

Micro-Finance in Poverty Alleviation: the Effects and Increasing Impact

Siman Chen

Sichuan Agricultural University

773356018@qq.com

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Abstract: As one of the most important parts of the rural financial service system, micro-credit can make up for the functional defects of the rural financial organizational structure in China, which is of great significance to solve the problem of financing difficulty of rural residents and promote the economic development of rural poverty-stricken areas. In the context of strengthening the cultivation of micro-credit in China, this paper starts with the importance of micro-credit, and through combing the background of the emergence of micro-credit institutions and their development at home and abroad, reviewing and analyzing the existing research on microfinance, focusing on the constraints faced in the development of microfinance, combing the stages of microfinance development with the theory and practice, this paper makes an in- depth analysis of the problems encountered in the process of development, focusing on a series of problems arising from the practical application of micro- credit in rural finance. Based on the research, this paper reviews the literature at home and abroad, summarizes the relevant research, puts forward the countermeasures and suggestions to improve the system of micro-credit and the prospects for the future development of micro- credit.

1. Introduction

Rural Finance is an important part of China's financial market. The emergence of micro-loans has injected a brand-new force into the development of rural finance,an vigorous development of the credit in rural finance is mentioned every year. Rural micro-credit was originally established to provide financial services to the particularly poor in rural areas, helping the poor to carry out production in order to generate income and support the needs of families. In addition, micro-credit provides financial products and services to low-income groups, and has the functions of raising the income level of the poor groups, enhancing the status of poor women and improving the quality of life of the poor groups, is considered an effective tool for poverty reduction. Therefore, the role of micro-credit in poverty reduction has been widely concerned by scholars both at home and abroad.

Financial Poverty Alleviation is helpful to alleviate poverty. Foreign scholars often use the method of empirical research to prove this point. On the macro level, by summing up the experience of international microfinance, we can see that simply viewing microfinance as a product can no longer meet the requirements of poverty alleviation, it has become a research focus to build it into a platform that can provide financial services and financial products to meet the needs of the poor areas. The microfinance model plays an important role in Asian economies, and the idea of microfinance is popular not only in Bangladesh, where it originated, but also in countries such as Malaysia, the Philippines, India, China and the United States, the contribution to poverty alleviation in the world. The application of micro-credit has a positive effect on the improvement of women's status, which is beneficial to the improvement of women's status. The research on the effect of micro-credit on poverty alleviation in a single country is of great significance to the development of micro-credit in other countries. In the study on the impact of gender factors on poverty and poverty reduction policies in Turkey, poverty reduction policies need to be constantly adjusted in accordance with the changing nature of poverty, and the development of micro-credit for women should be accepted as a special method of poverty reduction. At the same time, microcredit has made a significant contribution to poverty reduction by increasing income-generating activities and

empowering the rural poor.

In recent years, China has attached more and more importance to the construction of rural financial system. According to statistics, farmers to rural credit cooperatives in loans, micro-loans accounted for the vast majority. As an endogenous driving force of rural finance, the impact of micro-credit on poverty alleviation has also been the focus of scholars and research. Most scholars conclude that micro-credit has a positive effect on poverty alleviation. The study on single area was first carried out in Qidong County, Jiangsu Province. The study analyzed and studied the local actual situation and found that the poverty alleviation work conforms to the basic principles of rural credit, it has a positive effect on farmers to obtain good economic benefits. In the research of governmental and non-governmental micro-credit institutions, some non-governmental leading micro-credit institutions have played a pioneering role in the development of micro-credit in China, the government-led micro-loan institutions play an irreplaceable role in poverty alleviation by means of credit. Summing up the practical experience of international microfinance model, microfinance is not only a special form of finance, but also an effective way of poverty alleviation. In recent years, the study concluded that the government participation and leading model of micro-credit for poverty alleviation has a significant positive role in promoting the income and consumption of low-income farmers. In addition, the combination of micro-loan and agricultural insurance is also concerned by some scholars. In the combination of the effect of Credit and insurance on poverty alleviation, China's credit poverty alleviation helps the poor farmers to meet their demand for capital loans, thus realizing the self-development of the farmers and realizing the real sense of "blood-making" poverty alleviation. From the research above, we can see that credit has a positive role in poverty alleviation. However, in the study of micro-credit, some scholars have reached the opposite conclusion, that is, micro-credit has a reverse effect on poverty alleviation. By studying the relationship between the development of financial industry and the increase of farmers' income, Wen Tao et Al. (2005) concluded through empirical analysis that the development of financial business not only can not promote farmers' income, but also, in the long run, and the income of farmers is the inverse relationship. The number of farmers with actual credit demand is high, but the overall credit demand satisfaction rate is low, that is to say, most of the farmers with credit demand are constrained by a variety of factors, the result of not having access to credit or not having full access to credit.

From what have been discussed, scholars at home and abroad have different research directions on micro-credit, but they have enriched the research results of micro-credit in depth and breadth. There is also controversy over the conclusion that microcredit has a positive or negative effect on poverty reduction. It can be seen that scholars have focused their research on the relationship between microfinance and poverty reduction, and have their own opinions. Through the analysis of the micro-credit institutions in the past decade, this paper intends to summarize the existing research results, and then analyze the problems in the development of micro-credit and its causes.

2. Development Phase of Micro-Credit

As an important means to raise the income level of low-income people, micro- credit is highly valued by many countries in the world. The development of micro-loan in the world can be divided into three stages: the traditional model (1960-1970), the evolution stage (1970-1989) and the new model (1990-present). Due to the different development level of rural economy in different countries, the microfinance institutions in different countries are developing in different directions. As the birthplace of microfinance and microfinance, Bangladesh has made tremendous achievements in microfinance development, characterized by a "failed banking system, thriving microfinance", the importance of microfinance in Bangladesh's financial system can thus be seen. However, in India, private lending once became the main way of rural lending, and the introduction of micro-loan mode made the development of rural finance more rapid. At present, the rural financial system used in India is characterized by multi-level, mainly including Agricultural Credit institutions of cooperative nature, policy-oriented financial institutions and commercial banks, government borrowing has also become an auxiliary means of its agricultural finance. The People's Bank of Indonesia is an important rural financial institution in Indonesia, and microfinance in Indonesia is

promoted and developed mainly through state-owned institutions.

The four stages of the development of micro-credit in China:

The First Stage (1993-2000) extension phase: This phase will focus on the main loans to poor rural households, with the aim of addressing the poverty of poor areas of farmers. After drawing lessons from the practice of international micro-credit and summing up the methods suitable for China's domestic development, China has gradually introduced the micro-credit model.

The Second Stage (2000-2005): Since 2000, microfinance institutions have been gradually regularized into a new stage dominated by formal financial institutions. At this stage, rural credit cooperatives gradually involved in rural micro-credit operations, accelerated the development of micro-credit in the rural population, rural credit cooperatives gradually become the main force to promote the development of rural micro-credit.

The Third Stage (2005-2010): At this stage, our country has carried out the "loan without deposit" pilot institutions in Shanxi, Sichuan, Guizhou, Shaanxi and Inner Mongolia provinces. Pingyao County was the first to set up a micro-loan institution, which can effectively and accurately measure its influence on the economic development and the operation of the financial market by constantly strengthening the statistics of the benefit and effect of the micro-loan companies. By the end of 2006, seven microfinance companies targeting poor farmers had been set up in five pilot areas. Details are set out in the table.

The Fourth Stage (2010-2020) the system innovation stage: As the micro-credit loans have been promoted and developed to a certain extent, the number of farmers who need loans has gradually increased, how to deal with the needs of different farmers has become the main content of this stage of micro-credit. During this period, the central authorities paid more attention to the development of systems and detailed regulations on loan limits, loan targets and loan terms, as well as to the innovation of microcredit products.

3. The Restrictive Factors of the Development of Micro-Loan

Although there is no specific law on micro-credit in China, there are still many policies to restrict and support the micro-credit. In order to meet the capital demand of the development of the industry of the peasant household, the country has promoted the small amount loan vigorously in recent years, and the small amount loan in the countryside has become more and more popular. The development of domestic micro- credit in rural areas mainly faces the following problems.

3.1 The Lending Institutions Have a Single Source of Funds

In order to respond to the call of the national precision poverty alleviation, the main sources of poverty alleviation funds in China are extensive, including the central poverty alleviation discount loan, the Central Financial Special Poverty Alleviation Fund, the Central Low-income Insurance Fund and so on. The main source of funds for micro-loans is the central poverty-relief discount interest loans. The current situation of rural poverty alleviation in China shows that the core of the "three rural issues" is to solve the bottleneck problem of rural funds and improve the satisfaction rate of farmers' credit. By the end of 2018, the paid-in capital of the National Small Loan Corporation was 836.32 billion yuan, an increase of 1.12 percent over the previous year, and the loan balance of the National Small Loan Corporation was 955.044 billion yuan, a decrease of 2.54 percent over the previous year. In 2010-2014, the paid-in capital amount and loan balance increased greatly, but in 2014-2018, the amount was relatively stable, and even showed a downward trend in 2016(Figure 1). The highest paid capital of micro-credit was in 2015, the main source of micro-credit —— the central poverty-relief discount interest loans——composes 25% in poverty alleviation funds in China (Figure 2). From this point of view, the single source of funds causes the problem of insufficient funds in the micro-loan institutions. The loan funds invested by the micro-loan institutions in China can not meet the credit needs of the poor farmers, thus it is difficult to achieve the ultimate goal of poverty reduction.

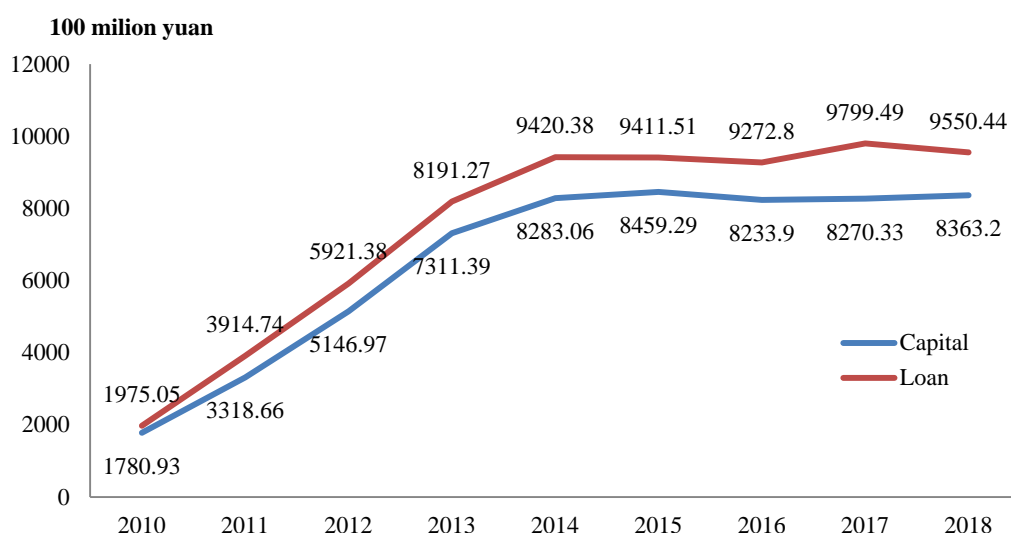


Figure 1 2010-2018 Changes in paid-in capital and loan balance of microfinance institutions nationwide

Source: People's Bank of China website

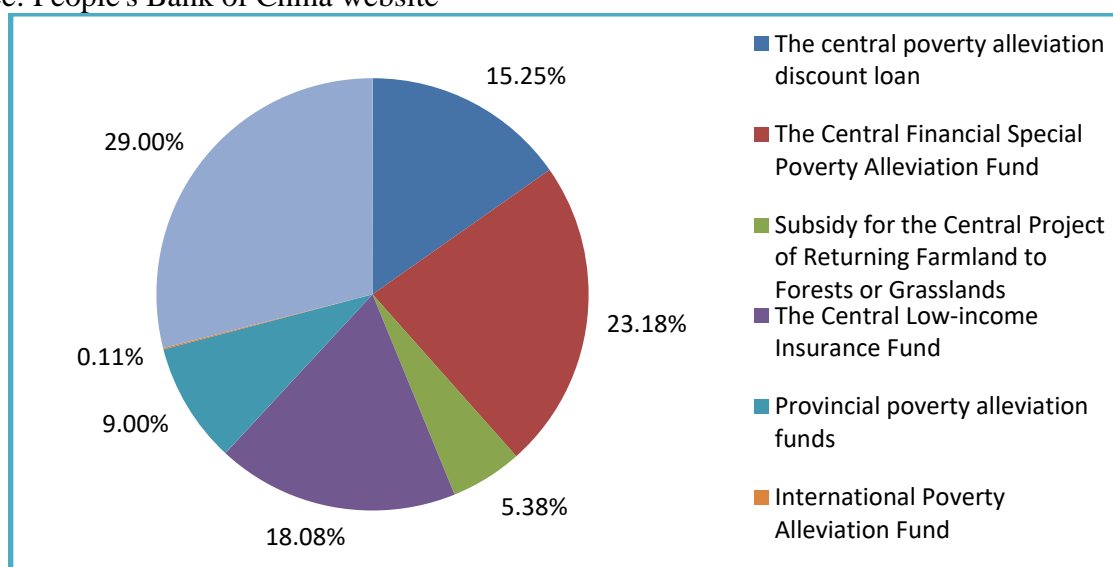


Figure 2 2015 proportion of county-level poverty alleviation funds in poverty-stricken areas

Source: China Rural Poverty Monitoring Report

3.2 The Number of Microfinance Institutions Has Been Reduced and the Level of Their Management Has Been Limited

Because the development time is not long, the related policy can not be perfected in a short time and the social influence is not strong and so on. Although in recent years the state has continued to emphasize the importance of micro-credit in rural finance, the development of micro-credit institutions has been restricted by the country's overall economic focus. By the end of 2018, there were 8,133 microfinance companies in China. From 2010 to 2015, the number of micro-loan institutions rose year by year and developed rapidly. 2015 was the year with the largest number of micro-loan institutions in the past nine years. From 2015 to 2018, the number of micro-loan institutions declined gradually but at a slower speed. Since the formal establishment of micro-credit institutions in 2005, the overall development of the micro-credit industry has been good. After a decade of rapid development, the development of micro-credit companies in 2015 entered a bottleneck period, the number of credit institutions and the size of loans, both showed negative growth trends. By the end of 2018, the number of microfinance institutions nationwide stood at

8,133, a decrease of 4.89 percent year-on-year. In 2018, there were 90,839 people employed by China's microfinance companies, down 12.64 percent from the previous year. From 2010 to 2018, the compound growth rate of the number of employees in microfinance institutions nationwide was 14.02 percent. (Figure 2, Figure 3) At present, the number of microfinance institutions and the number of employees are on the decline, which is not in line with the theme of the country's efforts to develop rural finance. However, most of the micro-loan institutions are small in scale, lack of relevant management personnel, and the number of financial products is small, weak innovation, resulting in the development of micro-loan facing certain limitations. According to the statistics provided by the People's Bank of China, on the whole, the scale of microfinance institutions has gradually shrunk, and they lack the corresponding institutions and professionals to set up support mechanisms, it has greatly affected the sustainable development of micro-credit business.

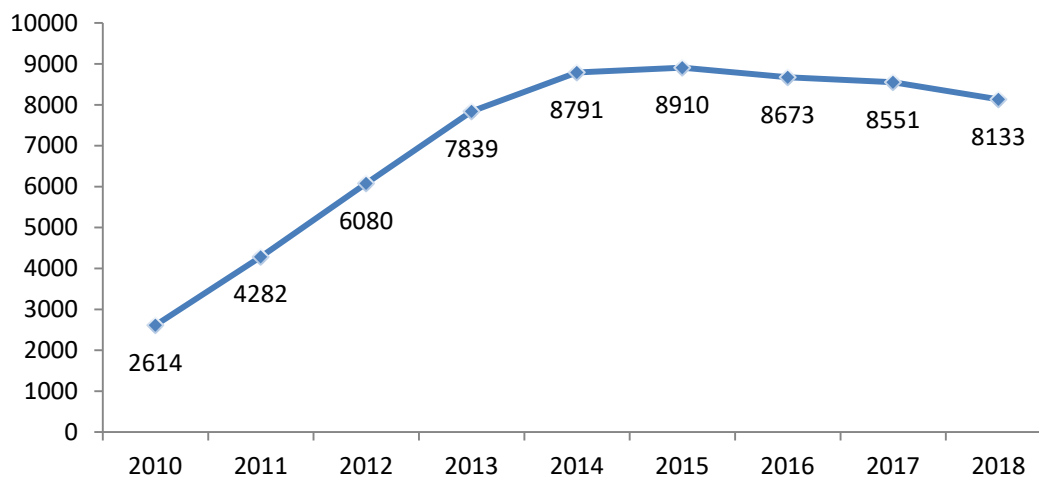


Figure 3 Changes in the number of microfinance institutions in China, 2010-2018

Source: People's Bank of China website

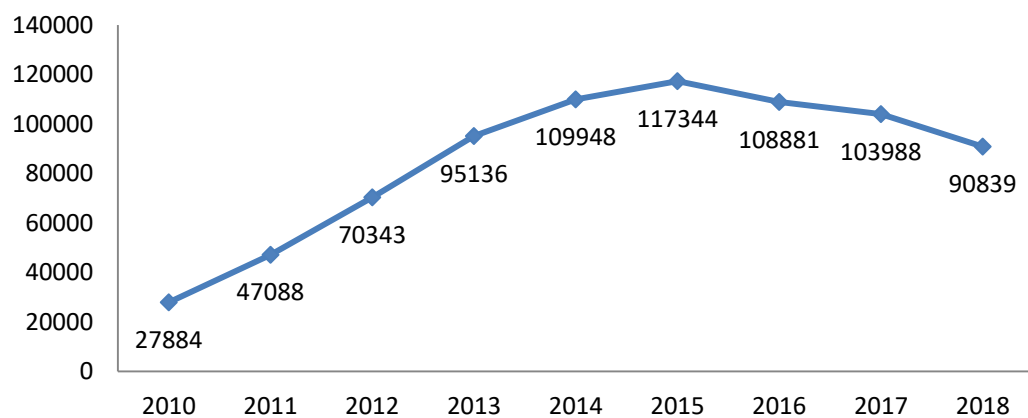


Figure 4 Changes in the number of employees of microfinance institutions nationwide, 2010-2018

Source: People's Bank of China website

3.3 External Information Asymmetry Problems

In the course of the operation of the microfinance institutions, once the phenomenon of large amounts of loans due to the failure of farmers to repay their loans occurs, the financial operation of the microfinance institutions will be greatly affected, thus affect the sustainability of the development of micro-credit institutions, so the issue of loans to farmers information identification plays an important role. Due to the characteristics of farmers themselves, the collection of credit information for farmers and rural enterprises by microfinance institutions is facing many difficulties, mainly reflected in the high cost of information collection, it is difficult to identify the

profitability and development of rural enterprises and grass-roots personnel fraud, and so on. For example, grass-roots staff in the selection of the target of poverty alleviation has a certain degree of subjectivity, which will affect the selection and judgment of the poor people by poverty alleviation agencies. According to the information collected from the existing data, the main problems in collecting information at present are as follows: firstly, the basic information about the family situation of farmers, such as the study and work of children, can not be fully grasped; There are some limitations in judging the source of family income. Because of the lack of basic information, it is impossible to get accurate data when judging the grade, which leads to the fact that some data are estimated and lack accuracy. Secondly, it is easy to have the problem that the qualification of the assessor is insufficient in the process of evaluating the work. The assessor shall satisfy the basic conditions of full understanding of the assessor and having no interest in the assessed family, on the basis of which the assessment shall be made in the light of objective circumstances; finally, because of the close relationship between the personnel of the collective in each village, the relationship between the assessor and the assessor has become an important factor affecting the rating, especially when dealing with the assessment of farmers whose information is incomplete or whose information is similar to each other, the subjectivity of the grass-roots cadres and members of the assessment group can easily influence the assessment results.

4. A Gender Strategy For Micro-Finance

4.1 Increase the Sources of Funds and Reduce the Operating Costs of the Organization

The government should strengthen its support to rural credit institutions to solve the problem of insufficient sources of micro-credit funds. The central government should issue the corresponding preferential policies for the credit institutions, comprehensively consider from the aspects of finance and taxation, and reduce the operating costs of the micro-credit institutions. In addition, the central government should designate professional institutions or personnel to regulate the business models, comprehensive objectives and evaluation indicators of credit institutions, and encourage micro-credit institutions to expand their business scope, reduction of gaps in the coverage of microfinance institutions. More financial subsidies are given to institutions with good performance and innovative business models to avoid their unsustainable operations due to operational problems. At the same time, more institutions are encouraged to participate in the development chain of micro-credit institutions, and the problem of the limited size of the funds of micro-credit institutions is solved. In view of the problem of mutual aid, the two-way evaluation and selection should be paid attention to between the micro-credit institutions and the supporting institutions, so as to enlarge the fund support, and then expand the credit supply of the micro-credit institutions to the rural financial market.

4.2 Flexible Credit Products, Supply According to Demand and Reduce Credit Risk

Different farmers have different requirements on loan amount and loan term due to the different use of funds, different scale of industry and different credit line. When credit institutions set up credit products, they should make full investigations into the local market and provide credit products that meet the actual credit needs of existing farmers to the greatest extent possible in accordance with their own conditions, thus matching the diversification of farmers' needs. In addition, in order to reduce the credit risk, we should establish the internal control system of mutual supervision and mutual restriction to prevent the emergence of systemic risk for the sustainable development of micro-credit institutions. 19 since the majority of the shareholder status in the formation of micro-finance companies is transferred from industry to finance, the lack of operational knowledge and experience is likely to arise, hence the need for stricter control over the funds of micro-finance institutions. First, strictly monitor the way loan funds are used by loan farmers, rationally assess the benefit of loan funds, prevent deviation from the target of funds, and ensure that farmers can repay loans in a timely manner; second, strengthen the investigation of the consumption situation and the fluctuation of bank deposits of the loan farmers in recent years,

ensure the credit of the loan farmers is good, and guarantee the timely and full repayment of the loan.

4.3 Establish Information Sharing Mechanism with Corresponding Institutions

Small loans and a variety of rural finance can establish mutually beneficial contact. For example, rural micro-credit and agricultural insurance are both important components of rural finance, multi-agency cooperation and communication should be strengthened, multi-information should be used to establish an information-sharing platform to record a customer's information in various ways, thus is advantageous to the micro-credit organization carries on the comprehensive appraisal to the farmer, simultaneously may prevent the same pledge many times to pledge the phenomenon to appear. In addition, the information sharing platform facilitates the mutual learning of innovative mechanisms among institutions, timely communication of major issues in the industry, and promotion of the healthy development of the microfinance industry. It is also an effective way to solve the lack of credit information of farmers to establish the information sharing mechanism between micro-loan institutions and banks. 20. Microfinance institutions are unable to accurately assess the debt-servicing capacity of farmers because they do not have access to their real bank accounts when they collect information on their customers. By sharing information with banks, micro-loan companies can enhance the information identification of farmers and reduce the difficulty of risk identification.

5. Conclusion

Based on the analysis and summary of the data related to microfinance in recent years, this paper discusses the value and significance of microfinance and the operation of the market mechanism of microfinance, finding a balance between the role of the government and that of the market is the key to solving the problem, namely, clarifying the goals and responsibilities of the market and the government in relation to credit, so that microfinance is no longer limited to the goal of poverty alleviation but neglects profitability, give full play to the guiding role of the market. In addition, through a systematic review of the literature, it is found that different scholars have different emphasis, however, there are still some unsolved problems in the study of microfinance:

(1) there is no unified conclusion on how to measure the sustainable development of microfinance institutions; (2) there is no in-depth analysis on the establishment of targeting mechanism, the impact of local characteristics and policies on the development of local institutions is neglected; (3) when learning from the development experience of foreign micro-credit institutions and studying the domestic institutions, there is not enough data to support the quantitative research.

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