guarantor, and if you want to borrow smoothly you should also have a good relationship with the workers in the RCC. The RCC charges interest, but in addition it is necessary to provide a 'commission' [i.e. a bribe]. The amount of the commission depends on the amount of the loan [...] most households cannot meet the conditions to get a loan.<sup>40</sup>

While the ability to utilise socioeconomic status to get loans often coincided with material wealth, even relatively well-off households were excluded

36 Interview 26; Interview 39.

37 Conversation 34; Interview 07; Interview 10.

38 Interview 62.

39 Interview 61. Separated or divorced women often also lose their rights to joint property, which is, again, often solely in the name of the head of the household (Conversation 23; Interview 42).

40 Interview 24.

from borrowing if they did not have connections with the right people. For instance, the owners of the largest village shop in the AT did not have good connections with the village or township governments, so they were forced to borrow from financial institutions in the county at higher rates of interest and using their car as collateral. When asked if they wanted to access the EMP or RCCMP they said:

Of course we wish we could get this type of microcredit! If we had easy access we could use this money to restock our store and the loans could also be used to purchase pesticides and fertilisers for farming [...] However, we haven't even applied because we have no money, don't know people, and have no *guanxi*, so they will not accept our application [...] if the process was more open and fair we would apply for the EMP.<sup>41</sup>

On the other hand, households with good connections but who did not actually meet the loan criteria were often still included. One such borrower explained this situation by saying:

To apply for the EMP it is necessary to have a laid-off worker certificate. I have no formal employment in a company, and I have a rural household registration, so I could get the certificate, as they didn't know that I have a small shop. It is also necessary to have a guarantor with a formal job whose salary comes from the government [...] My guarantor is the head of family planning in the township. He is a good friend, we often go out drinking together.<sup>42</sup>

Moreover, sometimes those with good connections do not even need to repay, with one household saying: 'Those with good *guanxi* can borrow money from the RCC and never repay because they know the RCC director. RCC directors usually stay for four years, so these people can just wait until the director has gone and then they forget about the loans.'<sup>43</sup> These forms of exclusion both reflected and reinforced local structures of power and pre-existing marginal relationships. They also facilitated the creation and strengthening of linkages between local political/economic elites and individuals/groups at higher levels, thereby making local inequalities more

41 Interview 27.

42 Interview 30.

43 Interview 76.

durable and further marginalising the unconnected through exclusion from credit and from social networks.

At their core, the different patterns of inclusion/exclusion outlined above were characterised by differentiated amounts and types of knowledge. Excluded groups and individuals were often unaware of the existence of microcredit or other formal financial services.<sup>44</sup> At the same time, knowledge about the microcredit programmes was often carefully managed by relatively non-marginal actors, and in some cases this knowledge was clearly considered to be a resource worth protecting. For instance, members of the FC in the AT withheld information about the EMP and their involvement in the programme from other villagers, and one member of the FC even lied to my research assistant and me about his investment in vegetable greenhouses.<sup>45</sup> In the DET the RCC manager refused to speak with me about the RCCMP because he 'did not want too many people to find out about how good the programme is and then apply.'<sup>46</sup> For this reason, only certain actors with the right connections were able to gain knowledge about the different programmes and gain access.<sup>47</sup> In the words of one excluded and knowledgeable actor in the AT: 'I don't know about any microcredit projects. Only the village leaders know about this and they do not publicise it in the village – they will not declare it.'<sup>48</sup>

Even when excluded actors were aware of the programmes' existence, they often lacked the types of modern knowledge necessary to take advantage of microcredit or the formal financial system more generally. Even non-borrowing households with sophisticated understandings of how to use formal finance found the microloan application process to be complex and confusing, with one local entrepreneur in the MWT saying:

The application process [for microcredit] is complicated. You need to provide a business license, bank account information, your identification card, household registration, and other documents. You would think this would allow you to borrow RMB 400,000-500,000, but actually it is only for RMB 100,000. Of course, for wealthy people these conditions will be relaxed.<sup>49</sup>

44 Conversation 09; Conversation 12; Interview 28; Interview 36; Interview 39; Interview 44.

45 Interview 04. We discovered this when looking through loan documents and talking to others in the township.

46 Conversation 22.

47 Interview 35; Interview 39.

48 Interview 28.

49 Interview 40.

Therefore, marginal households without experience in these kinds of applications often dismissed the idea of applying for loans out of hand, saying things like: 'We don't have any education, so we don't understand anything.'<sup>50</sup> This resulted in many of the local poor avoiding the formal financial system altogether and operating primarily in cash, as long-term savings and borrowing with set repayment dates did not fit their lifestyles.<sup>51</sup>

For example, in the DET there was a migrant family of Hui ethnicity (*huizu*) operating a small restaurant. All the family members were illiterate, making it difficult for them to keep track of finances in a 'modern' way and nearly impossible for them to utilise formal financial services. Therefore, rather than save or borrow from formal institutions, they lived day-to-day without a systematic method of accounting. When members of their wider social network – many of whom lived in nearby cities and counties – needed money, they transferred what they could to them. Similarly, when they needed larger lump sums they relied on their social network. However, this was not recorded in a financialised way and, as Muslims, they did not charge or pay interest on these loans. Instead, financial capital was seen as a relatively uncountable resource that existed within the network rather than being owned exclusively by individuals or households.<sup>52</sup> While this form of social and economic organisation suited the Hui household, it was obviously not conducive to borrowing from a formal financial institution. Indeed, in order for them to integrate into the formal financial system they would need to fundamentally transform their mode of socioeconomic organisation.

From the perspective of microcredit, these excluded populations are conceptualised as being temporally marginalised and backward due to their lack of 'financial consciousness' and unwillingness to change the ways in which they utilise socioeconomic resources. The types of knowledge they do possess are considered undeveloped and not useful for inducing a neoliberal version of linear progressive development. This resulted in local society in the three townships being segmented based on differentiated understandings of modern financial services, with some actors having sophisticated knowledge of how to mobilise resources through the formal financial system (some even had credit cards from urban banks),<sup>53</sup> while others have maintained traditional modes of communal financial

50 Conversation 17.

51 Conversation 09; Interview 33; Interview 36; Interview 52.

52 Interview 64.

53 Interview 50.



organisation that are not conducive to participation in the new developed market economy. In this way, knowledge of, and ability to, access microcredit programmes specifically, and the formal financial system more generally, has divided rural areas into 'haves' and 'have-nots' roughly corresponding with the 'winners' and 'losers' that have emerged from marketisation. This has facilitated the further de-marginalisation of local elites at the expense of, and in relation to, the relatively powerless and knowledgeable marginal segments of local society.

At the same time, the lack of a particular kind of developmental knowledge and/or willingness to participate in the modern financial system was not the only reason for exclusion from the programmes. Plenty of local actors were aware of the existence of microcredit and had the modern knowledge necessary to apply, but were either directly excluded through rejection or indirectly excluded in more subtle ways. In particular, much of the exclusion in the three townships was the result of actors excluding themselves from the programmes. In many cases, this was because households relied on remittances and had no use for loans, as they were not engaged in entrepreneurial activities.<sup>54</sup> In the words of one small-scale farming household in the AT: 'We don't need the loan because we are just farmers. We don't want to run a business, so the loan is unnecessary.'<sup>55</sup> Others excluded themselves because the application process for the microcredit programmes was perceived as being too troublesome and time-consuming, and informal sources of credit were easier to access and had lower transaction costs. Two self-excluded local actors in the DET and MWT expressed this sentiment by saying:

I know about the EMP because I saw the government propaganda about the programme, but I think it is too annoying and complicated. First it is necessary to get proof of unemployment from the village, then to apply to the county government. Very troublesome, I don't want it.<sup>56</sup>

And:

Now there are not many people who borrow money from the bank, unless they want to do business. No one borrows money for living expenses. Currently, if you work hard you can survive independently [...] We don't

54 Interview 17; Interview 23; Interview 31; Interview 34; Interview 39; Interview 41; Interview 44.

55 Interview 28.

56 Interview 58.

do business so we don't need a loan. Borrowing from the RCC is very troublesome, I prefer to save my energy and borrow from other sources. It is too annoying and complicated to provide collateral or get a guarantor [...] If I need money urgently, I won't go to the bank, I will borrow from my friends or family.<sup>57</sup>

Many households pooled financial resources within their social networks, and in this way provided and accessed informal sources of credit without interest or delay during times of need. These were informal arrangements but more formalised and financialised than the type of organisation utilised by the Hui migrants mentioned above.<sup>58</sup> Additionally, it is important to mention that many rural households were uninterested in borrowing formally because they did not want to go into debt, which they perceived as risky and potentially dangerous. Households were especially wary of using their houses as collateral, as losing their homes would undoubtedly result in future marginalisation.<sup>59</sup>

As stated above, other households did want to borrow but decided against applying for loans because they knew their applications would be unsuccessful, primarily due to a lack of *guanxi*. These households instead utilised more costly formal loans from the country and/or informal loans from friends and family. However, the poorest and most marginalised households often did not have social networks that they could rely on for informal loans in times of great need. Therefore, despite the knowledge that they would likely be rejected, the most marginal sometimes desperately – and generally unsuccessfully – turned to the microcredit programmes as a source of financial capital in times of crisis. For instance, one poor household in the MWT was in the middle of building a new house when the son became seriously ill, necessitating expensive hospitalisation. The household borrowed from every source available to cover the medical bills and continue building their house, as they were living with a neighbour until the new house was complete. Unfortunately, the amount they were able to borrow from friends and family was not sufficient, so they applied to the RCC for loans numerous times. Unsurprisingly, the RCC rejected every loan application, as the household was not perceived to have the ability to repay,

57 Interview 39.

58 Interview 34; Interview 41; Interview 44; Interview 47; Interview 66. Some local actors did point out, however, that informal loans come with their own transaction costs related to returning the favour, sometimes at inopportune moments (Interview 50; Interview 60).

59 Interview 02; Interview 22; interview 27; Interview 39.

and was, thus, considered to be a risky borrower.<sup>60</sup> This type of rejection and exclusion from microcredit programmes that were supposedly meant for the most marginal segments of society understandably caused resentment and anger, which was often framed in terms of class conflict. For instance, one group of excluded day labourers said:

We cannot get loans. If we want to borrow we need to find a guarantor and have collateral [...] Guarantors must have money, and only those in a good situation can make contact with the RCC – only 10 percent of people are in a good situation, while 90 percent are in a bad situation.<sup>61</sup>

And the disabled head of one of the poorest households in the MWT described his exclusion from microcredit by saying:

It is very difficult for us to borrow money because we have no *guanxi*. The poorer we are, the harder it is to get a loan. The EMP is like the icing on the cake for the rich, but it does not provide the poor with any temporary relief.<sup>62</sup>

Frustration with the RCC was also visually expressed in graffiti playing on official slogans. For instance, in Figure 6.1 below the official slogan stating that the RCC is the ‘rural people’s bank’ was changed to say that the RCC was actually interested in ‘getting rich first’ (or serving the rich). This was obviously a play on Deng Xiaoping’s famous quote – ‘let some people get rich first’ – and highlighted the exclusion implicit in the requirement for RCCs to be financially sustainable and profit seeking. However, during interviews the excluded and marginalised usually stopped short of blaming overarching development policy or the central government. Instead, they pointed the finger at local implementers – holding them accountable for ‘ruining’ good central policies through corrupt local practices.

The examples above illustrate that microcredit has served to consolidate power and resources in the hands of local political and economic elites. At the same time, it has excluded marginal individuals and groups from potentially transformative livelihood opportunities and access to vital capital to cover expenses during crises. The most obvious example of this type of exclusion from opportunity was the EMP in the AT, which allowed

60 Interview 51.

61 Interview 35.

62 Interview 33.

**Figure 6.1** Graffiti on rural credit cooperative advertisement

the 12 members of the FC to invest in highly profitable and risk-reducing vegetable greenhouses. In this case microcredit represented more than just financial capital – it represented inclusion into the developed vanguard at the local level, and many of the villagers took the exclusion personally. For instance, the head of one household described the FC by saying:

Now there are greenhouses made of steel, but we normal people cannot join the FC and plant our crops in them. Only officials and party members can do this. We want to join the FC but are not given a place [...] There isn't any way for us ordinary villagers to participate, we cannot fight with them. In my heart I am unhappy and uncomfortable, but the greenhouses are limited and I cannot join.<sup>63</sup>

63 Interview 28.

Similarly, access to credit was identified as a crucial factor in the ability to go into business, and thus improve livelihoods, with one household stating: 'Doing business is impossible without access to capital.'<sup>64</sup> In other words, excluded households were often relegated to pursuing farm work as a livelihood strategy, which, as stated above, is much less profitable and much more difficult than operating a business.

This type of elite capture is unsurprising as microcredit inherently seeks to fund 'winners' at the local level in order to instigate bottom-up development. In this way, microcredit programmes in rural China are simply a reflection of the wider marketisation of the rural economy and development landscape. Therefore, exclusion from the programmes is better understood as being a symptom, rather than a cause, of marginal relationships at different levels, which are themselves shaped by – and embedded within – the neoliberal version of the linear progression development paradigm. For instance, the systematic devaluation of local modes of socioeconomic organisation and the labelling of local forms of knowledge as 'backward' has created a situation where marginal places and people are not considered to be suitable borrowers. In order for these local populations to achieve the 'modern financial consciousness' necessary to take part in the commercial financial system, they would have to undergo a process of fundamental transformation. In this sense, exclusion from microcredit is just one manifestation of wider socioeconomic exclusion from the 'winning' side of post-reform China's rapid development and modernisation. Many of the excluded rural actors I spoke with, and particularly those who were most desperate to get credit, were already in significant amounts of informal debt to others in the community – often failing to repay for years. They were seeking loans to meet basic needs, to survive, or to get through a crisis. Because of this they did not have a plan for how these loans would be repaid, and they also would have agreed to pay very high rates of interest.<sup>65</sup> To put this another way, many actors were already locked into destructive debt cycles due to their marginal status in relation to successful segments of the society, and the extension of additional credit would have done little to address the underlying reasons for their marginality,<sup>66</sup> and could actually cause more harm than good.<sup>67</sup> Therefore, this chapter does not mean to suggest that

64 Interview 30.

65 Interview 33; Interview 35; Interview 36; Interview 59.

66 This point was made in detail by county-level PAO officials, who suggested expanding basic social services and welfare rather than providing credit. See Chapter 3.

67 See (Taylor, 2012) for an example of how widespread 'financial inclusion' caused devastating results in India.

the solution to the exclusion outlined above is simply inclusion into the microcredit programmes, as in reality this could serve to further marginalise the already marginal and desperate actors described in this section.

## 6.5 Microcredit as Precarity, Risk, and Exploitation

Just as exclusion from microcredit was a reflection of wider marginalisation, inclusion into the programmes was also mediated by marginal relationships at different levels. For this reason even involvement in the microcredit programmes often reinforced social pressure, risk, distress, and the exploitation of marginal actors, thus exacerbating already precarious livelihoods and pushing the relatively powerless further to the margins. For instance, in some cases the microcredit programmes added significant amounts of pressure to the already stressful jobs of local implementers. As stated in Chapter 3 and Chapter 4, implementers in the MWT and the DET saw the EMP as a time-consuming challenge that had the potential to negatively impact their career prospects and future livelihoods, and therefore determined that the implementation of the programme needed to be navigated skilfully. Especially in the MWT, where the EMP had a quota imposed by the county with strict orders to ensure repayment, the local implementer was the marginal actor in relation to his superiors in the county MoHRSS, and was essentially forced to use valuable time and resources in order to ensure that the entire EMP quota was lent out and repaid on time. However, despite the fact that he was required to do all the work and take the risks to his career, it was his relatively non-marginal county superiors who gained all the benefits from the programme in the form of the cash reward from the province for full repayment.

At the same time, microcredit often put significant amounts of pressure on borrowers. Indeed, just as credit has the potential to positively impact livelihoods, its corollary – debt – can represent stress and even danger to borrower livelihoods in certain situations. As stated previously, in all three of the townships, poor and marginal households frequently sought both formal and informal loans to cover livelihood necessities, such as housing, education for children, and medical expenses. These loans were often taken out of desperation, because the households had no other place to turn for the necessary financial capital to cover these expenses. In these cases the poor knew that credit was not the real solution to their problems, and they even tried to avoid debt as much as possible. The head of one marginal household described his perception of debt by saying: ‘When I have no money I think

about borrowing from somewhere, but borrowing means repaying and the interest is very high. I can't repay the interest let alone the capital, so I don't dare to borrow!<sup>68</sup> However, when there was no other option and the need for financial capital was unavoidable, households borrowed where possible, either from formal or informal sources. Unsurprisingly, therefore, marginal households often had great difficulty repaying loans on time or at all. In all three townships there were examples of poor and desperate households borrowing from the microcredit programmes or from informal lenders locally to cover basic expenses and necessary projects. However, credit often only covered parts of their projects – e.g. a half-completed house, part of a medical treatment, etc. Therefore, after default they were left in debt, labelled as untrustworthy for not repaying, and, to make matters worse, had not even fully acquired the thing that they so desperately needed to borrow for in the first place.<sup>69</sup>

Microenterprises also often found the debt from loans to be oppressive, as the earnings from small business could be variable and unpredictable. In this way, microenterprises, similar to farming, were not always suited to strict repayment timetables, and even the subsidised interest could be difficult to repay with meagre profits in a fiercely competitive market. This situation caused stress for small business owners across the three townships – and especially in the DET due to the more easily accessible RCCMP – with some even losing their microenterprises upon default and being forced to turn to more difficult, risky, and less profitable farming.<sup>70</sup> Moreover, because the loan process often took time, businesses were sometimes left in limbo at crucial moments, being forced to go into debt at higher rates of interest from informal sources or sell off assets in order to continue their business balancing act and stay afloat.<sup>71</sup> While the rural financial landscape has traditionally had few formal lending options covering rural households and enterprises during times of need or distress, this is quickly changing with the advent of digital finance and the formalisation of MLCs and VTBs (see Chapter 2). However, these new lenders are often little more than formalised loan sharks, often catering to gambling debts and charging interest rates of over 50 percent per year.<sup>72</sup> As these new commercialised

68 Interview 72.

69 Interview 31; Interview 33; Interview 36; Interview 52; Interview 59; Interview 66. This situation went from bad to worse when a household's main income earner became unable to work or passed away.

70 Conversation 04; Interview 42; Interview 59; Interview 60; Interview 76.

71 Conversation 24; Interview 53.

72 Conversation 35; Conversation 41.

**Figure 6.2** A recently-opened microloan company

institutions start to penetrate the townships, it is possible that rural China may see more financial inclusion. At the same time, however, the expansion of digital lenders, MLCs, and VTBs would likely subject rural areas to the types of exploitative and aggressive lending practices associated with the microcredit industry in other parts of the developing world, which has been widely shown to increase suffering and facilitate further marginalisation (Bateman, 2010; Hickel, 2015; Mader, 2016a; Taylor, 2011).

The distress resulting from exclusion from the programmes, or inclusion resulting in heavy indebtedness with no solution in sight, often led to despair and hopelessness. In this way, microcredit played a role in the formation of marginal livelihood identities that were positioned in subordination to the identities of 'successful' borrowing members of local society. Some of the excluded actors saw their inability to get credit as a symbol of their lower socioeconomic status, and sought to gain access – not for projects or



investment, but in order to feel included in the successful strata of society.<sup>73</sup> The poor were usually embarrassed by their socioeconomic positions and sought to hide their problems from others. For instance, the disabled head of one of the poorest households in the MWT tried to avoid talking about his health or housing problems with others in the village, saying: 'My hardships are something only I know.'<sup>74</sup> When they were able to borrow, the poor were especially embarrassed by their inability to repay, stating that it caused them to lose face with their neighbours and other people with whom they had to interact daily. For instance, the head of one poor household in the DET said:

Because I defaulted on loans in the past I am no longer able to borrow [...] In total I borrowed between RMB 150,000 and 160,000, some from the bank and some informally, including borrowing materials for building my house [...] Now the people I borrowed from come to ask me to repay, but I have no money, I feel very embarrassed.<sup>75</sup>

Perhaps tellingly, these marginal households were often the only ones with revolutionary-period decorations and/or pictures of political leaders from the pre-reform era, such as Mao Zedong and Zhou Enlai). They also often talked about how life was more fair before the reforms and how local political leaders are no longer trustworthy, essentially identifying themselves with the old order as a statement against their exclusion from China's post-reform development.<sup>76</sup> Ultimately, these marginal households were pessimistic about their future, and excluded themselves from the widespread narrative of beneficial progressive development coinciding with rapid economic growth that most people had adopted.

In addition to negatively impacting on the livelihood strategies and outcomes of individuals and households, research has also observed the potential for microcredit to break down local forms of social cohesion, thereby damaging local societies and economies (Bateman, 2010; Maclean, 2010). During fieldwork, both implementers and borrowers echoed this critique by stating that Grameen-style joint-liability loan groups were unsuitable in the context of rural China. Many of them expressed the fear that local 'harmony' (*hexie*) could be damaged if one group member defaulted on a group

73 Interview 35.

74 Interview 33.

75 Interview 59.

76 Interview 33; Interview 51; Interview 59, Interview 72.

loan forcing others to pay their share.<sup>77</sup> However, despite the fact that the programmes shunned the group-lending model, microcredit still managed to subtly undermine social cohesion in the three townships in indirect ways. In particular, as stated in Chapter 5, the provision of microcredit resulted in increased informal lending, including the profit-oriented on-lending of subsidised credit from non-marginal to marginal actors at higher rates of interest. While this was potentially beneficial for actors unable to get formal credit, it also led to usurious and exploitative loan sharking, which took advantage of desperate marginal households with nowhere else to turn. One household described their previous interaction with a loan shark by saying: ‘I borrowed from a loan shark at 2 points. For RMB 10,000 I had to pay RMB 200 per month [24 percent per year].’<sup>78</sup> Others said that loan sharks can even charge interest rates of up to 150 percent annually, either for cash loans or loans of materials and labour for building houses.<sup>79</sup> This type of increased informal financial activity at high rates of interest is premised on the implicit threat of violence – which is a fundamental feature of the creditor/debtor relationship (Graeber, 2011) – and can even result in the emergence (or expansion) of organised crime. I encountered stories of borrowers being physically assaulted after defaulting on informal loans, and one interviewee had suffered a broken arm in the past. Moreover, even if borrowers fled due to default, their families were sometimes subjected to intimidation and even violence.<sup>80</sup> This is because profit-oriented informal lending is frequently accompanied by informal vigilantism to ensure the repayment of debt and interest, thus creating an environment where the relatively wealthy and non-marginal loan sharks are able to consolidate financial capital and power at the expense of often desperate marginal actors. Figure 6.3 and Figure 6.4 – which are photographs taken in the DET on walls facing each other – illustrate this disturbing overlap between informal lending and violence, which undoubtedly has negative implications for social cohesion at the local level.

More dramatic than these examples of microcredit increasing stress and having a negative impact on identities and social cohesion, is the fact that the microcredit programmes were, in some cases, utilised to actively exploit and further marginalise certain segments of local society in all three townships. For instance, the 12-member FC in the AT was only able

77 Conversation 17; Interview 13; Interview 16; Interview 54.

78 Interview 30.

79 Interview 23; Interview 41.

80 Conversation 42; Interview 22; Interview 30.

**Figure 6.3** An advertisement for informal credit



**Figure 6.4** An advertisement for guns



to gain access to the entire quota of 22 loans by falsifying the documents of non-borrowing households and claiming them as fake FC members. This was done with the blessing of the township and county branches of the MoHRSS. The households that were instrumentally used in this way were relatively marginal and powerless, and had no knowledge that their identification documents had been used to apply for loans. In one case, the FC used the information of a low-level administrative worker in the village government. This abuse of power was not difficult, as she was already in a subordinate position in relation to the head of the FC, who was also the village secretary, and her identification documentation was easily available

to every member of the village government. In this way, the FC was able to transfer risk to unwitting marginal villagers while retaining the entirety of the substantial benefits associated with borrowing from the EMP and building the vegetable greenhouses.<sup>81</sup>

Another example of microcredit being used even more maliciously occurred in the MWT seven years before fieldwork and a few years before the construction company arrived to claim the entire RCCMP quota. At this time, a local socioeconomic elite with connections to the township and county governments borrowed a substantial amount of money from the RCC – originally earmarked for the RCCMP – in order to purchase a large tract of farmland in one of the MWT villages and convert it from communal rural land to land for commercial real estate development. Many of the villagers did not want to sell their land, as the village was relatively poor and their livelihoods revolved around farming. However, due to political pressure from above and the high-level *guanxi* of the buyer, they had little choice but to sell for RMB 7,000 per *mu*. The sale was pushed through quickly in order to avoid local protest, but afterwards the villagers discovered that the land was actually worth up to RMB 40,000 per *mu*. To make matters worse, at the time of fieldwork the local elite had still not developed the land, but instead left it vacant and was waiting for the price to rise in order to resell the land in the future. Some of the villagers attempted to return to the land, citing a policy that reverts sold farmland back to the original farmers if it is left undeveloped for a certain number of years. However, the local elite has threatened to destroy their crops. The villagers are now looking into the possibility of submitting a petition (*shangfang*) to the city government or higher.<sup>82</sup> Simply put, in this situation loans from the RCC facilitated the dispossession of land, which was a crucial livelihood resource for the dispossessed, at an unfair level of compensation. At the same time, it also needlessly reduced agricultural production by leaving good farmland unused.

Marginal households were also actively coerced into knowingly going into debt in order to cover costs imposed by more powerful actors. For instance, in the MWT one of the poorest households was pressured to borrow RMB 1,500 informally – because he could not access formal credit – to ‘donate’ to the reconstruction of the village ancestral hall (*zutang*), which was contracted to a company owned by the son of one of the richest and best-connected households in the village. He protested this donation, explaining that he

81 Interview 07; Interview 26.

82 Conversation 16; Conversation 17.

did not even have enough money to fix the holes in the roof of his own house. However, he was told that if he did not pay, his children would not be accepted in the village. After the completion of the ancestral hall, all the names of the donors were listed on a plaque in order of the donation amount (highest to lowest). Since the poor household donated the least, it was last on the list. The head of the household said this embarrassed him and made him lose face. Therefore, in this case informal credit essentially facilitated the transfer of capital from the marginal and poor to a company associated with the non-marginal and rich, and also created a physical symbol of the relational marginality in the village.<sup>83</sup>

In the DET, the party secretary of one of the villages in the township attempted to expropriate some of the residential land of a poorer and more marginal neighbour household in order to enlarge his own house. This resulted in conflict, finally leading to a physical altercation. Ultimately, due to the obvious imbalance in political power between the two households, the head of the marginal household was jailed for two years and required to pay RMB 80,000 to the village secretary for his role in the fight – along with losing the land. Because the household members did not have this sum of money, they were coerced into borrowing from the RCCMP and, in the end, defaulted on the loan. This meant that they were no longer able to borrow from the RCCMP, and therefore were not able to access formal credit to complete the construction of their house. Moreover, even if they had the money, the village secretary has used his connections in the township to make it very difficult for the household to get the necessary permits to continue construction. In other words, this household now lives in a half-completed structure, has no access to formal credit, is severely politically and socially marginalised, and the head of the household cannot find work because of his criminal record. While microcredit did not cause this situation, it did contribute to exacerbating the household's marginalisation.<sup>84</sup>

The examples given above illustrate that, in addition to providing capital, microcredit represents time expenditure and added responsibility on the part of implementers and borrowers. More importantly, we cannot forget that credit necessitates debt, which implicitly has the potential to cause distress and further marginalisation if borrowers are unable to repay for any reason. Moreover, as the microcredit programmes are ultimately reconstituted at the local level through heterogeneous implementation, they are

83 Conversation 04.

84 This interview was extremely emotional and members of the household broke down into tears when explaining their ordeal (Interview 72).

often actively incorporated into local political economies and structures of power, becoming another tool that the non-marginal can use in order to exploit less powerful members of society and push them further to the margins. This results in the continuation of regimes marked by the unequal distribution of livelihood resources and opportunities, thus exacerbating existing marginal relationships.

## 6.6 Conclusion

While Chapter 5 demonstrated that the microcredit programmes have been successful in facilitating various forms of local development and livelihood improvement, thus de-marginalising individuals and groups in the three townships; this chapter shows that these patterns of de-marginalisation only occurred in relation to other undercurrents of marginalisation. In this way, the microcredit programmes contributed to the diversion and extraction of resources from poor to rich areas and actors, the social and economic exclusion of marginal actors, and – more troublingly – the active exploitation of disempowered individuals and groups, pushing them further to the margins of China's modern capitalist socioeconomic system. These undercurrents of marginalisation played a role in reducing the capacity of marginal actors to implement and maintain livelihood strategies, resulting in the production of livelihood identities that have been framed as inferior to the 'successful' non-marginal actors, thus reinforcing 'development dichotomies' at various levels.

The types of marginalisation that were produced and/or strengthened by microcredit varied due to heterogeneous implementation, with different elites taking advantage of the programmes and different types of actors being marginalised depending on the programme and the locality. However, for the most part these forms of marginalisation reflected both local patterns of inequality and power, as well as the wider political economy of development in post-reform China, which is embedded within an increasingly neoliberal version of the linear progression development paradigm. This market-oriented approach to development encourages competition and the creation of 'winners' and 'losers', thus simultaneously producing both marginality and non-marginality in relation to each other. Therefore, the three microcredit programmes ultimately served to shift and transform certain marginal relationships – in some cases reducing the distances between marginal and non-marginal spaces and people, and in other cases expanding, strengthening, or creating new unequal relationships at different

levels. This points to the fact that rural development in China is inherently relational in nature – it is not uniform and equitable, rather ‘the success of some is linked to the failure of others’ (Mosse, 2010, p. 1158). For this reason, impact cannot be understood linearly, but instead must be perceived through the relationships and interfaces of interaction between the actors involved. We now turn to Chapter 7, which will serve as a discussion of the key findings presented in this book, and will outline the implications that an actor-oriented relational approach to understanding development has for microcredit and other market-oriented development interventions in China and beyond.

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## 7 Conclusion

### Abstract

This chapter concludes the book. It outlines the key findings and provides a summary of the main arguments. The chapter ends by examining areas where future research could build on the approaches and findings to further improve our understanding of microcredit and rural development in China and elsewhere.

**Keywords:** China, rural development, microcredit, financial inclusion, marginalisation, relational approach

The very language we use to describe the self-made ideal has these fault lines embedded within it: To ‘pull yourself up by your bootstraps’ is to succeed by dint of your own efforts. But that’s a modern corruption of the phrase’s original meaning. It used to describe a quixotic attempt to achieve an impossibility, not a feat of self-reliance.

– *John Swansburg*<sup>1</sup>

This book represents the distillation, synthesis, and analysis of a large qualitative data set – consisting of systematic observation, interviews, conversations, photos/videos, and a variety of different types of documentary material. This data was collected over more than half a year of in-depth empirical fieldwork, primarily in three townships in rural Jiangxi Province, but also at the county, prefecture, and provincial levels. Through a broad, exploratory, and open research orientation – paired with a grounded methodological design – this research project has sought to texturise and deepen our understanding of how government microcredit is formulated, implemented, and perceived at the local level. In this way, this book departs from conventional mainstream research on microcredit and rural finance

<sup>1</sup> See (Swansburg, 2014).

in China, which is dominated by the disciplines of finance and economics, quantitative and positivistic approaches, normative conceptions of the benefits of financial inclusion, and a focus on systems and/or institutions rather than local actors themselves. This concluding chapter summarises and highlights the main findings, and outlines the key ways in which future research can build on the work in this book – and address its limitations – in order to further improve our understanding of how microcredit programmes in particular, and rural development interventions in general, are implemented at the local level; and the ways in which they facilitate, transform, and/or (re)produce processes of (under)development and (de)marginalisation in the context of rural China and elsewhere.

## 7.1 In Summary

The book began in Chapter 1 by outlining the trajectory of socioeconomic development in rural China since the initiation of economic reforms in the 1970s and detailing the parallel evolution of the global microfinance movement. This was followed by an analysis of the ideological similarities between the two movements – and the wholesale adoption of microcredit as a means of promoting rural development in the country. The chapter then went on to outline the objectives of the book and provide an overview of the methodological approach and field sites. Chapter 2 opened with an historical overview of the transformation of the rural financial system in China since the establishment of the PRC in 1949 in order to contextualise microcredit's place in the dynamic rural financial landscape. This was followed by a comprehensive review of the literature on rural finance and development in the country, ending with a detailed analysis of the key strengths and weaknesses in our current understanding of the nexus between rural finance, local development, and livelihoods.

Chapter 3 outlined the policies and practices of the three microcredit programmes examined in this book – the PAMP, RCCMP, and EMP – based on the empirical fieldwork conducted in the three townships. The chapter began by examining microcredit policy formulation at the national and provincial levels based on analysis of primary policy documents and interviews with government officials. It then identified key areas where the policies have been left relatively open to interpretation, allowing for flexible experimentation by local implementers. The chapter went on to detail the realities of the local implementation of each of the programmes in the three townships – revealing high levels of heterogeneity. Chapter

4 analysed the key reasons for this heterogeneous implementation at the local level. It began by examining the ways in which differentiated financial landscapes and segmented financial markets influenced local interpretations and understandings of microcredit as a resource, before going on to look at how exogenous and endogenous pressures and incentives were internalised in varied ways by local implementers. The final sections of the chapter illustrated how implementation outcomes were complex and emergent –pointing to heterogeneous implementation as being relational in nature, rather than the outcome of top-down linearity.

Chapter 5 and Chapter 6 analysed the ways in which the heterogeneous and emergent implementation resulted in the microcredit programmes facilitating certain processes of development and de-marginalisation, while simultaneously producing and feeding into undercurrents of marginalisation, albeit in different ways across the three localities. Specifically, Chapter 5 began by showing how the programmes have enabled flows of capital, knowledge, and technology from more developed, non-marginal regions and actors to the three townships. The chapter then illustrated the ways in which the programmes have played a role in the formation and strengthening of new socioeconomic and socio-political linkages, while also contributing to the creation of modern modes of employment, cooperation, and inclusion at the local level. This has facilitated the de-marginalisation of some actors and the improvement of certain livelihoods. Chapter 6 responded by detailing the microcredit programmes' simultaneous production of marginalisation. In particular, the chapter pointed to the different ways that the programmes facilitated the diversion and extraction of resources from marginal to non-marginal actors/areas, and the fact that the programmes reflected and reproduced various forms of socioeconomic exclusion at different levels, ultimately exacerbating already precarious livelihoods by transferring risk to marginal actors and facilitating their exploitation in different ways depending on the programme and location.

## 7.2 Key Findings

This book expands our knowledge of how microcredit programmes are implemented, the types of 'impact' they have, and how we should perceive microcredit's role in socioeconomic development and the (re)production of rural livelihoods in China and elsewhere. With regard to implementation, this book illustrates that while microcredit has been increasingly identified as a means of facilitating rural development and de-marginalisation by

the central, provincial, and local governments; the actual implementation and perceptions of the microcredit programmes has been characterised by extreme variation across the three townships and at different points in time. To a certain extent, this heterogeneity can be traced back to the policy formulation of the three programmes at the central and provincial levels. While all three programmes explicitly sought to de-marginalise rural actors, the types of de-marginalisation envisioned varied, and often reflected the shifting development ideologies and priorities that were dominant at the time of their conceptualisation. The PAMP was initiated in the 1980s when rural poverty was seen as the most visible and pressing manifestation of rural marginality. The RCCMP was conceptualised over a decade later at the turn of the century, and reflected the dominant perception that financial inclusion was the answer to de-marginalisation in rural China. The EMP, on the other hand, is the most recent policy addition to China's ongoing financially-oriented rural development efforts, and depicts rural de-marginalisation as being instigated by local entrepreneurship.

All of these visions of microcredit as a facilitator of rural de-marginalisation fit squarely within the linear progression development paradigm. However, they are also flexible, allowing for shifting developmental priorities at different levels. For instance, the PAMP has been reformulated and co-opted by a number of different overarching development frameworks over the course of its existence. At the same time, the policy wording for all the programmes is vague, allowing for local experimentation. This means that both the central formulation and local implementation of the microcredit programmes have been marked by dynamism and influenced by diverse perspectives at different levels, resulting in high levels of variation in implementation outcomes across time and space. Indeed, with all three programmes across all three localities the most recognisable pattern or 'norm was the uniqueness of diversity' (Chambers, 2014, p. 53). Like other research, this book began by outlining some of the key 'variables' contributing to this heterogeneous implementation. This included contextual factors – such as differentiated financial landscapes and differently segmented financial markets. It also included exogenous/endogenous pressures and incentives – such as quotas, career considerations, distributions of power, and time/resource constraints. However, unlike most research on external development interventions in China or elsewhere, this book determines that these variables are themselves dynamic, heterogeneous, and context/time specific. This means that the actual implementation outcomes were not the sum of variables and constants, but the result of a confluence of diverse and unpredictable factors, making it impossible to accurately predict

or generalise key determinants influencing implementation in each case. More significantly, the book concluded that these infinite variables were not equally weighted, and that their importance in shaping implementation was mediated by relational considerations. Simply put, the implementation of the programmes was influenced by a wide range of factors, which were perceived differently by actors at different levels and with different amounts of involvement and power in the programmes. These actors then entered into negotiation with each other, ultimately producing the varied implementation outcomes. These outcomes were not static, but rather dynamic and shifting based on continuous and ongoing negotiations.

Therefore, the implementation of the microcredit programmes can best be characterised as complex, emergent, and inherently relational in nature. This contrasts with dominant mainstream conceptualisations of development interventions as linear – travelling from central formulation to local implementation with clear goals and intended outcomes based on the ‘medical-esque’ diagnosis of a problem that requires ‘treatment’ (Long, 2001). This dominant understanding of linear development perceives heterogeneous implementation as the result of ‘irregularities’ or ‘distortions’ that can – and should – be eliminated through strict adherence to ‘best practice’. The heterogeneous implementation marked by high levels of complexity outlined in this book, however, illustrates that development interventions in general, and microcredit programmes in particular, should actually be understood as ‘self-organising systems on the edge of chaos’ (Chambers, 2008, p. 174). This is because any external intervention is ultimately locally internalised and reconstituted, and thus transformed into a local ‘socially constructed and negotiated process, not simply the execution of an already-specified plan of action with expected outcomes’ (Long, 1999, p. 4). In other words, attempting to determine sets of ‘constants’, ‘variables’, and ‘determinants’ represents the application of unsuitable natural science methods to dynamic and complex social situations, thereby creating oversimplification and misleading analyses. Rather, development interventions such as microcredit need to be understood as more than the sum of their parts – emergent from relational processes that are co-produced at the interfaces of interaction between diverse actors.

This book has also illustrated how the complex, emergent, and heterogeneous implementation of the microcredit programmes in the three townships has necessarily resulted in differentiated and paradoxical ‘impact’. This means that the programmes played a variety of very different roles in local development strategies and the livelihoods of diverse local actors. Rather than inducing some uniform vision of development and de-marginalisation through a top-down linear causal chain of events, the programmes instead tended to



reflect different perceptions of what development and de-marginalisation actually entails. This, again, emerged from the negotiations between different actors based on their interpretations of the wider political economy of development. In this way, the roles of the programmes – while still situated within the linear progression development paradigm – were largely framed by local contexts and/or the individuals and groups who wielded the most power in negotiations over implementation. For instance, in the AT the EMP and RCCMP were utilised to finance different types of investment in agriculture, in the MWT microcredit was diverted to large industry, and in the DET the programmes largely funded microenterprises and SMEs. In other words, in the same way as the processes of implementation, microcredit utilisation and the resultant impacts were complex, emergent, and basically unpredictable, as the programmes became facilitators of (de)marginalisation for distinctly different sectors, groups, and individuals in each of the three localities.

These complex impacts fed into processes of uneven development, resulting in paradoxical outcomes. Indeed, rather than eliminating development dichotomies, microcredit actively reproduced and strengthened marginal relationships and unequal structures of power at different levels. Therefore, instead of playing beneficial roles in development and livelihoods, the programmes produced contradictory ‘impacts’ by enabling de-marginalisation for some, while simultaneously feeding into undercurrents of marginalisation for others. While the programmes can be credited with facilitating flows of capital, knowledge, and technology from central to local areas and actors, the formation of new socioeconomic and socio-political linkages, and the promotion of new forms of employment, cooperation, and inclusion; they also allowed for the diversion and extraction of rural resources, produced various types of socioeconomic exclusion, and played a role in the exacerbation of livelihood precarity by enabling the exploitation of marginal actors. In this way, microcredit largely reflected China’s paradoxical development landscape by reproducing both dynamic and durable inequalities at different levels, albeit in diverse ways across the three localities. Ultimately, therefore, both implementation and impact were complex, emergent, and inherently relational in nature. This resulted in multidimensional, dynamic, and unpredictable outcomes, which were perceived as beneficial by some and detrimental by others, rendering attempts at aggregate generalisation about impact meaningless.

The findings outlined above contradict the dominant understanding of development as ‘emanating primarily from external centres of power via interventions by the state or international bodies, and following some broadly determined developmental path, signposted by “stages of development”’, and instead expose the linear progression development paradigm as being

'tainted by determinist, linear and externalist views of social change' (Long, 2001, pp. 10-11). Moreover, and more importantly, these findings point to the fact that the very marginality that microcredit and other development interventions seek to eliminate is itself the product of unequal relationships at different levels, which are mutually constituted and co-produced at the interfaces of interaction between different actors and areas. These patterns of inequality, marginality, and the ensuing exploitation and impoverishment are 'not just part of nature' (Kirk, Brewer, & Hickel, 2015, p. N/A) – i.e. stages that can be evolved out of – but are, instead, socially constructed within regimes characterised by differentiated structures of power and subordination.

The relational and dichotomously mutually-constituted nature of the concepts of development and underdevelopment, centrality and marginality, prosperity and impoverishment, etc., is particularly evident in the neoliberal version of the linear progression development paradigm – embodied by microcredit and adopted by China since the reform and opening. This is because neoliberal linear progressive development explicitly necessitates the production of 'winners' and 'losers' in the quest to instigate developmental progress. It is an unavoidable zero-sum game due to 'the difficult fact that the processes that allow some to escape from poverty traps are the same that allow the exploitation of others' (Mosse, 2010, p. 1172). In the words of Henry Bernstein: 'there are no win-win solutions within capitalism' (Bernstein, 2010, p. 98). From this perspective, neoliberal linear progressive development is itself responsible for the continued production of the 'third world' that it purports to be in the process of eliminating (Escobar, 1995).

Microcredit is 'the neoliberal development strategy par excellence' (Hickel, 2015, p. N/A), as it depicts underdevelopment and marginalisation as simply being the result of exclusion from the market system. Reasons for this exclusion are framed as local issues, such as the spatial marginality of a given locality due to its distance from developed centres, and/or temporal marginality resulting from the 'backward' mentalities of the local inhabitants. Discussions of power disparities and exploitation are also limited to the local level, where 'traditional' perceptions of gender and class, or established local power structures, are blamed for exclusion from the all-empowering market. Expanding the provision of credit, therefore, is depicted as essentially de-marginalising in and of itself, as it brings those on the margins into the formal financial system, thereby integrating them into the wider capitalist economy. This inclusion is also seen to have the potential to transform the 'backward' and 'traditional' attitudes and habits of the marginal populace into modern ones of higher 'quality' (*suzhi*), thus smoothing over inequalities in opportunity created by local power disparities.

In other words, microcredit does not perceive marginality and poverty 'as a consequence of a particular way in which society is organised through relations of power and domination [...] [but] as the consequences of unfulfilled market potentials' (Weber, 2006, p. 44). By individualising and localising the causes of marginality, microcredit effectively ignores the wider structures of power and durable inequalities that are ultimately responsible for the production of marginalisation. This individualisation of developmental responsibility obscures microcredit's role as a financing mechanism – and creator of debt – for a system that requires the creation of 'winners' at the expense of 'losers'. In reality, this means that microcredit providers either have to exclude some 'unsuitable' borrowers at the local level due to their perceived inability to repay, or lend to everyone and accept the fact that some projects will fail, resulting in the exacerbation of the precarity of already marginal livelihoods. In this way, microcredit ascribes unrealistic de-marginalising abilities to the 'free market', ignoring the fact that economic liberalisation often benefits the already powerful. To put this another way and return to the quotation at the beginning of Chapter 6, 'microfinance does not simply smooth over contemporary processes of agrarian change. Rather, it tends to reflect and reproduce their central contradictions and power dynamics' (Taylor, 2012, p. 609).

Ultimately, therefore, while microcredit undoubtedly has the ability to produce certain forms of de-marginalisation for some areas and actors, it is also the reflection of sets of interlocking and mutually constituted 'development dichotomies', and thereby necessitates the (re)production of durable inequalities and marginal relationships at different levels. This means that microcredit does not have the ability to eliminate marginality or underdevelopment, regardless of whether or not 'best practices' are followed, but instead can only diminish some marginal relationships while strengthening others or creating new ones. This fundamental inability of microcredit to address the underlying reasons for the production of marginality was perhaps most concisely expressed by the head of one poor household in the AT in response to a question about how microcredit could better serve him and other marginal actors in the community:

I don't have any recommendations. We cannot afford to buy a house, we have just enough to eat and no money saved. Even if the village built a credit union it wouldn't help. Without a basic amount of money, there is no help for normal villagers.<sup>2</sup>

2 Interview 28.

Microcredit does not just fail in its goal, however. It also systematically shifts the responsibility for development and de-marginalisation to the poor and marginal themselves, thus inherently exacerbating their precarity (Loubere, 2017d). This mirrors the increasingly commercialised development orientation in rural China over the past decades, within which individuals have been made responsible for their own development, with ‘self-sufficiency’ becoming a primary goal. This has rendered ‘humanistic modernisation’ (*rende xiandaihua*) and the improvement of ‘quality’ (*suzhi*) individual imperatives and even patriotic duties (Barabantseva, 2009; Murphy, 2004), thus putting the onus on marginal actors to change their own socioeconomic conditions by ‘pulling themselves up by their own bootstraps’. In this way, marginality is effectively de-historicised and de-contextualised through the obfuscation of the unequal relationships of power that gave rise to it in the first place – thereby rendering marginalisation a technical, rather than relational, issue (Kirk et al., 2015; Li, 2007). This not only lets those responsible for the marginalisation of others off the hook, but it also recasts them as the providers of development resources and knowledge. Those at the margins become *indebted* to the prosperous centres, which are *given credit* for lending out the ‘gift of development’ (Yeh, 2013). In return for this *development on loan*, marginalised people are expected to display gratitude, obedience, and further integrate themselves into the exploitative socioeconomic system. This mirrors the ways in which microcredit reinforces social codes of shame and honour in Bangladesh (Karim, 2011), promotes marketised conceptions of freedom in India (Guérin & Kumar, 2017) and facilitates multiple forms of dispossession in Egypt (Elyachar, 2005).

Implicit in these multi-tiered debt relations between the margins and the centre is an imperative to convert and transform – a form of economic proselytism that reflects wider civilisational and modernising imperatives at work in contemporary China (Barmé & Goldkorn, 2013). Marginal groups and areas must abandon their ‘backward’ modes of socioeconomic organisation and adopt the behaviours and mindsets necessary to participate in the modern financial system. At one level, this means that marginal groups must be taught things, such as ‘financial literacy’ in order to improve their ‘financial decision making’. In the words of the World Bank: ‘It is possible to enhance financial capability – financial knowledge, skills, attitudes, and behaviors – through well-designed, targeted interventions. Financial education has a measurable impact if it reaches people during teachable moments [...]’ (World Bank, 2014, pp. 3-4). However, this transformational imperative goes beyond simply learning new skills and behaviours, and instead implies the need to instil an entirely new ‘financial consciousness’

in marginal subjects. The promise of microcredit and financial inclusion is not only that those at the margins will gain access to previously inaccessible resources, but that they will also become enlightened and able to reach their full human potential. They are transformed through their integration into the formal financial system from 'backward' people who were unable to make sound economic decisions, to highly-functioning rational actors operating based on superior market logics. In the words of Muhammad Yunus:

The first and foremost task of development is to turn on the engine of creativity inside each person [...] This is why Grameen Bank offers the poor not handouts or grants but credit – loans they must repay, with interest, through their own productive work [...] It also helps the poor demonstrate to themselves that they can change their world for the better – and it gives them the tools to do just that, for themselves (Yunus & Weber, 2007, p. 56).

Conceptualising microcredit as a form of conversion therapy reveals that financial inclusion is not actually inclusive, as it systematically subordinates certain forms of socioeconomic knowledge and organisation, and requires adherence to a uniform mode of operation. The creative energies referred to by Yunus can only be channelled into a specific type of economic activity circumscribed and mediated by the market. Traditional forms of financial knowledge and activity – often characterised by informality and non-individualised logics – are framed as being incompatible with the modern operations of the formal financial system, and must be discarded. From this perspective, financial inclusion represents a potentially destructive act of cultural transfiguration. This is most obviously illustrated by the Hui migrant family in the MWT discussed in Chapter 6. In order to successfully integrate into the formal financial system they would have to forsake their own mode of financial organisation, which was rooted in uncountable and informal communal relations. They would also have to disregard certain aspects of their religious faith dictating that they cannot lend or borrow at interest. While not all local informal institutions are dismantled by the expansion of the formal financial system, few are left completely untouched by financialised logics that accompany economic integration. This is significant because it is often informal local institutions and arrangements that provide the most effective means of forming solidarity and contesting unequal power relations through collective action. Microcredit suppresses the informal collective in favour of the mythical individual entrepreneur,

and in this way feeds into wider developmental processes that reduce the capacity of those on the margins to challenge the long-running historical socioeconomic relations that gave rise to their marginality in the first place.

In sum, microcredit is a key component in a development ideology that creates the very marginalisation and underdevelopment that it purportedly seeks to eliminate. Therefore, while we cannot generalise about how microcredit programmes will be implemented at the local level or predict the precise patterns of impact that they will produce in different contexts, this book has clearly illustrated that microcredit seeks to address the symptoms of systemic marginalisation, while not only ignoring the fundamental causes that it is implicated in creating, but also shifting responsibility for them to marginal actors and demanding their transformation. Simply put, microcredit does not produce any 'win-win' or net reduction in marginality, but is instead embedded within, and contributes to, shifting patterns of marginalisation and underdevelopment at the local level.

### 7.3 Directions for Future Research

This book represents an initial attempt to explore government microcredit in China in a grounded holistic way, and therefore has its own limitations and areas that require further scrutiny. Future research on microcredit and rural development – both in China and globally – can build on the findings presented here and address some of the study's limitations in a number of important ways. Firstly, future research should be aware from the outset of the need to be more reflexive and critical of the normative categories underpinning the concepts of development, modernisation, and de-marginalisation, which are primarily defined by (neo)classical economic theories and an 'ethnocentric "Western" model of social behaviour based upon the individualism of "utilitarian man" that rides roughshod over the specificities of culture and context' (Long, 2001, p. 14). In particular, future research should move away from the misleading characterisation of underdevelopment, marginalisation, and poverty as necessary stages of development that can simply be progressed out of by identifying models to emulate or 'best practices' to follow. As stated above, this linear and universalist understanding of progressive development de-historicises and de-contextualises the 'afflictions' of underdevelopment and marginalisation, essentially detaching them from the very conditions that result in their production. Therefore, future research should take care to conceptualise underdevelopment, marginality, and poverty as relational issues that are

produced at the interfaces of interaction between actors at different levels, and across time and space (Escobar, 1995; Mosse, 2010).

This shift towards an actor-oriented relational approach to understanding development and marginality will allow for a more nuanced, historicised, contextualised, and realistic depiction of the processes involved in implementing development interventions in general, and microcredit programmes in particular, as well as their complex and multidimensional outcomes and impacts. Future inquiry could enrich this approach by drawing on research in a variety of fields and disciplines. For instance, research on decision making in behavioural psychology could complement and improve our understanding of implementers as 'street-level bureaucrats' by shining a light on how individual perceptions and group dynamics shape implementation at the local level (Kahneman, 2012; Kahneman & Tversky, 1979; Lipsky, 1980; Tversky & Kahneman, 1992). At the same time, by drawing more heavily on the classic literature on 'unintended consequences' in the field of global development (Hirschman, 1967), alongside a deeper engagement with the emerging body of research on 'complexity theory' in both the natural and social sciences – focusing on chaos, self-organising systems, non-linearity, and emergence – future research could potentially create a framework for understanding heterogeneity, both with regard to implementation and impact (Chambers & Loubere, 2017; Escobar, 2004; Hobbes, 2014; Ramalingam, 2013).

Additionally, the issue of multidimensional power needs to be placed at the centre of inquiry. Too often the current body of research frames power as two-dimensional, depicting local structures of power as adhering to a uniform – thus predictable – hierarchy, and framing the local powerful 'elite' as the biggest threat to successful microcredit implementation due to their *homo economicus*-induced lust for subsidised credit. This ignores the ways in which unequal power relationships manifest themselves in diverse ways at different levels, resulting in dynamic patterns of marginalisation and differentiated developmental landscapes within which the programmes are formulated and implemented. Therefore, it is crucial that future research draws on the established body of literature on multidimensional power, which explores diverse forms of durable inequality and exploitation (Foucault, 1982; Hathaway, 2016; Lukes, 2005; Mosse, 2010; Tilly, 1998), in order to better understand the unequal marginal relationships that underpin microcredit implementation and outcomes. This is of particular importance as a means of critiquing the notion of 'empowerment' as being one of the results of microcredit, which ignores the fact that the relationship between creditor and debtor is inherently unequal and implicitly premised on the

threat of violence. In the words of David Graeber: 'there's no better way to justify relations founded on violence, to make such relations seem moral, than by reframing them in the language of debt [...] because it immediately makes it seem that it's the victim who's doing something wrong' (Graeber, 2011).

In order to shift from a linear to a relational mode of inquiry, future research could also build on and improve the grounded ethnographic methodological approach and specific methods employed and pioneered in this research project. In particular, projects exploring microcredit or other development interventions could utilise, adapt, and improve the Systematic and Reflexive Interviewing and Reporting (SRIR) method, in order to better map complex marginal relationships at the local level (Loubere, 2017c). In particular, the application of participatory methodological approaches could provide a fruitful basis for adapting the methods employed in the research for this book. For instance, 'systematic interview reports' could be co-produced in participatory groups and 'reflexive dialogues' could be expanded to include research subjects as well as researchers. Moreover, other participatory methods could be utilised, such as participatory wealth ranking, transect walks, participatory mapping, participatory video/photography, etc. (Chambers & Loubere, 2017; Shah, 2016), which would serve to provide a more nuanced depiction of how local people perceive the webs of marginal relationships that shape their development landscapes. At the same time, the detailed ethnographic portraits produced by the methods described above could be strengthened and corroborated by quantitative methods, such as participatory statistics and network analysis (Holland, 2013; Scott, 2012). Traditional statistical methods could also be utilised to explore marginal relationships at the meso and macro levels by mapping out flows of capital and other resources between rural and urban areas/actors, thereby providing a clearer picture of the processes underpinning the wider political economy of development. While this still would not allow for aggregate generalisation, it would provide the means to theorise at multiple levels and extrapolate more precise understandings of the role that microcredit plays in different development landscapes. Ideally, therefore, future research projects would involve larger research teams operating in a variety of localities, at different levels, and employing mixed-methods approaches. These teams could systematically adapt and improve some of the basic methodologies utilised in this book in order to map out marginal relationships across China and within localities, thereby more completely outlining where processes of marginalisation emerge from, how they manifest themselves across time and space, and how different development interventions engage with marginality at different levels.



Rural China's financial and development landscapes are in a state of rapid and sustained flux. This points to the need for continued research that engages with these processes in-depth, but also quickly produces outputs that keep up with the dynamism of the environment. For this reason, research projects should look back to some of the key principles of RRA (Chambers, 1994, 2008; Chambers & Loubere, 2017), and also utilise quick and open access dissemination mediums. This issue is most obviously highlighted by the fact that recent major shifts in the systemic and ideological structuring of the rural financial landscape – such as the introduction of the EMP, the legalisation of new commercialised and cooperative financial service providers (MLCs, VTBs, and RMCCs), the increased prevalence of the 'financial systems approach' as the operational principle of traditional financial service providers, the introduction (or return) of state-owned commercial banks to the countryside, and the advent of digital finance – have not yet been the subject of much in-depth research in English. Considering the importance that financial systems and institutions play in promoting different versions of development – and the potential they have to cause serious crisis, even destroying local and national economies, and exacerbating inequality and marginalisation – there can be no doubt that China's rapidly shifting rural financial terrain needs to be continuously and vigilantly monitored. At the same time, our understanding of what financial systems and services mean for local development and livelihoods needs to be broadened, and the perspectives and voices of all the actors involved – especially the most marginal – need to be recorded, represented, and analysed in a more balanced way going forward.

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# Acronyms

<b>Acronym</b>	<b>Full Term</b>	<b>Chinese</b>	<b>Pinyin</b>
ABC	Agricultural Bank of China	中国农业银行	<i>Zhongguo nongye yinhang</i>
ADBC	Agricultural Development Bank of China	中国农业发展银行	<i>Zhongguo nongye fazhan yinhang</i>
ARDY	Association for Rural Development of Yilong	仪陇县乡村发展协会	<i>Yilongxian xiangcun fazhan xiehui</i>
AT	Agricultural Township	N/A	N/A
BoC	Bank of China	中国银行	<i>Zhongguo yinhang</i>
CAM	China Association of Microfinance	中国小额信贷联盟	<i>Zhongguo xiao'e xindai lianmeng</i>
CASS-RDI	Chinese Academy of Social Sciences – Rural Development Institute	中国社会科学院-农村发展研究所	<i>Zhongguo shehui kexueyuan – nongcun fazhan yanjiusuo</i>
CBRC	China Banking Regulatory Commission	中国银行业监督管理委员会	<i>Zhongguo yinhangye jiandu guanli weiyuanhui</i>
CCB	China Construction Bank	中国建设银行	<i>Zhongguo jianshe yinhang</i>
CCP	Chinese Communist Party	中国共产党	<i>Zhongguo gongchandang</i>
CFPA	China Foundation for Poverty Alleviation	中国扶贫基金会	<i>Zhongguo fupin jijinhui</i>
CXYTH	Urban-Rural Integration	城乡一体化	<i>chengxiang yitihua</i>
DET	Diverse Economy Township	N/A	N/A
EMP	Employment Microcredit Programme	下岗失业再就业小额担保贷款	<i>xiagang shiye zaijiuye xiao'e danbao daikuan</i>
FC	Farmer Cooperative	农民专业合作社	<i>nongmin zhuanYe hezuoshe</i>
FPC	Funding the Poor Cooperative	北京市农发扶贫基金会	<i>Beijingshi nongfa fupin jijinhui</i>
ICBC	Industrial and Commercial Bank of China	中国工商银行	<i>Zhongguo gongshang yinhang</i>
MCA	Ministry of Civil Affairs	民政部	<i>minzhengbu</i>
MFI	Microfinance Institution	小额信贷机构	<i>xiao'e xindai jigou</i>

<b>Acronym</b>	<b>Full Term</b>	<b>Chinese</b>	<b>Pinyin</b>
MLC	Microloan Company	小额贷款公司	<i>xiao'e daikuan gongsi</i>
MoA	Ministry of Agriculture	农业部	<i>nongyebu</i>
MoF	Ministry of Finance	财政部	<i>caizhengbu</i>
MoFCOM	Ministry of Commerce	商务部	<i>shangwubu</i>
MoHRSS	Ministry of Human Resources and Social Security	人力资源和社会保障部	<i>renli ziyuan he shehui baozhangbu</i>
MoLSS	Ministry of Labour and Social Security	劳动和社会保障部	<i>laodong he shehui baozhangbu</i>
MWT	Migrant Work Township	N/A	N/A
NGO	Non-Governmental Organisation	非政府组织	<i>fei zhengfu zuzhi</i>
NPO	Non-Profit Organisation	非营利组织	<i>fei yingli zuzhi</i>
PAMP	Poverty Alleviation Microcredit Programme	国家扶贫贴息贷款	<i>guojia fupin tiexi daikuan</i>
PAO	Poverty Alleviation Office	扶贫办公室	<i>fupin bangongshi</i>
PBC	People's Bank of China	中国人民银行	<i>Zhongguo renmin yinhang</i>
PRC	People's Republic of China	中华人民共和国	<i>Zhonghua renmin gongheguo</i>
PSBC	Postal Savings Bank of China	中国邮政储蓄银行	<i>Zhongguo youzheng chuxu yinhang</i>
PSRB	Postal Savings and Remittance Bureau	邮政储汇局	<i>youzheng chuhuiju</i>
RCC	Rural Credit Cooperative	农村信用社	<i>nongcun xinyongshe</i>
RCCMP	Rural Credit Cooperative Microcredit Programme	农户小额信用贷款	<i>nonghu xiao'e xinyong daikuan</i>
RCF	Rural Cooperative Foundation	农村合作基金会	<i>nongcun hezuo jijinhui</i>
RCT	Randomised Control Trial	随机对照试验	<i>suiji duizhao shiyan</i>
RMCC	Rural Mutual Credit Cooperative	村镇资金互助社	<i>cunzhen zijin huzhushe</i>
ROSCA	Rotating Savings and Credit Association	互助会/标会/做会/呈会	<i>huzhuhui/biaohui/zuohui/chenghui</i>
RRA	Rapid Rural Appraisal	N/A	N/A
SETC	State Economic and Trade Commission	国家经济贸易委员会	<i>guojia jingji maoyi weiyuanhui</i>

<b>Acronym</b>	<b>Full Term</b>	<b>Chinese</b>	<b>Pinyin</b>
SME	Small and Medium Enterprise	中小型企业	<i>zhongxiaoxing qiye</i>
SOE	State-owned Enterprise	国有企业	<i>gouyou qiye</i>
TVE	Township and Village Enterprise	乡镇企业	<i>xiangzhen qiye</i>
VTB	Village and Township Bank	村镇银行	<i>cunzhen yinhang</i>
XNCJS	Construction of a New Socialist Countryside	社会主义新农村建设	<i>shehuizhuyi xinnongcun jianshe</i>





# Glossary of Chinese Terms

<b>Pinyin</b>	<b>Chinese</b>	<b>English</b>
<i>bainian guochi</i>	百年国耻	Century of humiliation
<i>bao</i>	报	Reciprocity
<i>chai xi qiang, bu dong qiang</i>	拆西墙，补东墙	Destroying the west wall to build the east wall
<i>chaxu geju</i>	差序格局	The differential mode of association
<i>chengshi shouxin</i>	诚实守信	Honest and trustworthy
<i>chengzhongcun</i>	城中村	Urban village
<i>cun</i>	村	Village
<i>da yuejin</i>	大跃进	Great Leap Forward
<i>danbaoren</i>	担保人	Guarantor
<i>danwei</i>	单位	Work unit
<i>daxuesheng cunquan</i>	大学生村官	Student cadre
<i>Deng Xiaoping lilun</i>	邓小平理论	Deng Xiaoping theory
<i>dianxing jingyan</i>	典型经验	Model experience
<i>dibao</i>	低保	Minimum living standard guarantee
<i>diya</i>	抵押	Collateral
<i>fali</i>	法理	Law and reason
<i>fanxiang nongmingong</i>	返乡农民工	Returning migrant workers
<i>fuchi pinkun cun</i>	扶持贫困村	Poverty-stricken village
<i>gaige kaifang</i>	改革开放	Reform and opening
<i>ganbu zeren zhi</i>	干部责任制	Cadre Responsibility System
<i>ganjue</i>	感觉	Feeling
<i>ganqing</i>	感情	Human feeling
<i>genju shiji qingkuang</i>	根据实际情况	Based on actual/local conditions
<i>gongxiao hezuoshe</i>	供销合作社	Supply and marketing cooperatives
<i>gua paizi danwei</i>	挂牌子单位	Hanging sign work unit
<i>guanxi</i>	关系	Social connection
<i>guanxi wang</i>	关系网	Social networks
<i>guojia baqi fupin gongjian jihua</i>	国家八七扶贫攻坚计划	8-7 national poverty reduction programme

<b>Pinyin</b>	<b>Chinese</b>	<b>English</b>
<i>guojia fagaiwei</i>	国家发改委	National Development and Reform Commission
<i>guoqing jue ding</i>	国情决定	National conditions
<i>guoyou qiye gaige</i>	国有企业改革	Reform and privatisation of SOEs (mainly in the late 1990s)
<i>hexie shehui</i>	和谐社会	Harmonious society
<i>Huizhou</i>	徽州	Huizhou region straddling southern Anhui Province and northern Jiangxi Province
<i>Huizu</i>	回族	Hui ethnicity
<i>hukou ben</i>	户口本	Household registration documents
<i>jia he wanshi xing</i>	家和万事兴	Harmonious familial relations
<i>jiao</i>	角	RMB 0.1
<i>jiating lianchan chengbao zerenzhi</i>	家庭联产承包责任制	Household Responsibility System
<i>jin</i>	斤	0.5 kilograms
<i>kexue fazhan guan</i>	科学发展观	Scientific development concept
<i>laobaixing</i>	老百姓	Regular people
<i>liangguan suo</i>	粮管所	Grain management office
<i>lishang wanglai</i>	礼尚往来	Reciprocity
<i>lisu</i>	礼俗	Rituals and customs
<i>mamu</i>	麻木	Numbness
<i>meiyou wenhua</i>	没有文化	Uncultured/backward
<i>mu</i>	亩	Land measurement (1/15 of a hectare)
<i>nengli</i>	能力	Ability
<i>nengren</i>	能人	Capable person
<i>nongcun</i>	农村	Rural areas
<i>nongmin</i>	农民	Farmers
<i>nongye</i>	农业	Agriculture
<i>nongye jishu zhan</i>	农业技术站	Agricultural technology extension station
<i>putonghua</i>	普通话	Mandarin Chinese
<i>rang yibufen ren xian fu qilai</i>	让一部分人先富起来	Let some people get rich first
<i>rende xiandaihua</i>	人的现代化	Humanistic modernisation
<i>renmin gongshe</i>	人民公社	People's commune
<i>sange daibiao</i>	三个代表	The three represents

<b>Pinyin</b>	<b>Chinese</b>	<b>English</b>
<i>sannong wenti</i>	三农问题	Three rural issues
<i>shan gao huangdi yuan</i>	山高皇帝远	The mountains are high and the emperor is far away
<i>shangfang</i>	上访	Petition a higher level of government
<i>shang you zhengce, xia you duice</i>	上有政策、下有对策	The centre has policies, local areas have counter policies
<i>shehui zhuyi shichang jingji</i>	社会主义市场经济	Socialist market economy
<i>shengchan dadui</i>	生产大队	Production brigade
<i>shengchan dui</i>	生产队	Production team
<i>sige xiandaihua</i>	四个现代化	The four modernisations
<i>suzhi</i>	素质	Quality
<i>tianrang zhibie</i>	天壤之别	The difference between the earth and the sky (worlds apart)
<i>wenhua dageming</i>	文化大革命	Cultural revolution
<i>xian guan buru xian guan</i>	县官不如现管	The governor of the county has less power than one's direct supervisor
<i>xianpin aifu</i>	嫌贫爱富	Suspicious of the poor but loves the rich
<i>xiaokang shehui</i>	小康社会	Well-off society
<i>xibu dakaifa</i>	西部大开发	The campaign to open up the west
<i>xinli</i>	心理	Mentality
<i>xinxing nongcun hezuo yiliao</i>	新型农村合作医疗	New cooperative medical system
<i>yindi zhiyi</i>	因地制宜	In accordance with local conditions
<i>yishi</i>	意识	Consciousness
<i>you dian dao mian</i>	由点到面	Proceeding from point to surface (policy modelling)
<i>zhangshu</i>	樟树	Camphor tree
<i>zhen/xiang</i>	镇/乡	Township/town
<i>Zhongguo</i>	中国	China
<i>zhonghua xiangyan</i>	中华香烟	Zhonghua cigarettes
<i>zhongyang yihao wenjian</i>	中央一号文件	Number one central document
<i>zirancun</i>	自然村	Natural village
<i>zutang</i>	祖堂	Ancestral hall



# Interviews

## Interviews with Officials and Employees of Financial Institutions

<b><i>Interview number</i></b>	<b><i>Interview date</i></b>	<b><i>Interviewee(s) description</i></b>
Interview 01	2012-04-03	Director of the township level RCC in a township neighbouring the AT
Interview 02	2012-11-01	Official in the prefecture-level MoHRSS
Interview 03	2012-11-02	Party secretary of a village committee in the AT
Interview 04	2012-11-05	1) Village head of a village committee in the AT; 2) Director of the AT MoHRSS
Interview 05	2012-11-05	Director of the township-level RCC in the AT
Interview 06	2012-11-06	Official in the prefecture-level MoHRSS
Interview 07	2012-11-13	Official in the county-level MoHRSS (AT county)
Interview 08	2012-11-14	Director of the township-level MoHRSS in the MWT
Interview 09	2012-11-14	Deputy party secretary of a village committee in the MWT
Interview 10	2012-11-14	Director of the township-level RCC in the MWT
Interview 11	2012-11-15	Official in the provincial-level MoHRSS
Interview 12	2013-05-03	Deputy director of the township government in the MWT; highest ranking deputy director and responsible for the other deputy directors
Interview 13	2013-05-03	Deputy director of the township government in the MWT; previous director of the township PAO in the MWT
Interview 14	2013-05-03	Deputy director of the township government in the MWT; responsible for attracting and managing outside investment
Interview 15	2013-05-03	Party secretary of a village committee in the MWT
Interview 16	2013-05-03	Director of county-level PAO (MWT county)
Interview 17	2013-05-28	Retired party secretary of a village committee in the MWT
Interview 18	2013-07-26	Accountant of a village committee in the DET
Interview 19	2013-07-29	Deputy director of the township government in the DET; responsible for attracting and managing outside investment
Interview 20	2013-07-29	Employees in the township-level MoHRSS in the DET
Interview 21	2013-07-29	Deputy director of the township government in the DET; responsible for poverty alleviation work

## Interviews with Households, Microenterprises, and Large Industry

<i>Interview number</i>	<i>Interview date</i>	<i>Interviewee(s) description</i>	<i>Location</i>
Interview 22	2012-11-02	Income sources: Small shop; Farming Credit sources <sup>1</sup> : No formal loans	Nanchang City
Interview 23	2012-11-05	Income sources: Farming Credit sources: No formal loans	AT
Interview 24	2012-11-09	Income sources: Farming (vegetable greenhouses) Credit sources: EMP	AT
Interview 25	2012-11-09	Income sources: Farming (vegetable greenhouses) Credit sources: EMP	AT
Interview 26	2012-11-10	Income sources: Farming; administrative work in village committee Credit sources: No formal loans	AT
Interview 27	2012-11-10	Income sources: Shop; farming Credit sources: Loans from county-level financial institutions	AT
Interview 28	2012-11-10	Income sources: Farming Credit sources: No formal loans	AT
Interview 29	2012-11-12	Income sources: Township business owner Credit sources: EMP	MWT
Interview 30	2012-11-12	Income sources: Township business owner Credit sources: EMP	MWT
Interview 31	2012-11-13	Income sources: Township business owner Credit sources: No formal loans	MWT
Interview 32	2012-11-15	Income sources: Owner of natural gas station Credit sources: RCCMP	MWT
Interview 33	2012-11-15	Income sources: Farming; odd jobs Credit sources: No formal loans	MWT
Interview 34	2012-11-15	Income sources: Farming; salary work on the SOE farm; migrant work Credit sources: No formal loans	MWT
Interview 35	2013-05-07	Income sources: Salary work for a local construction company; farming (Interview with members of five different households) Credit sources: No formal loans	MWT

1 Over 95 per cent of all households and microenterprises have borrowed informally, so this section only mentions formal loans.

<b>Interview number</b>	<b>Interview date</b>	<b>Interviewee(s) description</b>	<b>Location</b>
Interview 36	2013-05-08	Income sources: Farming Credit sources: No formal loans	MWT
Interview 37	2013-05-09	Income sources: Salary work for a local construction company Credit sources: No formal loans	MWT
Interview 38	2013-05-13	Income sources: Township business owner Credit sources: EMP	MWT
Interview 39	2013-05-13	Income sources: Migrant work Credit sources: No formal loans	MWT
Interview 40	2013-05-14	Income sources: Township business owner Credit sources: RCCMP	MWT
Interview 41	2013-05-15	Income sources: Salary work in a local factory; food preparation; migrant work Credit sources: No formal loans	MWT
Interview 42	2013-05-16	Income sources: Township business owner Credit sources: No formal loans	MWT
Interview 43	2013-05-16	Income sources: County official (retired) Credit sources: No formal loans	MWT
Interview 44	2013-05-17	Income sources: Migrant work; village shop; minimum living standard guarantee Credit sources: No formal loans	MWT
Interview 45	2013-05-20	Industry type: Construction company (largest in township) Credit sources: RCCMP	MWT
Interview 46	2013-05-21	Income sources: Township business owner; farming Credit sources: No formal loans	MWT
Interview 47	2013-05-22	Income sources: Farming; salary work on the SOE farm; migrant work Credit sources: No formal loans	MWT
Interview 48	2013-05-23	Income sources: Township business owner (migrant to the township) Credit sources: No formal loans	MWT
Interview 49	2013-05-23	Industry type: Commercial farm owned by an SOE Credit sources: County-level financial institutions	MWT
Interview 50	2013-05-24	Income sources: Township business owner Credit sources: No formal loans	MWT
Interview 51	2013-05-28	Income sources: Farming Credit sources: No formal loans	MWT



<b>Interview number</b>	<b>Interview date</b>	<b>Interviewee(s) description</b>	<b>Location</b>
Interview 52	2013-05-29	Income sources: Farming; migrant work; odd jobs Credit sources: No formal loans	MWT
Interview 53	2013-07-26	Industry type: Components factory (largest in township) Credit sources: EMP; county-level financial institutions; large informal loans from business associates at 20 per cent interest	DET
Interview 54	2013-07-27	Income sources: Township business owner; retired village official Credit sources: RCCMP	DET
Interview 55	2013-07-27	Income sources: Township business owner Credit sources: RCCMP	DET
Interview 56	2013-07-28	Income sources: Township business owner; school headmaster Credit sources: EMP; RCCMP	DET
Interview 57	2013-07-28	Income sources: Township business owner Credit sources: RCCMP; county-level government student loan	DET
Interview 58	2013-08-01	Income sources: Township business owner; farming Credit sources: RCCMP; PSBC	DET
Interview 59	2013-08-01	Income sources: Township business owner Credit sources: No formal loans	DET
Interview 60	2013-08-02	Income sources: Farming (large-scale) Credit sources: RCCMP	DET
Interview 61	2013-08-03	Income sources: Migrant work; salary work in a local factory Credit sources: No formal loans	DET
Interview 62	2013-08-03	Income sources: Township business owner (migrant to the township) Credit sources: No formal loans	DET
Interview 63	2013-08-03	Income sources: Township business owner (multiple businesses); salary work in a local components factory Credit sources: RCCMP; EMP; ABC	DET
Interview 64	2013-08-04	Income sources: Township business owner (migrant to the township) Credit sources: No formal loans	DET
Interview 65	2013-08-04	Income sources: Township business owner Credit sources: RCCMP; ABC	DET
Interview 66	2013-08-05	Income sources: Migrant work; farming Credit sources: RCCMP	DET

<b>Interview number</b>	<b>Interview date</b>	<b>Interviewee(s) description</b>	<b>Location</b>
Interview 67	2013-08-05	Income sources: Township business owner (multiple) Credit sources: No formal loans	DET
Interview 68	2013-08-06	Income sources: County official; multiple businesses Credit sources: Large informal loans from business associates	DET
Interview 69	2013-08-06	Income sources: Salary work for a local construction company; migrant work; salary work in a local components factory; farming Credit sources: No formal loans	DET
Interview 70	2013-08-06	Income sources: Farming; salary work in a local components factory Credit sources: RCCMP	DET
Interview 71	2013-08-07	Income sources: Township business; migrant work Credit sources: RCCMP	DET
Interview 72	2013-08-07	Income sources: Township business; Farming Credit sources: No formal loans	DET
Interview 73	2013-08-08	Income sources: Tea farming; tea processing plant Credit sources: RCCMP	DET
Interview 74	2013-08-13	Income sources: Township business; farming (large-scale) Credit sources: RCCMP	DET
Interview 75	2013-08-13	Industry type: Tea company (largest in township; famous brand; branches around the country) Credit sources: County- and higher-level financial institutions	DET
Interview 76	2013-08-14	Income sources: Township business; renting out commercial property; hotel; salary work in the bus station Credit sources: RCCMP	DET
Interview 77	2013-08-15	Income sources: Truck driver; salary work in the bus station; investment in the bus station Credit sources: RCCMP; ABC	DET
Interview 78	2013-08-15	Income sources: Aquaculture; farming; salary work in a local components factory Credit sources: RCCMP	DET

## Unstructured Conversations

<b>Conversation number</b>	<b>Conversation date</b>	<b>Conversation description</b>
Conversation 01	2012-11-05	Director of the township-level MoHRSS in the AT
Conversation 02	2013-05-03	Microfinance industry insider
Conversation 03	2013-05-06	Owners of a small shop in the MWT
Conversation 04	2013-05-07	Poor household without access to formal credit in the MWT
Conversation 05	2013-05-08	Township-level RCC employees in the MWT
Conversation 06	2013-05-08	A group of villagers upset with pollution from the SOE commercial farm in the MWT
Conversation 07	2013-05-09	Elderly farmer with wealthy children living in various cities in the MWT
Conversation 08	2013-05-10	1) Elderly farmer in the MWT; 2) Young worker in the township industrial park in the MWT
Conversation 09	2013-05-14	Owner of the largest construction company in the MWT
Conversation 10	2013-05-15	Elderly farmer living in a house paid for by remittances from his children in the MWT
Conversation 11	2013-05-16	Middle-income household in the MWT
Conversation 12	2013-05-21	Migrant farmers from a township neighbouring the AT who have contracted approximately 180 <i>mu</i> of farmland in the MWT
Conversation 13	2013-05-22	County-level insurance company employee in the MWT
Conversation 14	2013-05-22	Migrant street vendor at the weekly market in the MWT
Conversation 15	2013-05-22	Migrant street vendor at the weekly market in the MWT
Conversation 16	2013-05-23	Township management officer in the MWT
Conversation 17	2013-05-24	Local street vendor in the MWT
Conversation 18	2013-05-29	Party secretary for a village in the MWT
Conversation 19	2013-07-24	A group of street vendors in Nanchang
Conversation 20	2013-07-26	A group of village and township officials in the DET
Conversation 21	2013-07-26	Leader of a natural village in the DET
Conversation 22	2013-07-30	Director of the township-level RCC in the DET
Conversation 23	2013-07-31	University student who returned home for a visit in the DET

<b>Conversation number</b>	<b>Conversation date</b>	<b>Conversation description</b>
Conversation 24	2013-08-01	Owner and a group of employees of the largest components factory in the DET
Conversation 25	2013-08-01	A group of small shop owners in the DET
Conversation 26	2013-08-01	Middle-income household in the DET
Conversation 27	2013-08-02	Street tailor in the DET
Conversation 28	2013-08-02	A group of residents living by the river in the DET
Conversation 29	2013-08-03	Components factory employee in the DET
Conversation 30	2013-08-05	Owner of a small shop in the DET
Conversation 31	2013-08-06	1) Component factory employee in the DET; 2) A farmer in the DET
Conversation 32	2013-08-08	Motorcycle taxi driver in the DET
Conversation 33	2013-08-08	Student cadre in the DET
Conversation 34	2013-08-08	A group of officials from the DET and neighbouring townships
Conversation 35	2013-08-09	County-level MLC employees in the DET
Conversation 36	2013-08-12	Township-level ABC employees in the DET
Conversation 37	2013-08-12	Township-level PSBC employees in the DET
Conversation 38	2013-08-13	Construction worker in the DET
Conversation 39	2013-08-15	Township-level RCC employees in the DET
Conversation 40	2013-08-15	Poor household in the DET
Conversation 41	2013-08-16	County-level MLC borrower in the DET
Conversation 42	2012-11-12	University student who returned home for a visit in the MWT



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