Microfinance Assemblages in China: Production, Maintenance, Transformation and Deterioration

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Abstract

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By undertaking an in-depth case study in Yi County where the first microfinance program was launched in 1993, this dissertation investigates how microfinance was adopted and adapted in China through four chronologically established microfinance programs: microfinance NGOs, microfinance programs housed within national subsidized poverty alleviation loans, rural credit cooperatives microfinance programs, and commercial microfinance companies. Inspired by but distinct from the policy mobilities approach, this dissertation takes upon the notion of assemblage as the analytical framework under which the adoption and adaptation process can be conceived as four distinct, though overlapping assemblages that are constantly fluctuating and in (re)formation. The questions asked, therefore, are how these assemblages are constituted by heterogeneous elements, including policies, institutions, discourses, and practitioners? What are the attendant contradictions and externalities and how are they managed (or fail to be managed)? And what are the politically progressive and regressive possibilities that arise in the process? By illustrating how four microfinance assemblages in Yi County were produced, maintained, transformed and/or deteriorated, this dissertation focuses on the messy and complex processes of microfinance formations and reveals the not-always-coherent and sometimes even contradictory capacities of the elements common to all microfinance assemblages and the practices required to draw these elements together, forge connections between them, and sustain these connections it the face of such capacities.
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DEDICATION

I dedicate this work to my parents, Chenjun He and Beibei Lin, who offered unconditional love and support and have always been there for me. I could not have done this without them.
Chapter 1: Introduction

This dissertation derives from my research interest in microfinance, a collection of banking practices – including savings, insurance, and money transfer - built around providing small loans to the rural poor, typically without collateral (Armendariz de Aghion and Morduch, 2005, p.1). In this dissertation, I present microfinance as assemblages constituted by relations between heterogeneous elements, including policies, institutions, discourses, and practitioners, which are not “as internally coherent and unassailable as they often seem” but are constantly under the tension between the original intentions and the changing circumstances (McCann, 2011, p.146). In the face of such tension, microfinance assemblages require political and technical work to forge connections between elements, sustain and reinforce these connections, or even abandon such connections to develop new ones. In other words, it is an analysis of both making and unmaking of the microfinance assemblages. The purpose of this dissertation is to shift the attention to the contingent and overdetermined nature of political and social assemblages because it is only on the basis of such an understanding that planners need to think about regarding their practices.

1.1 Microfinance

1.1.1 A Poverty Alleviation Panacea or A Neoliberalization Project

Emerging as an innovation in lending to the rural poor who are excluded by the formal financial market, microfinance employs group lending methodology under which “the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution” (Brau and Woller, 2004, p.6). While the idea of credit groups is as old as commerce itself, modern microfinance dates back to the early 1970s when economics professor Dr. Muhammad
Yunus began disbursing small loans to groups from local villages in Bangladesh at higher-than-market interest rates to start or expand income-generating business out of the homes of the borrowers. This effort resulted in the establishment of the Grameen Bank in 1976, which provided credit to the very poor to lift them out of poverty and achieved almost perfect repayment rates. Grameen Bank’s success story quickly galvanized more powerful multinational banks and development “think tanks” which have mobilized billions of dollars of investment in microfinance since the 1980s. In comparison to the state-led subsidized rural credit programs, microfinance’s potential lies in alleviating poverty while paying for itself or even turning a profit. It must be noted that this potential is the animating motivation behind microfinance’s glorious emergence onto the global stage.

The basic tenets of neoliberalism are obviously embedded within the ideological representation of microfinance: rejecting “subsidized credit and other forms of state intervention underlying prior approaches to rural finance” and “favoring markets as the desired mechanism for achieving not only growth and efficiency, but also freedom and justice” (Rankin and Shakya, 2007, p.50). As such, social theorists such as Heloise Weber (2002), Julia Elyachar (2006), Katharine Rankin (2008), and Ananya Roy (2010) have argued that microfinance can be viewed as the mechanism for deepening financial sector deregulation without risking social and political legitimacy. In this view, microfinance serves as a “handmaiden” of, rather than the alternative to, “a new global development architecture” based on neoliberal globalization and free-market ideologies, under

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1 Grameen Bank also established the orthodox microfinance methodologies which include 1) dynamic incentives which promise of repeat and larger loans; 2) small and frequent repayment amounts, often weekly, which can be used as a commitment device; and 3) targeting of women, given that ample evidence has shown that women are less likely to access to formal financial services and more risk-averse (Demirguc-Kunt, Klapper, and Singer, 2013).
which the poor are only appeased and disciplined through access to credit (Roy, 2010; Weber, 2002).

However, to put microfinance in practice is not a discursively seamless policy transfer of neoliberalism, but instead a historically and geographically contingent process which requires the claims of microfinance articulate with prevailing political-cultural discourses and the institutional frameworks of rural finance on the ground in a particular national setting (Peck and Tickell, 2002). In this sense, the state regulation under the socialist-market economy in China presents a particularly interesting case in which to consider the processes of microfinance formation. The single-party authoritarian state has been able to contain the experiment with microfinance and subsume them into a series of state-led programs. In other words, what is so striking in the Chinese context is that how microfinance has to articulate the macro-regulatory institutions and political-economic and cultural-political milieu that often contradict the ideological imperatives of neoliberalism (Rankin, 2008).

1.1.2 China’s Road Map of Microfinance
In China, microfinance was first introduced as an alternative to the national poverty alleviation subsidized loans which were heavily criticized for achieving low rates of repayment and not actually “reaching” the poor. In 1993, China’s first microfinance program, Funding the Poor Cooperative (FPC) was established in Yi County, Hebei province. With funding from Grameen Trust, Ford Foundation, and Canada Fund mediated through the Rural Development Institute (RDI) of the Chinese Academy of Social Sciences (CASS), FPC operated as a nongovernmental organization (NGO) and was administered by researchers of CASS along with staff locally
recruited from the Poverty Alleviation Office of Yi County working at the township level. FPC largely copied the Grameen Bank model and its success promoted microfinance NGO’s expansion, especially in provinces with a large population of rural poor such as Shaanxi, Sichuan, Yunnan, Guangxi, and Guizhou.

However, with a conservative attitude towards the development of civil society and informal finance, the central state never recognized FPC and other microfinance NGOs as formal financial institutions and contained their development. Instead, microfinance was subsumed in 1994 into the renewed national subsidized poverty alleviation loan program, a flagship program of the Seven-Year Priority Poverty Alleviation Plan (8-7 Plan). The 8-7 Plan not only required the state-owned banks -- the Agricultural Development Bank of China (ADBC) and later the Agricultural Bank of China (ABC) which were responsible for disbursing the subsidized poverty alleviation loans -- to meet quantitative targets of disbursement amount and repayment rates, but also promoted the local governments to establish their own microfinance programs to work with ADBC and ABC in identifying qualified households and forming the lending groups to apply for the loans. Although by August 1998, the government-led microfinance programs had been expanded to over 605 counties in 22 provinces, totaling loans of up to 600 million yuan (about 72.5 million US dollars using the 1998 exchange rate), almost immediately dwarfing the earlier microfinance NGO movement, most of them differed little from the failed subsidized poverty

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2 In China, NGOs have to be affiliated with government agencies or institutions. In FPC’s case, it is affiliated with the Yi County Poverty Alleviation Cooperatives.

3 It is called the 8-7 Plan because it aspired to lift the majority of the 80 million poor above the government’s poverty line during the seven-year period 1994-2000 (The State Council, 1994).
alleviation loans they planned to improve and fell apart when the 8-7 Plan came to an end in 2000 (Park and Ren, 2001; Park et al., 2003).

With the discontinuance of state-led microfinance programs, the Rural Credit Cooperatives (RCCs) became the only formal credit institutions targeting households in rural China. However, the RCC system nationwide had been on the verge of going bankrupt since the late 1990s. In response, the central state designed the agriculture-supporting microloan program to simultaneously enhance RCCs’ profitability and improve rural households’ access to credit. With funding from the central bank, 20,710 RCCs (which accounted more than 90% of all RCCs) had started microfinance programs by the end of 2002. More than 60 million rural households were able to get loans (the total amount of which exceeded 100 billion yuan) from these RCC microfinance programs (Park and Wang, 2001). However, poor households were usually excluded from RCC microfinance programs as most of the RCCs granted “credit pass” only to rural households with qualified income, assets, and history of financial activities. And group lending only took place when the loan amount exceeded the limit set by the credit pass.

The commercial microfinance programs started with central state’s determination to develop a “diversified rural financial market” as a response to the “three rural issues” (agricultural development, rural areas, and farmers) (The State Council, 2004). Wu Xiaoling, the deputy governor of the central bank, took the lead in overcoming the “stability first” mentality of the

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4 Agricultural Bank of China (ABC) was pushed for commercialization since the mid-1990s and had been quitting the rural market by closing rural branches and focusing on industrial projects since then. Within the period of 8-7 Plan (1994-2000), ABC was ordered by the central government to work with local government to disburse the subsidized poverty alleviation loans to rural households. When the 8-7 Plan came to an end, ABC largely stopped its services within rural market below the county level.
financial regulatory authorities and personally persuaded a few provincial governments to start microfinance companies. China Banking Regulatory Commission, however, refused to recognize these microfinance companies’ status as formal financial institutions until Yunnus won the Nobel Peace Prize and visited China in 2006. This visit expediated the agreement between the top-level financial regulatory authorities in terms of promoting commercial microfinance programs. By the end of 2017, there were 8,551 commercial microfinance companies nationwide. However, similar to the RCC microfinance programs, the commercial microfinance programs, in pursuit of profit, have no incentive to target poor rural households.

1.2 Key Concepts: Policy mobility and Assemblage

What emerges in the Chinses context is how microfinance was transferred and adapted. It is not a terrain of rural finance that has been “entirely transformed and flattened by a neoliberal hegemony,” but a process of how the terrain is also shaped by a variety of elements, including policies, institutions, discourses, and practitioners that sometimes “get in the way of constructing neoliberal hegemony” (Rankin and Shayka, 2007, p.50). The questions to ask, therefore, are how the microfinance formation process is phased, paced, and channeled through these elements? What are the attendant contradictions and externalities and how they are managed? And what are the politically progressive and regressive possibilities that arise in the process? By undertaking an in-depth case study in Yi County in Hebei province where the first microfinance

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5 Element rather than actor will be used in this dissertation to stress that material non-human things as well as human actors may be determinants of social interactions and outcomes. More detailed discussion will be in Chapter 2.
NGO program was launched in 1993, this dissertation takes upon an *assemblage approach* which is inspired by but distinct from the *policy mobilities* literature to answer these questions.\(^6\)

### 1.2.1 Policy Mobilities

Inspired by the concern to rethink policymaking in the context of the accelerating globalization of policy norms and practices and the increased mobility of policymakers and policy techniques, the *policy mobilities* approach has emerged in contrast to the more orthodox literature on policy transfer and learning (Peck and Theodore, 2010). While the conventional understandings of policy transfer invoke the notions of rational diffusion and best-practice replication, the policy mobilities approach, influenced by post-structuralism and actor-network theory, conceptualizes policymaking as a relational, spatial, social, and political process which constitutes and interconnects actors, institutions, and territories (McCann, 2008; McCann and Ward, 2011; Peck and Theodore, 2010; Prince, 2010). A growing body of empirically-grounded analysis of “actually-existing urban neoliberalism”, a subset of policy mobilities research, is of particular relevance here, as its analytical departure point is that while neoliberalism may have proliferated, it is nonetheless enmeshed, blended, and imbricated with inherited policy regimes, institutional frameworks, regulatory practices, and political contestations (McGuirk and Dowling, 2009; Brenner and Theodore, 2002; Peck 2004; Peck & Tickell, 2007).

By investigating what is hidden in the depths of the transnational flow of policy ideas and their appropriation and translation into specific practices, the policy mobilities approach has been

\(^6\) The term assemblage approach, assemblage thinking, and assemblage theory are used interchangeably in the research literature referring to a diverse research accounts that engage directly or indirectly with more formal theories of assemblage, such as those of Deleuze and Guattari and DeLanda. For the purpose of clarity, assemblage approach is used in this dissertation.
successful in presenting policymaking as global or “translocal” assemblages of a variety of elements, including humans, materials, technologies, organizations, techniques, procedures, norms, and events (Collier and Ong, 2005; McFarlane, 2009). The concept of assemblage, which derives from Gilles Deleuze and Felix Guattari’s (1987) work, speaks not to the static arrangement of a set of elements but to “the process of arranging, organizing, fitting together … [where] an assemblage is a whole of some sort that expresses some identity and claims a territory” (Wise, 2005, p.77). Assemblage is largely applied in policy mobilities research as an analytical tool to understand how the elements hold together in specific locations. In other words, the analytical gaze of the mobilities approach is usually on “what makes an assemblage work” (Thoburn, 2003, p.5). Even in the analyses of the contingent urban neoliberalism, the focus is on neoliberal commonality rather than difference, coherence and resilience rather than incoherence and hybridity, incremental advance rather than non-incremental experimentation (McGuirk and Dowling, 2009, p177).

1.2.2 Assemblage

This dissertation proposes an assemblage approach characterized, as DeLanda (2006) puts it, by “relations of exteriority” – the elements come together in particular space-time conjunctures to form an assemblage, but the relations between them do not constitute the identity of the elements. DeLanda (2006, p 10-11) uses a distinction between the properties and the capacities of elements to explain the exteriority of relations:

While its properties are given and may be denumerable as a closed list, its capacities are not given – they may go unexercised if no entity suitable for interaction is around – and form a potentially open list, since there is no way to tell in advance in what way a given entity may affect or be affected by innumerable other entities. … Being part of a whole involves the exercise of a part’s capacities, but it is not a constitutive property of it. And given that an unexercised capacity does not affect what a component is, a part may be
detached from the whole while preserving its identity. ... In fact, the reason why the properties of a whole cannot be reduced to those of its parts is that they are the result not of an aggregation of the components’ own properties but of the actual exercise of their capacities. These capacities do depend on a component’s properties but cannot be reduced to them since they involve reference to the properties of other interacting entities.

Following the notion of exteriority of relations, this dissertation argues that there are two important features of assemblage that are often understated in the policy mobilities literature. First, the assemblage approach allows for is incoherence as a way of thinking about how elements hold together, despite being made up of often diverse logics and practices. In other words, the elements of an assemblage co-exist yet do not cohere into a seamless whole, because their relations within an assemblage only express a certain set of their capacities while they can express different or even contradictory capacities at some other places or times. As John Allen (2004, p.22) puts it: “[assemblage approach] offers the possibility of grasping how something as heterogeneous as nation-states, for instance, or regional political formations, hold together without actually ceasing to be heterogeneous.” Second, assemblages carry a sense of uncertainty, not only because there is always the possibility of the appearance of a new element to destabilize the existing assemblage but more importantly because the constituent elements always retain the “undertapped” capacities to be “otherwise” – to be “unplugged and plugged into different assemblages with which they relate differently (DeLanda, 2006, p.10).”

Focusing not only on the complementarities but also the conflict and contestation between elements, the assemblage approach speaks to the messy and complex processes of composition that produce political or social formations, such as microfinance, without losing a sense of their open-ended and unfinished nature (Anderson et al., 2012). It is not difficult to see that there is a tension that arises in such an account that emphasizes both stability and change. Marcus and
Saka (2006) articulate something similar when they argue that assemblage thinking brings together two seemingly contradictory ways of understanding social order: the ephemeral and the structural. For Marcus and Saka (2006), working with assemblage is characterized by “almost a nervous condition”:

> Indeed, the term [assemblage] itself in its material referent invests easily in the image of structure but is nonetheless elusive. The time-space in which assemblage is maintained is inherently unstable and infused with movement and change … whoever employs it does so with a certain tension, balancing, and tentativeness where the contradictions between the structural and the unstably heterogeneous create almost a nervous condition for analytical reason (p.102).

While assemblage certainly incorporates sensitivity to both stability and change, Marcus and Saka overemphasize the “contradiction” between the “structural” and the “unstably heterogeneous” while underplaying the extent to which assemblage works outside the notion of “structure” (in particular if “structure” is understood as to act only insofar as it thwarts the unstructured) (Anderson et al., 2012, p.175). Assemblage approach invites us to think outside a distinction between structured and unstructured by attending to the actual practices through which particular relations are held stable, contested, and fall apart. As McCann (2011, p.145) argues, “assemblages are always coming apart as much as coming together, so their existence in particular configurations is something that must be continually worked at.” Empirically, the task for researchers becomes examining the practices through which assemblages are formed and stabilized in particular space-time conjunctures, as well as the practices through which they are destabilized. These practices include not only the continued effort of human actors that range from executive decree to everyday toil but also the enrolment and often neglected effects of various materials and techniques (Baker and McGuirk, 2017).
1.3 Research Questions

The purpose of my dissertation is to answer the question of how microfinance was adopted and adapted in China by investigating the production, maintenance, transformation and/or deterioration of four microfinance programs: microfinance NGOs, microfinance programs housed within national subsidized poverty alleviation loan program, rural credit cooperatives’ microfinance programs, and commercial microfinance companies. Rather than a straightforward process, the adoption and adaptation of microfinance proceeded in a haphazard and disjunctive fashion. Using the notion of assemblage as the analytical framework, this dissertation conceives this process as four distinct, though overlapping assemblages. While each assemblage has a particular spatiality and temporality, they are always fluctuating and in (re)formation and inevitably remain blurry “at the edges” (Li, 2007; Prince, 2010).

First, I investigated how the microfinance formation processes were constituted, phased, and channeled by heterogeneous elements such as the central state and the rural financial reform. This involved not only locating all the elements in each assemblage and but also specifying the moments when these elements were included into or left out each assemblage. However, the analytical focus is not on some specific combination of elements but on the dynamic processes of how the elements interact with each other which give the form of the assemblages.7

Second, I examined how the four assemblages relate to each other by focusing on the shifting and contradictory roles played by the four sets of elements that span all assemblages. Using the

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7 Anderson et al. (2012, p.174) talk about the risk of using the term assemblage as a noun instead a verb: the former treats assemblage as a distinct form while the latter treats assemblage as ongoing processes through which form come into, endure, and out of being.
concepts of property and capacity from the assemblage literature, I argue these roles can be understood as the *emergent capacities* of the elements, which depend on not only on the properties of the element but more importantly on the interactions with other elements within (or sometimes outside) the assemblages.

Third, I disclosed the *practices* that forge connections between the heterogeneous elements, and sustain these connections in the face of contradictions and conflicts arising from the not-always-coherent capacities of the elements. Such practices do not always stabilize assemblages. Sometimes practices manage the challenges or contradictions through destabilizing the existing assemblage and producing a new assemblage. While such practices cannot be separated from answering the first two questions, I detailed the mundane, everyday, and seemingly trivial practices in the making and unmaking of the assemblages, without attributing to any situated elements “a master-mind or a totalizing plan” (Li, 2007).

**1.4 Overview of Chapters**

After Chapter 2 and Chapter 3 which cover literature review and methodology respectively, Chapter 4 provides a background in which microfinance was transferred, adopted and adapted by introducing the most important elements in this process, including the international development organizations, the rural financial institutions “on the ground”, and the central and the local states. Chapter 5 describes how microfinance was adopted and adapted in China by investigating four chronologically established microfinance programs implemented in Yi County, Hebei Province from 1993 to 2017. Chapter 6 and 7 use the assemblage approach as the analytic lens to interpret the case of microfinance development in Yi County as four assemblages composed of a diversity
of elements that do not necessarily cohere into seamless organic wholes. Chapter 6 explores the shifting and contradictory roles played by the elements that are common to all the microfinance assemblages: international development institutions and domestic research institutions that promote microfinance, the central state, the local states, and the poor rural households. Such changes and contradictions in/between the elements are understood as emerging from their capacities which cannot be reduced to a single logic or project. Chapter 7 discusses the practices required to draw the different elements together, forge connections between them, and sustain these connections in the face of their different and even contradictory capacities. This chapter elaborates three practices that are crucial to all the microfinance assemblages in the case: enabling assumptions, managing contradictions and reassembling.
Chapter 2: Literature Review

This chapter is divided into two sections. The first section presents an overview of microfinance research, in which I identify three key areas of the literature related to this dissertation: 1) empirical studies gauging the impact of microfinance; 2) microfinance institutional sustainability; and 3) the neoliberalization of microfinance. The second section discusses how the intersection of two literatures – policy mobilities and assemblage - sheds light on a unique way of conceptualizing policymaking in terms of 1) relations of exteriority; 2) distributed agency, nonlinear and emergent causality, and associated power; and 3) a methodological emphasis on the assembly and disassembly practices.

2.1 Microfinance Literature

Microfinance literature has lagged behind industry development but has been growing rapidly since the late 1990s. While the research interests have mostly focused on impact studies and institutional sustainability, the recent trends towards microfinance commercialization have brought more attention to its role in the broader process of neoliberalization.

2.1.1 Impact Studies

The fundamental assumption of microfinance lies in that the access to credit can lead to improved socioeconomic outcomes. Therefore, the last two decades or so has seen a rapidly growing literature on assessing the impact of microfinance. However, the literature has shown mixed results of household welfare, entrepreneurial growth, and women empowerment.

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8 Impact studies typically focus on evaluating the impact of a single MFI, often at the request of donors who want to know whether to continue support for the specific MFI (Zohir and Matin, 2004).
Microfinance impact assessment is anything but straightforward, which requires adopting research methodology “capable of isolating specific effects out of a complicated web of causal and mediating factors and high decibels of random environmental noise”, as well as measuring “tangible and intangible impacts that may or may not lend themselves to precise definition or measurement” (Baru and Woller, 2004, p.14). Many of the assessment studies have been undertaken in the form of randomized control trials (RCT), which allow for the construction of a counterfactual. However, it is also difficult for an RCT impact assessment study to isolate credit impact from nonrandom program placement (e.g., the choice to open an MFI in a specific village) and nonrandom program participation (e.g., the decision to participate is often associated with more entrepreneurial clients) (Hartarska and Holtmann, 2006, p.156). One of the first RCT studies by Pitt and Khandker (1998) of Grameen Bank and two other MFIs in Bangladesh shows a small but significantly positive effect of the use of credit on household expenditures, household assets, labor supply, and education. However, subsequent analyses by other scholars using the same data but alternative estimation techniques shed doubt on the identification strategy of Pitt and Khandker and the proper application of the restriction that loans can only be distributed to farmers owning less than half an acre of land (Morduch, 1998; Roodman and Morduch, 2009).

More recent assessment studies have shown that credit has differential effects on individuals and households with different characteristics, which is linked to different uses of credit. A key finding is that the very poor often use credit to smooth consumption or alleviate their liquidity constraints instead of for “productive purposes” (Hulme and Mosley, 1996). For example, Crépon et al. (2015) find in rural Morocco that while microfinance clients who are already entrepreneurs reduce consumption and increase savings with access to credit, non-entrepreneur
clients increase consumption. They note that no additional start-up businesses could be attributed to participation in microfinance programs and point to constraints beyond finance holding back the poor to become entrepreneurs.

Another important series of impact literature relate to the widespread belief that women are empowered through the improved access to financial services. For example, Amin et al. (1998) use both qualitative and quantitative evidence in Bangladesh to show that participation in microfinance programs among other factors is positively related to women's empowerment, both in financial terms and social terms. In contrast, Ehlers and Main’s (1998) study of microenterprise development programs for poor US women find that only very few women ever “graduate” their microenterprises into the formal sector due to the lack of appropriate training and gender discrimination in the type of businesses they choose to operate. Ehlers and Main argue that the microfinance assistance could be “more detrimental and problematic than advocates believe” (p.424).

Despite the ambiguous evidence of the impact of microfinance, the microfinance industry has witnessed unprecedented expansion in the 2000s, especially after Gråmen Bank and Yunus won the Nobel Peace Prize in 2006. However, the experience in recent years has shown the pitfalls of the too rapid development of the industry. For example, Andhra Pradesh in India underwent a major crisis in 2010 as the high growth of local MFIs was largely based on multiple borrowing and excessive indebtedness of low-income clients. Looking into six cases of microfinance over-indebtedness, Schicks and Rosenberg (2011) offer an analysis of how the increased competition in microfinance markets and uninformed behavior of borrowers result in
overborrowing on the demand side and saturation on the supply side. They also explain that it is difficult for MFIs to be alarmed with such problems early on with microfinance industry’s standard quantitative indicators such as payment rates, as borrowers managed to repay even if this pushes them further into poverty.

2.1.2 Institutional Sustainability

Despite the fact the majority of microfinance institutions (MFIs) are not financially self-sustainable, the microfinance industry is largely dominated by an institutionist paradigm (Morduch, 2000; Woller et al., 1999) asserting that an MFI should be able to cover not only its operating but also financing costs with program revenues.\(^9\) The conceptual foundations of this institutionist paradigm lie in the work of researchers at the Ohio State University’s Rural Finance Program. Their institutional analyses of the failed rural credit agencies established by several less developed countries’ governments during the 1960s and 1970s diagnose that the primary cause of their failure is the lack of financial self-sufficiency (Gonzalez-Vega, 1994). Their research shows that these government-led credit programs that were subject to price and quantity controls not only failed to address the social objectives that they were intended for (e.g., redistribution of income in favor of small producers) but also undermined the development of rural financial markets (Adams et al., 1984). For example, interest rate ceilings designed to provide affordable credit for small farmers often resulted in credit rationing and rent-seeking behavior. In other words, the subsidized credit became the targets of rich farmers who already had access to loans from unsubsidized sources. To cover their fixed costs (screening, monitoring, and contract

\(^9\) According to Morduch’s (2000) estimates, roughly only 1% of microfinance institutions are currently self-sustainable and that no more than 5% ever would be.
enforcement), credit agencies also preferred these rich farmers who were able to provide collateral or guarantee that the poor farmers could not afford. When rich farmers defaulted on their subsidized loans, poorer farmers were worse off because banks had even less loanable funds (Gonzalez-Vega, 1994). Similarly, La Porta et al., (2002) also show that while government-owned and -run institutions have a reasonable track record in providing savings services to the poor rural households excluded by private financial institutions, their overall record in credit provision is much more negative.

In contrast to the institutionist paradigm, Welfarists argue that MFIs’ sustainability does not have to and should not be equated with financial self-sufficiency (Morduch, 2000; Woller et al., 1999). Welfarists evaluate institutional success more according to social metrics by placing greater weight on servicing the poor relative to making a profit. Some Welfarists envision a microfinance industry characterized by a plurality of MFI types, including both entities pursuing profit and social missions. Targeting different clients, different MFIs should have different combinations of market and non-market funding and therefore different levels of commitment to financial returns. They argue that those socially responsible microfinance investors are willing to accept a lower expected financial return because they also receive a social return.

The entry of commercial capital into microfinance has given rise to a fiercer debate between institutionists and welfarists, what Morduch (2000) refers to as the “microfinance schism.” Driving the schism are competing perceptions of microfinance advocates that focus more on reaching the poorest of the poor and microfinance advocates that focus more on reaching a large number of clients (e.g., von Pischke, 1996, Hermes, Lensink and Meesters, 2011). The welfarists
are increasingly concerned that some MFI s would rush for economy of scale by sacrificing the mission of servicing the poorest. For example, Milgram (2001) presents the case where an MFI in the Philippines achieved financial self-sufficiency in a relatively short time only by targeting not-so-poor who already owned operating businesses. She concludes that the rush for MFI s to become financially self-sufficient too quickly will force them to be at odds with microfinance’s original mission of targeting the very poor by facilitating them to start microenterprises.

Some welfarists argue that the commercialization of microfinance has resulted in the “mission drift” of microfinance industry by situating financial calculations rather than poverty reduction at its core. They criticize the commercialized microfinance model benefits not the poor but rather the elite financial agents in particular. As Sinclair (2012, p.12) observes, “poverty reduction has been marginal … Most investment funds, acting as the principal intermediaries between those with capital and the MFI s pumping out the loans to the poor, have little idea about microfinance in practice, and are motivated by a perverse set of incentives that benefits neither their own investors nor the poor.”

2.1.3 Neoliberalization of Microfinance

Accompanying the commercialization of microfinance, a growing body of policy research which provides a different understanding of microfinance, especially commercialized microfinance, as one of the development practices of neoliberalism. According to social theorists such as Weber (2002, 2006), Elyachar (2006), Rankin (2002, 2008), Roy (2010), and Bateman (2010), by embracing the discourse of entrepreneurship and empowerment that obscures the structural exploitation of the poor, microfinance enables privatized schemes of self-improvement. This is
often consistent with “a political economy which has emphasized the retrenchment of welfare programmes, processes of market restructuring and the erosion of state transfers to individuals” (Aitken, 2013, p. 478).

Crucially, microfinance entails a valorization of “social capital” – popularly defined by Robert Putman (1993), the notion’s most enthusiastic proponent, as local forms of dense associational networks that express trust and norms which contribute to not only poverty alleviation but also economic growth and even political democracy. In contrast to earlier welfare approach to poverty reduction, the potential of social capital lies in devolving the underwriting and monitoring functions to the rural poor - “through the innovation of group guarantees and the mobilization of peer pressure” (Rankin, 2008, 1965). Once the poor have access to market-led financial services, they can invest in “microenterprises” that will spawn economic development. In this sense, mediated via social capital, microfinance enables the poor to take responsibility for their own improvement by engaging with the market (Elyachar, 2002, 2005; Rankin, 2003; Rankin, 2008).

Although the “social capital” - the dense social networks and associational life - was critical to the high rates of repayment in microfinance, many critics began to note the fragmentation of forms of solidarity in the practices of commercialized microfinance. Rankin (2002), for example, details how commercialized MFIs have tended to mobilize solidarity merely as an instrument to include the poor into the financial market. She notes that “solidarity” in commercialized “microfinance models advocated by mainstream donors … respond[s] more to lenders’ concerns with financial sustainability and profit than to established traditions of … collective action”
Similarly, Bateman (2010) also argues that commercialized microfinance “actually represents a quite fundamental schism with the various … community driven movements that supported microfinance in the past… [T]he [commercialized] microfinance model [lies] within the most fundamentalist and anti-poor variant of capitalism: neoliberalism” (pp. 164-165).

While Yunus’ model identifies the rural poor especially women as ideal subjects of entrepreneurial development – “given their perceived capacities for self-discipline, wise investment, and role in promoting households welfare” (Rankin, 2008, p.1966), the commercialized model of microfinance claims that such capacities enable lenders to achieve market rates of interest while women can still make money and enhance their status in both households and communities – what Julia Elyachar dubs “empowerment debt” (Elyachar, 2005, p.29). Development institutions seeking to promote liberalization in rural financial market seized on the commercialized microfinance model and began replicating such models worldwide. The premise was that once the model meets criteria of financial sustainability in one setting, it could be “transplanted to others and expanded to achieve economies of scale” (Rankin, 2008, p.1966).

Over the past decades, key advocates of commercializing microfinance, especially the World Bank, became preoccupied with the “regulatory reforms” that would allow MFIs to develop into profitable enterprises, often stressing the need for financial sector deregulation (Cuevas, 1996; Hartarska, 2008). Critics note that in these arguments, microfinance became a kind of “local variant of a much boarder process of neoliberalism” (Aitken, 2013, p.478). For example, Weber (2006) argues that microfinance can be “conducive to efforts to advance financial sector liberalization … [It is] a ‘micro-level’ strategy … [that] mirrors at the ‘local’ level the wider
trend of neoliberal restructuring” (p.360). Through the processes of financial sector liberalization, microfinance serves as a handmaiden of, rather than the alternative to, neoliberal globalization and free-market ideologies (Roy, 2010; Aitken, 2013).

2.1.4 Conclusion

To conclude, on the one hand, while studies on institutional sustainability and impact have been focusing on micro-level issues, they are mostly done with quantitative methodologies from the disciplinary perspectives of economics or finance. To a much lesser extent, microfinance has been approached through a micro-level sociological or anthropological perspective that may shed light on the socio-cultural processes of how local actors’ access and utilize microfinance information, products, and services (Zhang, 2015). On the other hand, the renewed research interests in macro-level issues related to the provision of microfinance, such as political economy analysis of how structural and regulatory reforms have changed the institutional and discursive environment of microfinance or rural finance in general, have tended to reify a coherent neoliberalization project by obscuring other-than-neoliberal processes and practices on the ground. Therefore, I argue that the gap of the literature lies in the presentation of the messy reality of how microfinance was contingently adopted and adapted in the rural financial sector in different countries (or regions), where overlapping and even sometimes contradictory logics, projects, and outcomes are at work.
2.2 Policy Mobilities and Assemblage Literature

This section will discuss how the intersection of two literatures – policy mobilities and assemblage - sheds light on our conceptualization of the making of public or governmental policies. The mobilities approach, which emerged as a critical response to the orthodox policy transfer in political science, conceives of policies as processual, relational, mobile, and unequal (McFarlane, 2011, p.649). Assemblage, a philosophical term which connotes an ontological priority of processes of composition, has been increasingly used in the policy mobilities studies to describe policy as a constructed composition of heterogeneous elements (Massumi, 2002).

Despite the fact that assemblage is gaining currency in not only policy mobilities studies but also in social science research as one part of a broader “relational turn” (Harrison, 2007; Lee and Brown, 1994), it points to a more radical sense of indeterminacy, openness, and possibility to be otherwise which has usually been overlooked in the “relational” thought. In this dissertation, I argue that the assemblage approach provides a unique way of conceptualizing policy in terms of 1) seeing relations of the constituent elements as exterior to their terms, which stands against a conception of component parts as fully determined by their relations within an assemblage; 2) rethinking agency as distributed, causality as nonlinear and emergent, and power as executed and associated; and 3) a methodological emphasis on the everyday practices through which assemblages remain stabilized or changed.

2.2.1 Policy Mobilities Literature

Inspired by the critique of orthodox policy transfer literature which invokes a notion of a rational decision-making process, the policy mobilities approach conceptualizes the movement and adoption of policy as a complex and power-laden process. This entails a relational interpretation
of heterogeneous elements, including expertise, regulation, and institutional capacities, that are “brought together in particular ways and for particular interests and purposes” (McCann and Ward, 2012, p.328). In this section, I also argue that assemblage approach, while sharing policy mobilities’ emphasis on processuality and relationality of “composition in which human and non-human elements are brought together around shared objectives”, demarcates a key difference with a more radical sense of nonlinearity, contingency and uncertainty (McFarlane, 2011a, p. 206).

**From Policy Transfer to Policy Mobilities**

There is a long tradition of policy transfer and adoption work in the political science literature, the first wave of which was diffusion studies that began in the 1960s. This policy diffusion literature argues that there is a market-place for public services and it is the competition among governments that give rise to policy innovation (Dye, 1990, p.15). In turn, governments, especially which are in close proximity to the policy innovator, tend to adopt similar policies to “catch up.” For example, Weyland (2006) uses the pension privatization policy in South America to show that a bold reform in one country often attracts the attention from other nations which seek to adopt the novel policy approach with the innovator’s neighboring states first to imitate the new model. He shows that pension reform in Chile has shown strong geographical clustering from the neighboring countries of Argentina, Peru, and Bolivia, all of which share a border with Chile, and all of which were the first emulators in replicating the fundamental designs of Chile’s pension reform policies.

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10 Drawing on the innovation theory’s S-shape curve of “cumulative rates of adoption”, the policy diffusion studies argue that “a small cluster of policy pioneers is subsequently joined by a larger group of mainstream adopters, after which there is leveling off around a higher stage norm” (Peck and Theodore, 2015, p. 8)
However, when deindustrializing states rushed to experiment with new programs for retaining and attracting businesses in the economic distress of the 1980s, scholarly attention shifted towards a new way of looking at diffusion as a form of deliberative policy development, based on a conception of “lesson drawing” – a lesson representing “an action-oriented conclusion about a programme in operation elsewhere” (Rose, 1991, p.7). According to the new policy learning approach, policy actors motivated to solve a policy problem not only scan the program evaluation evidence from other settings that have tackled similar problems but are also able to isolate the features that make the program “effective” from those “idiographic details of foreign practice [that] can distract attention from essentials, and confuse what is generic and potentially transferable with what is specific to time and space” (Ibid., p.20). By “presuppos[ing] a kind of technocratic determinism” (Ibid. p.9), this policy learning approach is distinguished from the diffusion studies whose focus is more on the sequential dynamics of the diffusion process itself.

The studies of policy diffusion and learning represent the orthodox policy transfer literature invoking the notion of a rational decision-making process in which policy actors almost freely scan the market-place of policies and choose the one that addresses their problem. In other words, policy transfer is assumed to be an efficient process for transmitting the best (or better) practices between jurisdictional spaces. However, such an assumption has been challenged by an emerging policy mobilities approach with diverse roots in the interdisciplinary zone of “critical policy studies.”11 Although not a singular project, the policy mobilities approach, compared to

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11 According to Peck and Theodore (2015), the policy mobilities approach includes but is not limited to a new round of diffusion studies (Levi-Faur, 2005; Weyland, 2006; Simmons et al., 2008), analyses of migrating neoliberal governmentalities (Ferguson and Gupta, 2002; Ong, 2006; Ferguson, 2010), explorations of emergent forms of (internationalizing) expertise (Babb, 2001; Mitchell, 2002; Goldman, 2005), and investigations of transnational forms of statecraft and regulatory restructuring (Jayasuriya, 2006; Plehwe et al., 2006; Prasad, 2006).
the orthodox literature of policy transfer, is much more attentive to the constitutive “sociospatial context of policymaking activities and to the hybrid mutations of policy techniques and practices across dynamized institutional landscapes” (Peck and Theodore, 2015, p.5). For example, in Peck’s (2009, p.168) analysis of creative city policies, he argues that their viral diffusion and adoption are made possible by an array of supportive conditions and enabling networks, including:

- stylized, but ground-truthed claims about the underlying causes of innovation-rich growth in cities like Austin and San Francisco; Richard Florida’s brand of guru performativity; the easy manualization of creativity-city policy techniques by consultants and other policy intermediaries; and, not least, the competitive anxieties and fiscal constraints of cities around the world, which effectively constitute a ready market for low-cost, feel-good makeovers of business-as-usual forms of urban entrepreneurialism.

McCann (2008) uses a case study of the development of an innovative approach to drug policy in Vancouver, Canada to deepen our understandings of policy mobilities. It details the often apparently mundane practices through which Vancouver’s “four-pillar” drug strategy composed of prevention, treatment, enforcement, and harm reduction was learned from Frankfurt, Amsterdam, and Liverpool and is now increasingly taught elsewhere. What McCann emphasizes is that the ways in which such policy mobilities occur involve a wide range of expertise (from credentialed professionals to grassroots activists) and powerful definitions of best cities and best practices that profoundly shape policy (p.14).

**Policy Mobilities and Assemblage**

Recent years have witnessed a remarkable proliferation of the use of the term *assemblage* in policy mobilities studies. The concept of assemblage derives from Gilles Deleuze and Felix Guattari’s (1987) work, which speaks not to “the static arrangement of a set of parts, whether
organized under some logic or collected randomly” (McCann and Ward, 2011, p.xv), but to “the process of arranging, organizing, fitting together … [where] an assemblage is a whole of some sort that expresses some identity and claims a territory” (Wise, 2005, p.77). The notion of assemblage highlights two aspects that serve a productive role in thinking policy as a constructed whole. First, an assemblage is a collection of heterogeneous elements including humans and non-humans. While human elements are easier to be located in assemblage making, the non-human elements, such as technologies, contractual documents or office locations, are usually more “hidden” but nonetheless essential in the process. Secondly, it is the relation among, rather than the nature or qualities of, elements that are more relevant. Allen and Cochrane’s (2007, p.1171) discussion of urban regions resonates with these two points:

Representatives of political authority, experts, skills, and interests drawn together to move forward varied agendas and programmes. The sense in which these are [urban] ‘regional’ assemblages, rather than geographically tiered hierarchies of decision-making, lies with the tangle of interactions and capabilities within which power is negotiated and played out. … There is … an interplay of forces where a range of actors mobilize, enroll, translate, channel, broker and bridge in ways that make different kinds of governments possible.

In relation to the policy mobilities approach, assemblage is generally deployed as a descriptive term that emphasizes policy as a constructed composition of a variety of elements. For example, McCann and Ward argue (2010) that contemporary policymaking can be conceived as “translocal assemblage” which involves interacting ideas from elsewhere, including “publications and reports, websites, blogs, the media, contacts, and word-of-mouth as ‘best practices’ and ‘off-the-shelf’ policies”, with local histories and policy contexts in complex ways (p.175). Here, assemblage does not separate out the cultural or the material but attends to how multiple elements accrete and align over time to enable formations of policy in particular space-time conjunctures (McFarlane, 2011b, p.652).
Another example of the increasing use of assemblage in the policy mobilities literature can be located in a growing body of empirically-grounded analysis of actually-existing urban neoliberalism that conceptualizes policy as the interplay between the local constructions and extra-local impositions (Mitchell, 2006; Collier and Ong, 2005; McFarlane, 2009). Using the term “global assemblage”, these contingent urban neoliberalism studies challenge the tendency to read down political-economic and social change in cities from abstract salient features of “neoliberalism in general” (McGuirk and Dowling, 2009, p.176). The analytical departure point is that even if neoliberalism may have proliferated, it has to be enmeshed, blended, and imbricated with inherited policy regimes, institutional frameworks, regulatory practices and political contestations (McGruik and Dowling, 2009; Brenner and Theodore, 2002; Peck 2004; Peck & Tickell, 2007). David Wilson (2005, pp.771-772) has argued that, as a political program, neoliberalism is anything but a ‘top-down’ brute and desensitized imposition on cities … (but ) … is best conceptualized as a series of differentiated, keenly negotiated, processual, and space mobilizing constructions in new political and economic times … that create a patchwork of widely varying governances that often barely resemble each other … These formations are not end states but evolving processes.

For example, McGuirk and Dowling’s (2009, p.176) study of contemporary residential developments (master-planned residential estates) in Sydney, Australia resists the tendency to interpret such developments as “iconic expressions of urban neoliberalization … and the inclination to mobilize neoliberalism as a pre-constituted theoretical explanation of urban phenomena” (pp.174-178). Rather, they emphasize that master-planned residential estates are social formations constituted by “multiple projects and rationales [that] are realized through diverse assemblages of institutions, actors and practices” (p.178).
While the policy mobilities literature makes it clear that policy assemblages are always “works in progress” involving invention, labor, and politics on the elements involved in them, there is a tendency to focus on how those elements are cohered into relative stable “things” (McCann & Ward, 2011, p.45). In other words, the analytical gaze of the mobilities approach is usually on “what makes an assemblage work” (Thoburn, 2003, p.5). Even in the analyses of the contingent urban neoliberalism, attention is on the neoliberal commonality rather than difference, coherence and resilience rather than incoherence and hybridity, incremental advance rather than non-incremental experimentation (McGuirk and Dowling, 2009, pp.176-177).

However, assemblages are not internally coherent but, rather, overdetermined, as constituted by multiple, often experimental, projects which “do not, and will not, add up to an integrated whole” (Larner et al., 2007, p.242). It is not only the heterogeneity, multiplicity but more importantly the relatively incoherent nature of assemblages that must be stressed. In other words, assemblage not only provides useful purchase on processes of composition through heterogeneous elements but also invites us to rethink policies as complex wholes composed through tangled relations that hold together without necessarily ever cohering and how they could have been assembled otherwise.

This understanding, in turn, leads us to ask the conceptual questions inherent in the use of assemblage: How do particular sets of relations which appear to be incoherent hold together across multiple differences and contradictions? How do the disparate elements become entangled with one another, but nonetheless have potential agency beyond their interactions to transform the current assemblage? How do we reconcile the necessity for assemblage to retain certain
orders on the one hand and the constant change and emergence of new orderings on the other? Beginning from the claim that “relations are exterior to their terms”, which stands against a conception of component parts as fully determined by their relations within an assemblage, the next section seeks to respond to these questions by going beyond the general conception of assemblage as a descriptive emphasis of how different elements come together and locating assemblage itself as an object of conceptual elaboration.

2.2.2 Assemblage Approach

In his discussion with Claire Parnet, a French journalist, Deleuze posed a deceptively simple question: what is an assemblage? Deleuze provided an outline of a definition in the following terms:

It is a multiplicity which is made up of many heterogeneous terms and which establishes liaisons, relations between them across ages, sexes and reigns – different natures. Thus, the assemblage’s only unity is that of co-functioning: it is a symbiosis, a ‘sympathy’ (Deleuze and Parnet, 1977, p.52).

For Deleuze, this “imprecise” definition makes the point that an assemblage is a provisional and open whole which is formed from the interactions between component parts. In other words, an assemblage cannot be reduced to a systematic set of pre-determined parts that are organized to work in a particular way, yet it is an emergent effect of processes of not only gathering but also dispersion (Anderson et al., 2012, p.177). Deriving from this definition, this section argues that assemblage approach offers three unique perspectives to how we conceptualize social and political formations: 1) a theorization of the relations of exteriority; 2) a rethinking of agency in distributed terms, causality in non-linear and emergent terms, and power in executed and
associated terms; and 3) a methodological orientation to empirical practices of assembly, reassembly, and disassembly.

**Relations of Exteriority**

The increasing use of assemblage in policy mobilities studies as discussed earlier is part of a broader “relational turn” in social science: a set of partially connected theories that claim that “entities acquire their form, efficacy and meaning by virtue of their position within some form of relational configuration” (Anderson et al, 2012, p.172). What is novel about assemblage approach is its argument that “relations are external to their term”: relations can change without their terms changing, and actual entities are not exhausted by their position within relations but may break, interrupt or change relations, and even initiate new relations (Anderson and Harrison, 2010, p.15). In other words, while other modes of relational thinking view entities as syntheses, where “the linkages between its components form logically necessary relations which make the whole what it is”, assemblage approach views relations as contingently obligatory - “entities are affected but never fully actualized within any of the relations that constitute an assemblage” (DeLanda, 2006, p.11).

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12 Indeed, to argue or assert that an entity, indeed any entity, is relational, and/or is emergent from relations and/or take place in relations is perhaps the starting point and sometimes even the main claim of contemporary social-spatial theory (Harrison, 2007; Lee and Brown, 1994).

13 Anderson et al. (2012) distinguished assemblage approach from models of sociopolitical composition that draw on organismic metaphors. Broadly speaking, organismic models, current in systems theory molecular biology and information theory, tend to reify a conception of the boundaries of the organism, be it social, biological or informational. In systems theory, the organs of a social or biological system largely function to reinforce the boundaries of the organism (Luhmann, 1995; Maturana and Varela, 1972; Oyama, 2000).
For example, actor-network theory, as a notable form of relational thinking, seeks to relate various actors in their co-production of the world. However, in its work of relating, the actors including humans and nonhumans form *logically necessary* relations in the making of an actor-network. In this sense, the actor-network becomes a “seamless whole” that fully assimilates its component actors whose efficacy lies only within the actor-network (Hetherington and Law, 2000, p.128; Lee and Brown, 1994). In contrast, assemblage describes the co-functioning of heterogeneous elements that can never be reduced to a single logic or project. As Ong (2007, p.5) argues in relation to assemblage and neoliberalism:

> although assemblage invokes nexus, it is radically different from concepts such as ‘network society’ or ‘actor network theory’ that seek to describe a fully-fledged system geared toward a single goal of maximization … the space of assemblage is the space of neoliberal intervention as well as its resolution of problems of governing and living.

A distinction between the *properties* and *capacities* of entities is critical in understanding the claim of exteriority of relations. According to DeLanda (2006, p.11):

> While its *properties* are given and may be denumerable as a closed list, its *capacities* are not given – they may go unexercised if no entity suitable for interaction is around – and form a potentially open list, since there is no way to tell in advance in what way a given entity may affect or be affected by innumerable other entities. … Being part of a whole involves the exercise of a part’s capacities but it is not a constitutive property of it. And given that an unexercised capacity does not affect what a component is, a part may be detached from the whole while preserving its identity. … In fact, the reason why the properties of a whole cannot be reduced to those of its parts is that they are the result not of an aggregation of the components’ own properties but of the actual exercise of their capacities. These capacities do depend on a component’s properties but cannot be reduced to them since they involve reference to the properties of other interacting entities.

Jane Bennett’s (2005) study of the 2004 blackout in North America where a series of events left 50 million people and 24,000 km² without electricity illustrates the arguments about the relations of exteriority and the distinction between the properties and capacities of component elements. Bennett argues that electricity generation can be viewed as an assemblage of both human and
nonhuman elements and there is always some friction among them. And for several days in August 2003, a series of minor happenings (including routine generator failure and a brush fire) radically transformed the interactions between the elements producing conflicts so great that cooperation between elements became impossible and the blackout took place. The point is not that properties of these component elements changed, but that they have a range of differential capacities revealed only in the event of a disruption. To be more specific, when generators were unplugged from the assemblage and brush fire was plugged in, the capacities and in turn the interactions of diverse elements were transformed to the extent that the electricity grid failed. On this understanding, the distinction between properties and capacities connotes indeterminacy and a more radical sense of openness by allowing for the autonomy of the component elements, as they have capacities that are not fully determined by their properties or their relations within the current assemblage. Rather, they have the autonomy to develop new capacities to configure and reconfigure relations with others either within or outside the current assemblage, which are not knowable in advance but only revealed in an event that has not taken place yet.

**Rethinking Agency, Causality and Power**

Following the affirmation that “relations are external to their terms”, what assemblage approach allows for, then, is a world populated with a various array of elements with differing properties and capacities, all of which have the autonomy to act and make a difference (Anderson et al., 2012, p.180). However, if assemblage involves a theorization of a world “that suggests all entities result from a swarm of tinier subcomponents that do not melt into a seamless whole”

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14 Bennett (2005) lists elements including “coal, sweat, electromagnetic fields, computer programs, electron streams, profit motives, heat, lifestyles, nuclear fuel, plastic, fantasies of mastery, static, legislation, water, economic theory, wire, and wood” (p.448).
(Harman, 2008, p.367), where does this leave the notions of agency, causality, and power? This section talks about how assemblage approach demands a rethinking of agency, causality and power in three broad and interconnected ways.

First, starting from the ontological priority of relationality and processuality, assemblage approach seeks to depart from the notion of mechanical causality that treats some elements as external causes and others as dependent effects but focus on the interactive processes of assembly as themselves in possession of degrees of agentic capacity (Bennett, 2005, p.459; Massumi, 2002). Shifting the analytical gaze from some pre-given sovereign agent to the contingent coming together of a set of elements, what assemblage approach argues for is a conception of distributed agency and emergent causality in which elements within or outside assemblage by themselves alone do not cause anything, but only become causally productive when alliances are formed with other elements (Harman, 2008, p.373). William Connolly’s (2004) specification on emergent causality is useful here:

emergent causality is causal … in that a movement at [one] level has effects at another level. But it is emergent in that, first, the character of the activity is not knowable in precise detail prior to effects that emerge at the second level. Moreover, the new effects become infused into the very organization of the second level in such a way that the cause cannot be said to be fully different from the effect engendered. Third, a series of feedback loops operate between first and second levels to generate the stabilized results (p.342-343).

For example, Bennett’s (2005) account of the North America blackout in 2004 identifies an assortment of agentic loci, including “the unstable power of electron flows”, the “selfish intentions and energy policy that provides lucrative opportunities for energy trading while generating a tragedy of the commons”, the “consumers, whose demand for electricity is encouraged to grow without concern for consequences”, the energy trading corporations that had
“been milking the grid without maintaining its infrastructure”, and the brush fire (Bennett, 2005, pp.449-463). The blackout took place as a result of the contingent coming together of all these elements rather than any one of them. The agentic capacities of these elements are not foreseeable in advance but can only be retroactively revealed as they only emerge through the exact process of coming together.

Secondly, assemblage approach also argues for a notion of nonlinear causality which resists the assumption that same causes *always* equal the same effect and therefore makes room for randomness and novelty (DeLanda, 2006, p.20). Assemblage approach insists that even if it is possible to trace a certain set of elements as the “causes” of a certain phenomenon, they do not equal a systematic set of pre-determined parts that are organized to work in a particular way. Instead, the component parts of an assemblage are never fully actualized within any of the relations that constitute the assemblage but possess autonomous emergent capacities which allow for independent variation – the capacity to form new sets of relations within the current assemblage and more importantly to be disconnected and plugged into a different assemblage in which their interactions are different. Such creative reworking of relations in motion renders causality nonlinear and indeterminate. In this sense, there is always an uncertainty in the coming together of an assemblage, a potential for relations to be otherwise:

[assemblage is] a gathering of elements in a way that both forms a coalition and yet preserves something of the *agential impetus* of each element. Each member and proto-member of the assemblage has a certain vital force … and precisely because each member actant maintains an energetic pulse slightly ‘off’ from that of the assemblage, an assemblage is never a solid block but a non-totalizable sum (Bennett, 2010; 24).

For example, Laura Lieto (2016), in her studies of informal practices related to formal planning, shows that how the Bottle Bill which was envisaged as a mechanism of waste recycling has
“unintentionally become the frame for self-provided welfare that, in a rather circular mode, contributes to the livelihood of people striving to get to the end of the month” in New York City (p.35). Entangled with a poverty issue outside the assemblage of environmental protection encompassed by the policymakers, urban waste contains the “agential impetus” that produced an unanticipated outcome.

Another example of non-linear causality is Dovey and Pafka’s (2017) study which develops a particular approach to the mapping of functional mix (a triangle of live/work/visit), based on assemblage thinking. In contrast to existing metrics that reduce the mix to a single index, the desire of which is to establish formulae between urban design variables (mix being one of them) and outcomes such as walkability, transport and health, Dovey and Pafka emphasize the multiplicity and complexity of mix by mapping and diagramming the dynamic relationships not only between the different functions but also between the mixes. What they expose is that, instead of a set of certain functions in certain proportions, it is “a mix of mixes” that produce contingent results which in turn give the identities of neighborhoods and districts in great cities like New York, Barcelona and Bogota (p.250).

Lastly, while assemblage approach involves a notion of distributed agency and emergent causality under which effective agency emerges only from the interplay between elements and no one element has sufficient capacity to fully determine the consequences of the activities of the assemblage, it does not imply a topography where power is equally distributed across the assemblage. While some elements are more dominant than others by virtue of the financial resources or decision-making powers at their disposal, others may rely on their ability to
mobilize opinions and interests in their favor. Allen (2004, p.25) usefully lists a range of different forms of power, including domination, authority, manipulation, and seduction:

*Domination* works to quickly close down choices and may be more effective across distance, while *authority* works most effectively through proximity and presence, drawing people into line on a daily basis and seeking the internalization of particular norms. *Manipulation* can have a greater spatial reach than authority partly because it may involve the concealment of intent, such as in a corporate advertising campaign or corporate development intervention, and partly because it does not require the internalization of norms. *Seduction* is more modest form of power that can operate successfully with spatial reach, where the possibility of rejection or indifference are central to its exercise.

The list certainly implies an order from the more dominant to the weaker form of power. For example, consider a case in which an urban municipality hires policy consultants to prepare an application for a conditionality loan from the World Bank. Indeed, the World Bank is powerful here as it exercises the power of *domination* (by deciding which applicant would get the loan), while the policy consultants’ power mostly resides in the form of *seduction* as they use reports and presentations to convince their clients and the World Bank. However, the policy consultants could work with a network of experts who also work with the World Bank and have an influence on the application process, and the World Bank, in order to manage a conditionality loan, also has to entail target-setting and monitoring at the local level. Therefore, the emphasis here is not on the categorization of the forms of power but the actual exercise of power which always involves interactions with others. In other words, the urban municipality, the policy consultants, and the World Bank are all the component parts of one assemblage where their power is defined not by their properties but by their emergent capacities to act in relation with others within or outside the assemblages. As Allen (2003) conceptualizes that although they are not constant, there are center and periphery in an assemblage where the center features an element (or a set of elements) with denser and more complex alliances, while the periphery is full of elements with simpler and easier to break-off alliances. Latour (1988, p.292) also makes a similar comment that
“strength resides in the power to break off and bind together.” The concern here is that term assemblage is not used to merely identify a static map of elements with pre-given powers which drains this terminology of its potential of dynamically mapping the heterogeneous elements engaged in the constant negotiations.

**Methodological Emphasis on Practices**

With the emphasis on the notion of distributed agency, emergent and nonlinear causality and associated power, assemblage approach speaks of the messy and complex processes of composition that produce political and social formations without losing a sense of their open-ended and unfinished nature. However, it is not difficult to notice that there is a tension which relates directly to the heart of not only assemblage approach but also relational thinking: “between accounts that emphasize the stability of assembled orders and those emphasize dynamic change” (Anderson et al., 2012, p.183). Assemblage approach provides a novel solution to this paradox by a methodological emphasis on the actual *practices* through which particular relations are held stable, contested, and fall apart. For McCann (2011, p.145), “assemblages are always coming apart as much as coming together,” so what we need to look at is not only on the existence of an assemblage in particular configuration but more on how it is continually worked. It is essential to at the processes in which elements are not only able to stabilize but also destabilize the current assemblage. Deriving from the notion of “relations of exteriority”, elements that made up and stabilized the current assemblage always bear the capacities to be detached and plugged into a new assemblage – for example, a technology of government assembled for one assemblage can be hijacked for another. In other words, even same elements can carry out both stabilizing and destabilizing practices within one assemblage.
What assemblage approach argues for, therefore, is to not stop at realizing the contingency of the social and political formations but step further to foreground the “grounded work of assembling” (Baker and McGuirk, 2017). Rankin (2011, p.56) also echoed this call for empirically rich accounts which she terms as “thick description” in her investigation of the everyday processes through which capital accumulation gets assembled with other lines of hierarchy and marginalization:

I suppose that is a reasonable characterization – if by ontological presupposition they are referring to an orientation to the world as an open social field within which relations may be assembled in any number of ways depending on the contingencies of particular space-time conjunctures. The empirical task, given this ontological presupposition, is to document how the machine of capital enlists place specific projects and subjectivities to its purposes on the one hand; and how, on the other hand, technologies of capitalist rule become subverted to other coevolving projects specific to that conjuncture.

For example, Prince’s (2010, p.169) study of the creative industries in New Zealand reveals how different kinds of political and technical work, “including the alignment of divergent political motivations, the translation of different ideas, and the invention of new concepts and programmes”, were necessary to incorporate the creative industries into the policy apparatus. Another example is Li’s (2007) study of community forest management, which is approached as an assemblage assembled and sustained for more than thirty years, absorbing hundreds of millions of dollars in programmes from the west coast of Canada to the eastern islands of Indonesia. Li exposes the practices that are necessary to bring together an array of actors (villagers, labourers, entrepreneurs, officials, activists, aid donors, scientists) and objectives (profit, pay, livelihoods, control, property, efficiency, sustainability, conservation). The practices Li identifies in her study, which are generic to any assemblage, include forging alignments, rendering technical, authorizing knowledge, managing failures, re-posing political questions and reassembling as the ground shifts.
Assemblage approach’s commitment to stay empirically close to on-the-ground practices is most of the time, if not all the time, fulfilled through in-depth qualitative case studies with an ethnographic fine-grained approach.\textsuperscript{15} Although it is not an option for public policy researchers to “immerse” in daily work of policy actors as required by traditional ethnographic research, assemblage methodology is nonetheless informed by an “ethnographic sensibility”.\textsuperscript{16} As Shore and Wright (2011) argue, ethnography is not limited to a prescribed set of methods but also a “sensibility” – a “critical and questioning disposition that treats familiar as strange” (p.15). Therefore, instead of prolonged engagement within key policy actors’ professional environments, researchers using assemblage approach seek to located detailed and “defamiliarised” accounts of practices from interviews and documentary (Roy, 2012). In interviews, researchers can invite interviewees to step beyond taken-for-granted narratives of intention, unsettling the “technical and ideological parameters” (Kuus, 2013, p.118). For documentary analysis, an ethnographic sensibility also encourages the researcher to treat documentary materials, such as reports and PowerPoint presentation slides, as “windows into the creation, mobilization, and application of policy knowledge” (Baker and McGuirk, 2017). For example, Baker and McGuirk’s (2017) research on the development and enactment of homeless policy in Australia use interview questions to defamiliarise the seemingly apolitical and technical framings of target populations (i.e. the chronically homeless) and how to align those populations

\textsuperscript{15} Dovey and Pfeka’s (2017) study of functional mix is an exception by using quantitative data. Fox and Alldred (2015) review 30 empirical studies of new materialist inquiry which focus on “how assemblages of the animate and inanimate together produce the world” (p.399) and find out that all 30 studies use qualitative designs, “with ethnography the favoured methodology” (p.407).

\textsuperscript{16} In the resource-scarce and competitive funding environment of public policy, bureaucracies are often risk averse when it comes to engaging with critically policy-making research. As Kuus (2013, p.118) notes in her research on foreign policy bureaucracies, policy-making settings are not places where we as researchers could “chummily hang around”.

40
with appropriate solutions (i.e. Housing First Project) in the documents such as the program evaluations and administrative cost studies.

Another important methodological practice for assemblage approach is the tracing of “sites and situations” (McCann and Ward, 2012). If an ethnographic sensibility is concerned with “how to look at” practices, tracing sites and situations is concerned with “where to look” (Baker and McGruik, 2017). Here, sites are not limited to particular bureaucratic sites but include “where [a] policy touches in order to cohere recognizably as policy” (Prince, 2015, p.424), and situations relate to the prevailing discourse of best practice or “a hegemonic political-ideological project that exists beyond, but is nonetheless constituted by, particular sites” (Baker and McGuirk, 2017). In this sense, for research using assemblage approach, the “field” or the “study area” is not predefined but only revealed as a series of interrelated sites and situations are inductively and iteratively traced over the course of the research project. Prince’s (2015) assemblage-inspired account, for example, demonstrates how technocracy contributes to the mobilization of policy. The technocratic assemblage is not contained within particular nation states, but instead, in order to produce knowledge, it joins sites of counting and measurement to centres of calculation, like national statistics offices, which are connected up across space and time. In order to secure its expertise, it operates through epistemic communities that are generally international and crossover into academia and other research intensive sites (p.431).

2.2.3 Conclusion

The purpose of this literature review has been to point out the usefulness of policy mobilities approach and assemblage approach, which is more than a descriptive term of approaching how multiple actors that are variously present or absent, near or far, interior or exterior, human or nonhuman are assembled together (Dovey, 2010), but captures a more radical sense of
uncertainty, nonlinearity, and contingency in policymaking. In contrast to the “billiard ball image of cause and effect,” assemblage approach grapples with a less linear and predictable sense of the possible, and in turn highlights the possibility of invention – “the inventive ways of thinking and configuring and reconfiguring relations with other actors” (McFarlane and Anderson, 2011, p.162). And it is only on the basis of such an understanding that effective strategies can be enacted for action and change.
Chapter 3: Methodology

The purpose of this dissertation is to shift the attention to the contingent and overdetermined nature of assemblages. Methodologically, this also requires maintaining a sense of uncertainty – eschewing the temptation to impose rigid explanatory frameworks in favor of a more flexible approach. McCann and Ward (2012, p.43) claim that the assemblage approach “encourages and rewards a methodological openness and flexibility” and grapples with the “reality of unexpected connections, mutations, and research sites emerging during [research] projects.” Anderson and McFarlane (2011, p.126) also argue that assemblage thinkers should favor an approach that “opens the researcher up to risk, embraces something of the fragility of composition.” In response to such a call for uncertainty and flexibility, this dissertation uses a case study methodology to follow the leads that emerge in the research process of how microfinance assemblages are assembled, disassembled, and reassembled in Yi County.

3.1 Why a Single Case Study?

The in-depth qualitative case study method is used for this dissertation because it is difficult and not desirable to separate investigating how microfinance assemblages are made up, maintained, transformed, and deteriorate from their contexts (Yin, 2009, p.18). Rather than attending to context externally as a few control variables, the case study research design, by its nature, is sensitive to the complexity, diversity, and historical specificity required in a “how” question. For example, the more recent work on policy mobilities uses case studies to reveal the complex processes of how a broad coalition of actors are drawn together to invent and mobilize policies amid different social and cultural contexts (Peck and Theodore, 2010; McCann, 2011; McCann and Ward, 2012).
Compared to quantitative studies, especially large-N quantitative analyses, that have dominated the microfinance literature, case studies are certainly “less subservient to the scientific imperative of hypothesis-testing” (Beauregard and Lieto, 2017, p.156). However, this is the very reason that case study is selected to answer a series of “how” questions in this dissertation – by avoiding the temptation to “know too much” in advance (Gibson-Graham, 2008, p.619). In other words, case studies allow researchers to be open to learn from the evidence emerging from the research process rather than set out to test evidence against a theory in mind.

For this dissertation, I conducted a single case study of “paradigmatic/prototypical case” of Yi County (Yixian). Although no explicit standards exist for the paradigmatic case which is often recognized by researchers only because it “shines,” the Yi County case is selected for this dissertation for two reasons (Flyvberg, 2006, p. 16). First, the Yi County case provides the richest details and ambiguity about microfinance development in China. Yi County in Hebei province, where the first microfinance institute - Funding the Poor Cooperative (FPC) was founded, serves as an ideal place to trace the microfinance assemblage. The most important elements within the assemblages, including poor rural households, domestic poverty alleviation researchers, international development institutions, local government, and central government are all present and available to be located in Yi County. Moreover, until 2017, FPC was administered by the Poverty Research Center (later renamed as Microfinance Research Center) housed in the CASS Rural Development Institute, which had a long working relationship with the People’s Bank of China (the central bank) and the State Council (especially the Leading Group Office of Poverty Alleviation and Development). The existence of such relationships between elements makes data (including written documents and interviews) more accessible.
Second, administratively under the jurisdiction of the prefecture-level city of Baoding, Yi County is only 120 kilometers southwest of Beijing and the national level poverty-stricken county closest to the capital in 1994 (see figure 3.1). The geographical closeness has made Yi County react more promptly to the policy and political changes of the central level government, such as poverty alleviation policies from the State Council Leading Group Office of Poverty Alleviation and Development or financial reforms from the People’s Bank of China. Usually reflected in the issuance of the policy documents or public statements, such connections make it easier to trace the relations between the Yi County government and the central level government, which are important elements of all four microfinance assemblages.

**Figure 3.1 Map of Yi County**

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17 The State Council Leading Group Office of Poverty Alleviation and Development issued the list of national-level poverty-stricken counties first in 1985. In 1994, the list was renewed, where the qualified counties’ annual per capita income has to be below 400 yuan (about $46 at the 1994 exchange rate). The list was most recently updated in 2012 when the standards was upgraded to annual per capita income of 2300 yuan (about $370 at the 2012 exchange rate), Yi County was removed from the list and is currently listed as Hebei provincial –level poverty-stricken counties (The People’s Daily, 2014).
To note is that the site of the case is not limited to Yi County itself. Drawing from anthropologists’ longstanding call for “a radical reconceptualization of ‘the field’ [that policy researchers investigate] … not as a discrete local community or bounded geographical area, but as a social and political space articulated through relations” (Shore and Wright, 1997; p.14), this dissertation traces a series of interrelated sites that emerge in the process of tracing the assemblages. While I started the research by focusing on the founding of FPC in Yi County, it revealed additional sites that were involved in learning activities, decision, and debates related to microfinance not only locally, but also domestically and internationally. These sites include a conference room in the World Bank in Washington D.C, an office in the central bank in Beijing, and a rural chicken farm in Yi County. Only by piecing together spatially dispersed yet “relationally proximate collection of sites,” this dissertation reveals the “multiply determined, processually aligned and actively composed” assemblages of microfinance in China (Baker and McGuirk, 2017).

3.2 Data Collection

The time period of the case covers 1993 to 2017 – from when FPC was established to when the last interview was conducted. The primary methods of data collection included interviews, policy documents and public statements, and media publications.

Interviews were the most important data collection method and provided information that is hidden from the written record. I visited Beijing in November of 2016 and October of 2017 to carry out interviews with central level institutions, including Chinese Academy of Social Sciences, People’s Bank of China, and State Council’s Leading Group Office of Poverty
Alleviation and Development. From November to December of 2017, I stayed in Yi County, Hebei Province to conduct interviews with local institutions and rural households. During that period, I also conducted phone interviews with one researcher from Zhejiang University and a director from a microfinance company in Jiangsu Province. All together I conducted 27 interviews as listed in table 3.1. Except for Professor Du Xiaoshan from Chinese Academy of Social Sciences, Zhou Xueren, the director of Funding the Poor Cooperative, and Ji Shaofeng, the director of Nanjing Jingdong Microfinance Company, all the other interviewees chose to stay anonymous.

All the interviews were semi-structured, using lists of preconceived questions, and conversational in an attempt to get the interviewee to discuss further something he/she mentioned in an answer. As I carried out more interviews, questions were also added to confirm early interview results. The stories gathered in my interviews not only allow me to “defamiliarize the seemingly apolitical and technical framings” often associated with microfinance policy-making but also reveal a host of seemingly mundane events that were consequential in how microfinance was assembled in Yi County (Baker and McGuirk, 2017). For example, the Director of FPC reflected that one of the reasons that Yi County was first selected as the site of the first microfinance NGO by Chineses Academy of Social Sciences (CASS) was that the director of Rural Development Institute of CASS knew the deputy governor of the county directly (they went to college together).

For this dissertation, I conducted the interviews through snowball sampling – the process of which informants refer the researcher to other informants, who are contacted by the researcher
Table 3.1 List of Interviewees

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Department</th>
<th>Number of Interviewees</th>
<th>Number of Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Development Institute of Chinese Academy of Social Science (CASS)</td>
<td>Rural Microfinance Project Office</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>State Council Leading Group Office of Poverty Alleviation and Development</td>
<td>Department of Policy and Regulation</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Department of International Cooperation and Poverty alleviation</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>People’s Bank of China</td>
<td>Research Bureau</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Financial Market Department</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>China Banking Regulatory Committee</td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Funding the poor Cooperative</td>
<td></td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Yi County Poverty Alleviation Office</td>
<td></td>
<td>2 (1 retiree)</td>
<td>2</td>
</tr>
<tr>
<td>Agricultural Bank of China</td>
<td>Beijing Headquarters</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Baoding Yi County Branches</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Rural Credit Cooperatives</td>
<td>Yi County RCC Committee</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Yi County Branches</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Rural households in Yi County</td>
<td></td>
<td>7</td>
<td>18</td>
</tr>
<tr>
<td>Zhejiang University</td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Microfinance Company</td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>28</strong></td>
<td><strong>43</strong></td>
</tr>
</tbody>
</table>

and then refer him or her to yet other informants, to uncover the elements in the microfinance assemblage in Yi County. I started the interviews with the most accessible elements - the Funding the Poor Cooperatives and Rural Development Institute of Chinses Academy of Social Sciences and then moved to the more “hidden” elements in the assemblages as they were referred to me in the research process. One of the disadvantages of snowball sampling is that I relinquished some control over the sampling phase to the informants. Nonetheless, the assumption underlying such “respondent-drive” sampling strategy is that knowledge is dialogical
and is co/re-created in the course of the interaction between the researchers and respondents (Heckathorn, 1997). In other words, the sampling procedure here is not an instrumental means whose sole goal is to enable “access to knowledge” (Noy, 2008). Rather, the procedure entails knowledge in and of itself because it not only relies on but also partakes in the dynamics of the relations between the actors in the microfinance assemblages. For example, during my research, I was trying to arrange an interview with someone from China Banking Regulatory Committee (CBRC). I successfully traced someone from People’s Bank of China (PBoC) who attended the meeting that was arranged for Yunus to meet top-level officials from PBoC and CBRC in 2006. While she was willing to refer me to the next informant from CBRC, she was implying that I probably could not get any productive information from CBRC on the issue of microfinance as “CBRC is very conservative towards this issue. Different from us, stability is the everything for them.” In this case, what was revealed to me was not only a next informant but also the delicate relationship between the PBoC and CBRC which was worth looking into.

Another disadvantage of snowball sampling is that there is always the possibility that informants could deliberately refer me to other informants who could be beneficial to their or their institution’s interests, but in a manner not easily detected. Inevitably, the interviewees are committed to “a means of world-making” through their dialogue with researchers, which requires a sense of skepticism (Clark, 1998). Therefore, I started interviews with two different chains of referrals. One is with CASS, which tended to refer me to central level institutions, such as the People’s Bank of China and State Council Leading Group Office of Poverty Alleviation and Development.¹⁸ The other chain started with FPC, which referred to me to local

¹⁸ Chinese Academy of Social Sciences (CASS) is directly affiliated with the State Council.
policymakers and local financial institutions including the Agricultural Bank of China and rural credit cooperatives. I also included questions about the sources of respondents’ knowledge and evaluated their comments according to their background information such as occupational position or their relationship with other respondents. Moreover, I employed the method of triangulation – that is, to see if different sources (besides multiple interviews, also policy documents, conference memos, and institution publications) agree on the same sets of facts. While the findings generated by those different sources often still do not come together to produce a nicely integrated whole (Patton 1990, p.330), these multiple sources that relate different and conflicting accounts of the same episode are capable of revealing data previously hidden relations between the actors as they project the underlying biases onto their understanding of what happened (Roth and Mehta, 2002). For example, on the issue of how rural households spend microfinance credits, the researchers, the credit officers, and the rural households could give different and even contradictory answers. The task here is therefore not only to triangulate the different answers but also to dig into the perspectives and sources behind these answers.

Policy documents are also an important source of data, which not only helped locate the working relations between different elements but provided a lens into how problems came to be defined as problems in relation to particular schemes of thought, diagnoses of deficiencies, and promises of improvement (e.g., poverty issue in China), how the target groups are defined and described (e.g., microfinance clients), and the standpoints and styles of reasoning and argumentation (e.g. statistical facts about microfinance). In addition, media publications were also collected as data for the triangulation purpose. By tracing the continuities and turning points in these texts, I
searched for the common ground on which alignments between elements/ assemblages were forged.
Chapter 4. Background of the Case

To provide a background against which microfinance was transferred, adopted, and adapted, this chapter introduces the most important players in this process, including the international development organizations (especially the Consultative Group to Assist the Poor - CGAP), the rural financial institutions, the central state, and the local states. The chapter will be divided into four sections: 1) the first section discusses how microfinance gained its global popularity as an approach to poverty alleviation in the mid-1990s and has been promoted via a commercialized model created by CGAP since then; 2) the second section discusses the poverty alleviation initiatives in China from the late 1970s to 2017; 3) the third section provides an overview of the rural financial sector by going through the credit institutions, both formal and informal, that provided or are still providing loans to rural households; and 4) the fourth section sheds some light on the relationship between the central and local states in term of institutional and fiscal frameworks.

4.1 International Development of Microfinance

Originating from the Grameen Bank of Bangladesh founded by Muhammad Yunus in 1976, microfinance is the practice of providing small loans and other financial services (including savings, insurance, and money transfer) to very poor people, mainly women, without collateral. These loans were given at interest rates usually higher than 30% per annum to start or expand income-generating business out of the homes of the borrowers. The risk is managed through peer groups and the presence of non-governmental organizations (NGOs) in village life. With nearly perfect repayment rates, the success story of Grameen Bank quickly galvanized not only
philanthropists, feminists, and NGO leaders, but also powerful international development organizations (He, 2016).

Microfinance as an *approach to poverty alleviation* gained unprecedented popularity mostly via the World Bank’s social funds program. By the end of the 1980s and early 1990s, the Structural Adjustment Program (SAPs) promoted by the International Monetary Fund (IMF) and the World Bank had imposed severe cuts to the health care, education, and infrastructure expenditures of the “borrower states.” While social funds were originally designed as temporary measures for these countries to recover from SAPs, they turned into a long-term strategy in the face of persistent poverty and increasing inequality. To supervise the state’s retreat from the economy but at the same time address the poverty issue, the social funds program needed a non-state mechanism to provide credit to micro-enterprises that poor communities depended on for a living but were ignored by formal banks. Consequently, microfinance was included as a social funds component for its ability to provide the poor with an enterprise loan through local NGOs. By the end of 1996, the World Bank had approved fifty-one social funds with microfinance components in thirty-two countries, mostly in Latin America, Africa, and the Caribbean region (Weber, 2006a, p.369).

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19 In 1986, the first social funds program, Emergency Social Fund (ESF), was set up in Bolivia under a coalition of the World Bank, IMF, Bolivian governmental representatives, and prominent Bolivian businesspersons. As the World Bank’s first project dedicated specifically to the poverty issues incurred during a macroeconomic adjustment program, ESF departed from more traditional public welfare programs such as those lodged within a policy of public provision of services and service subsidies. Instead, it was designed as a “quick disbursing mechanism for financing small, technically simple projects” (Jorgensen *et al.*, 1992, p.6). Of the four types of projects considered suitable for ESF funding, one is production support; i.e. providing credit “through NGOs to microenterprises producing in the informal sector and to cooperatives in mining and agriculture” (Jorgensen, *et al.*, 1992, p.6).
In 1995, the World Bank established the Consultative Group to Assist the Poor (CGAP), a multi-donor consortium housed in the Bank, which mobilized billions of dollars and collaborated with governments, NGOs, and financial institutions to promote microfinance as a poverty alleviation approach worldwide. Through conferences, forums, reports, and training sessions, microfinance is lauded as “one of the great new chapters in human history” that “will allow tens of millions of people to free themselves and their families from the vicious cycle of poverty” (Microcredit Summit Conference, 2004). For example, Deutsche Bank (1998), on its Microfinance Development Fund website, claims that:

Microcredit institutions are proving to be a revolutionary force in enabling families to rise from poverty. From the rural villages of Asia to the urban centers of the United States, small loans to emerging entrepreneurs create opportunities for self-employment and lives of dignity for millions.

Today, microfinance is implemented more than 137 countries serving more than 665 million population (CGAP, 2004). However, microfinance’s rapid expansion and geographical diffusion are at the same time processes of commercializing microfinance. To produce a new model that could be transferable to different institutional, cultural, and social contexts, the CGAP had to “disembed” microfinance from the “dense webs of social and kin obligations and reciprocities” which were deployed as social collateral and thus rendered the poor, especially the poor women, bankable in the original microfinance models (Karim, 2011, p.xvi). In the new “minimalist” approach to microfinance the CGAP produced, however, risks are increasingly managed through market-based benchmarks rather than through “codes of women’s honor and shame” that are claimed to constrain their economic activities (ibid, p.198).
Similar changes are made to the microfinance institutions by introducing market-based benchmarks such as scale, profitability, and portfolio quality. In 2002, CGAP, with support from Citigroup Foundation, Deutsche Bank, the Omidyar Network, Open Society Institute, and the Rockdale Foundation established Microfinance Information Exchange (MIX), a virtual microfinance marketplace. MIX creates an annual ranking of the “top performing microfinance institutions throughout the developing world,” which is called the “Global 100” (MIX, 2010). By measuring the financial performance instead of the social benefits of microfinance institutions, the list validates the minimalist approach to microfinance that celebrates financial efficiency and scarcely considers pro-poor innovations (Roy, 2010, p.50). For example, Grameen Bank’s “ten indicators to access poverty level” – from access to safe water and shelter to the seasonal rhythms of vulnerability and deprivation – was replaced by the more clear-cut criterion of maximizing profit. As Roy (2010, p.133) quotes from her interview with a microfinance officer in Bangladesh:

The world wants to know if microfinance helps the poor. We don’t turn the poor into profit-making entrepreneurs. We simply help them survive. The problem is that consultants show up, making $1000 a day and staying in five-star hotels. They make a trip to a village and ask a poor woman if her microfinance loan has helped her. She responded hesitantly saying that there have been small changes in her life – she now has a blouse to wear underneath her sari when she once never had one, that she now has a bar of soap with which to bathe. The consultants, trained at Harvard, are unhappy. They are not convinced that this is social change.

By taming both microfinance clients and institutions through market-based benchmarks, CGAP was able to integrate microfinance into the global financial markets. By “breaking down the walls between microfinance and formal finance,” CGAP has created a new alliance between traditional microfinance providers who “control access to the poorest” and commercial banks who “control access to capital” (Roy, 2010, p.31). As the CEO of the CGAP, Elizabeth
Littlefield (2007) commented in an article in *Forbes*, microfinance has proved that poor communities originally excluded by banks have both the ability and willingness to pay for banking services, which represented a larger and a growing market. And what the microfinance industry has been witnessing, she argued, is fervent investments not only from public commercial-investment agencies, such as the International Finance Corporation, but also big commercial banks.

### 4.2 Poverty Alleviation Policies and Programs

In China, microfinance was adopted and adapted with a series of central government’s rural poverty alleviation initiatives. Therefore, it is important to look into the national poverty alleviation progress over time with an emphasis on how credit provision to the rural sector has evolved accordingly. Based on China’s overall development patterns and the institutional changes concerning poverty alleviation between the late 1970s and 2017, this section divides the national poverty alleviation efforts into four phases.

#### 4.2.1 The First Phase: From the late 1970s to 1985

In the late 1970s, to recover the rural economy from the ten-year-long Cultural Revolution, the central government of China launched a series of institutional reform. The most fundamental one was the land reform characterized by the household responsibility system, which contracted collective agricultural land to individual rural households and gave them relative autonomy over land use decisions and crop selection.\(^\text{20}\) The reforms delivered remarkable results in terms of

\(^{20}\) Before the reforms, the government gave farmers a quota of goods to produce. They received compensation for meeting the quota. Going beyond the quota rarely produced economic reward. Under the household responsibility system, individual households are held responsible for the profits and losses produced from the contracted land.
boosting agricultural production and procurement prices, which had a significant effect on increasing farmers’ income and, therefore, reducing rural poverty. The number of rural poor who lived on less than $1 per day, declined from 250 million in 1978 to 125 million in 1985 (Wang et al., 2004). However, the severe drought and resultant hardships in Gansu and Ningxia provinces in 1981-1982 dramatized the plight of millions of rural poor, which brought the central government to recognize that the rural poor in resource-poor areas were not likely to share the increased income brought through the household responsibility system. Studies of mountainous regions in South China conducted by the State Council’s Research Center of Rural Development in 1983-1984 provided additional evidence that the rural reform programs alone would not be sufficient to overcome continued low productivity in poorly endowed areas.

4.2.2 The Second Phase: 1986 -2000

In response, China’s 7th Five Year Plan (1986-1990) put forward a new and explicit poverty reduction approach, which emphasized “development assistance” – developing income-generating activities based on local resources and local organizations – as the key to “sustainable poverty reduction.”21 The centerpiece of the new poverty reduction programs was a subsidized loan program which targeted poor households to develop agricultural production and agro-processing. While the 8th Five Year Plan (1991-1995) reconfirmed the poverty reduction initiative in the 7th Five Year Plan, it was decided that most of the subsidized low-interest loans would be channeled from rural households to “economic entities at the township and village

21 China’s Five-Year Plans are a series of social and economic development initiatives issued since 1953. In order to more accurately reflect China’s move from a planned economy to a market economy (socialist market economy with Chinese characteristics), the name of the 11th five-year program of 2006 to 2010 was changed to “guidelines” instead of “plan”.

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level instead of poor households (Rozelle, Park, Benzinger & Ren, 1998). The logic behind it was not only the belief that poor households could not make the best use of poverty reduction funding on their own for the lack of the necessary technical and management skills to achieve economies of scale but also the belief that propping existing enterprises up could have employment and therefore, welfare implications. In 1992 and 1993, about half of the subsidized poverty alleviation loans were lent to rural industrial enterprises, among which, more than 60% went to county-run enterprises, and the rest went to township-run enterprises (He and Wei, 1997). Unfortunately, China’s subsidized poverty alleviation loan program, like its counterparts in other developing countries, has been heavily criticized for supporting rural enterprises that were capital intensive but loss-making entities with minimal poverty reduction.

In 1994, the central government issued its Seven-Year Priority Alleviation Program in China (1994-2000). This document explicitly proposed to “pool human, material, and financial resources and mobilize all social forces to basically solve the food and clothing problem for 80 million rural poor in 7 years.” It released a series of preferential policies and concrete measures (as discussed in more details in Chapter 5) to achieve this goal. Among the world’s developing countries, this so-called 8-7 Plan was the first national poverty alleviation initiative with a clear set of goals and concrete time frame (Chinese Academy of Fiscal Sciences and UNDP, 2016, p.4).

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22 Such economic entities include state-owned enterprises and township and village enterprises (TVEs). In 1984, the commune and brigade enterprises established during the Cultural Revolution were replaced by the name “township and village enterprises”. Until the mid-1990s, TVEs were largely local government-owned or collective enterprises. China’s 1997 Law on Township Enterprises defines TVEs as “the different types of enterprises that are established in townships (including the villages under their jurisdiction) with the bulk of the capital being invested by the rural economic collectives or farmers”.

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4.2.3 The Third Phase: 2001-2010

From 2001 to 2010, China’s Gross Domestic Product (GDP) rose from the sixth to the second largest in the world with an annual average growth rate of 10.5% (Chinese Academy of Fiscal Sciences and UNDP, 2016, p.4). With increased economic and fiscal capacity, the agricultural industry witnessed a large-scale infrastructure upgrade which led to advances in rural development. Nonetheless, the income gap between urban and rural residents increased sharply during this period. In 2007 the average annual per capita income was 2,278 RMB in poor counties and 4,298 RMB in all counties, while average per capita urban incomes of 13,786 RMB were significantly larger (World Bank, 2017). Recognizing that the rural poor, especially those living in the hinterland in the central and western provinces, have been left out of the reform process, the Chinese government issued its National Outline for Rural Poverty Alleviation and Development (2001-2010) in order to implement specialized poverty alleviation policies such as rural tax reform, agricultural industrialization, relocation for the poor, free compulsory education, rural cooperative medical insurance systems, and minimum living standards.

4.2.4 The Fourth Phase: 2010- Present

In response to shrinking international markets and the increased difficulties associated with exporting, enterprises in more developed areas began to shift their focus to develop domestic markets and look for investment opportunities in underdeveloped markets. For the central government, it provided the opportunity for capital and technology to transfer to the poor areas and therefore integrate poverty alleviation into the broader process of stimulating domestic

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23 Peaking at 0.49 in 2008, China’s current Gini coefficient of 0.47 (2013) approaches those of Nigeria and Brazil and is higher than that of the United States (World Bank, 2017).
demand, accelerating the transformation of economic growth patterns, and promoting sustainable economic development in the long run (Chinese Academy of Fiscal Sciences and UNDP, 2016, p.5). The enactment of the National Outline for Rural Poverty Alleviation and Development (2011-2020) reflected such determination to “secure and enhance the rural poor’s livelihoods” and by “including them in sharing the fruits of reform and development.” Compared to the fiscal, industry, and social policies featured in the previous Outline (2001-2010), the Outline (2011-2020) put special emphasis on the role of financial services in poverty alleviation by pointing out the need to “continue improving the national policy of granting loans with discounted interests for poverty alleviation, promoting innovation in financial products and services for impoverished areas, and encouraging the provision of microcredit loans to meet the need for capital in production activities” (State Council, 2011).

4.3 Rural Financial Background

China has been undergoing rapid structural changes characterized by fast-paced industrialization and urbanization since the economic reforms began in the late 1970s. However, the growth in urban areas and industrial sector has been supported with resources extracted from rural areas and from the agricultural. The rural financial system in China exemplifies such bias in resource flows. Zhang, Huang, and Rozelle (2002) estimate that between 1978 and 2000 a total of 1.55 trillion yuan flowed from the agricultural to the industrial sector and a total of 2.73 trillion yuan flowed from rural to urban areas. Some researchers note that poor farmers’ access to credit has declined even further as financial reforms that started in the mid-1990s directed funds to richer, rapidly growing urban areas due to the attraction of higher returns and implicit (sometimes even
explicit) government policies biased in favor of urban areas (Park et al., 2003). This section provides an overview of China’s rural financial landscape in order to highlight the difficulties for rural households, especially the poor ones, to access financial services. It identifies the financial institutions that used to be or are still are in service in the rural sector including the Agricultural Bank of China, the rural credit cooperatives, the Agricultural Development Bank of China, the rural cooperative foundations and informal financial institutions.

4.3.1 The Agricultural Bank of China (ABC)

Despite its name, the ABC is largely detached from servicing the agricultural households. As one of the four state-owned banks, the ABC was established by the central government in 1955 to support agricultural production. In 1957, the ABC was merged with the People’s Bank of China (PBoC) to become the only bank in China at that time (there was no central bank in China until the early 1980s). After the implementation of the disastrous Great Leap Forward, initiated by Mao Zedong to jump-start the industrial sector but resulting in widespread famine in the countryside, the ABC was restored in 1963 to supervise the use of central government budgetary funds in rural areas and provide credit to farmers. It was abolished again two years later and was restored only with the launch of economic reforms in 1979 to take over the rural branches of the PBOC’s. It assumed both policy and commercial functions, including lending to rural industries, financing state procurement of agricultural products, and managing the rural credit cooperative.

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24 It is difficult, if not impossible for the rural population engaged in small-scale agricultural activities to get loans from formal financial institutions. Besides the seasonal and risky nature of rural household loans, rural borrowers cannot use their most valuable assets, the lands on which they build their homes or set up their factories, as collateral for bank borrowing. In China, rural households have only user-rights in land because rural land is collectively owned.
system. During the 1980s, it served mainly to finance the central government’s projects in the agricultural sector and all of the state’s agricultural purchases (Ong, 2012, p.29).

In August 1996, the State Council promulgated the *Decision on Rural Financial System Reform*, which clarified the division of commercial finance, policy finance, and cooperative finance among the Agricultural Bank of China, the Agricultural Development Bank of China, and rural credit cooperatives. With such division, ABC was transformed from a state-owned *specialized* bank that carries policy functions to a state-owned *commercial* bank that prioritizes profit-making. As a result, since 1999 the ABC has been closing down its branches in rural townships and villages to save costs and improve profitability. At the same time, it also centralized loan-making decisions to the county or higher administrative levels, which led to fewer loans disbursed to borrowers in rural townships and villages. In 2005, lending to agriculture, rural enterprises, private enterprises, and individuals collectively accounted for less than 15% of the ABC’s total loans (ABC, 2006).

The ABC was also responsible for administering the national poverty alleviation loan program, although this responsibility was temporarily transferred to the ADBC between 1994 and 1998. This program provides loans at a subsidized interest rate to rural households in nationally or provincially designated poor counties. The poverty alleviation loan totaled almost 50 billion yuan in 2010 (State Council, 2014). However, the program is heavily criticized to have low

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25 Starting from 2011, the subsidized poverty alleviation loan program was no longer exclusively managed by the Agricultural Bank of China. The funding was provided directly to the local governments which had the autonomy to choose the proper credit institutions to implement the subsidized poverty alleviation loan program (State Council, 2011).
restitution rates and to be fraught with administrative problems. While the official repayment rate on record stands at 50%, Ong (2012, p.31) estimates it to be as low as 20–30% in some areas.

4.3.2 Rural Credit Cooperatives (RCC)

Established in 1949, RCCs were largely grassroots cooperatives (minban 民办) organized by farmers (as opposed to a state-controlled system – guanban 官办): “member households contributed to the capital base, elected the personnel who ran the organizations, and had access to loans as a service provided by the organizations” (Ong, 2012, p. 39). When the land reform in 1952 distributed rural lands from landlords to the farmers, rural households’ demand for credit rose unprecedentedly. As a result, between 1953 and 1955, the number of rural credit cooperatives grew nearly eight times – from twenty thousand to one hundred fifty-nine thousand, covering 85% of townships nationwide (ibid, 2012, p. 38).

However, with the collectivization movement beginning in the late 1950s, the Communist Party established the people’s communes to take control over the rural credit cooperatives. Following that, the central government transferred official control of RCCs to the People’s Bank of China (PBoC), the country’s only bank during the Cultural Revolution (1966-1976). By centralizing RCC’s loan approvals and human resources decisions to the PBoC, the central government

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26 The people’s communes were the highest of three administrative levels in rural areas during the period from 1958 to 1983 when they were replaced by townships. Communes, the largest collective units, were divided into production brigades and production teams. The communes were commonly known for the collective activities within them, including labor and meal preparation, which allowed for workers to share local welfare. The communes carried out not only economic but also political functions during the Cultural Revolution.
essentially transformed RCC from grassroots cooperatives to an apparatus of the central bank at the local level.

With the restoration of the Agricultural Bank of China (ABC) in 1979, the central government put RCCs under the “umbrella” of ABC where they stayed until 1996. During that period, the RCCs functioned as grassroots branches of the ABC. This relationship was formally ended in 1996, as part of the central government’s move to restructure the rural financial system in which the ABC was put in charge of commercial loans, while RCCs were left in charge of household credit. As a result, RCCs have been the backbone of formal finance in rural China since the late 1990s. In 2006, RCCs accounted for 83% of rural household deposits and 82% of agricultural loans (compared to the ABC’s 11% share of agricultural loans) (PBoC, 2007).

Between 1996 and 2003, the central bank managed the RCC system by setting up county RCC unions which managed township RCCs and reported to central bank offices at the prefecture and provincial level. And as part of the effort to save costs incurred in the RCC system, the central government abolished village RCCs in 1996, reducing the number of RCCs from over 40,000 in the late 1990s (almost one RCC in every township) to 33,000 in 2003. More recently, institutional reforms between 2003 and 2005 transferred the management of RCCs from the central bank to the provincial government and further reduced the number of RCCs to 24,600 in 2005 (covering about 60% of townships in the country). Nonetheless, since the ABC largely quit the rural sector, the formal rural financial market has been largely monopolized by the RCCs.
which were the only formal credit institutions below county level (PBoC, 2003, 2005, 2006, 2007).  

4.3.3 The Agricultural Development Bank of China (ADBC)

To separate the ABC’s policy functions from its commercial functions, the central government established the ADBC to take over the ABC’s responsibility of providing subsidized loans for state procurement of grain, cotton, and wool and administering subsidized poverty alleviation loans for poor rural households. However, it came to the central government’s attention that a lot of funds designated for grain procurement were used for other purposes by the ADBC. To better monitor the flow of procurement funds, the government decided to leave the ADBC with the sole responsibility of supplying the loans related to procurement of major agricultural products, while the function of administering subsidized poverty alleviation loans was transferred back to the ABC in 1998. In contrast to the ABC and RCCs, the ADBC is a specialized policy bank that does not involve rural retail banking and secure capital from the central government’s budget.

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27 RCC’s only competition came from Postal Savings, a subsidiary of China Post. Until 2007, Postal Savings has approximately thirty-six thousand branches nationwide, including an extensive network in the countryside rivaling that of RCCs. The remittance service of Postal Savings has been a key channel for migrant workers in the cities to remit funds back home to their villages. However, Postal Savings could not give loans until it became China Post Savings Bank in 2007.

28 In 1998, the Chinese government decided to adopt a new procurement policy that could protect the interest of the farmers while minimizing the leakage of funds. The government provided funds to state grain-procurement units which were asked to procure grains from farmers at a price floor. The grains would then be sold to grain commercial units at a mark-up price. Throughout the process, the flow of funds was tracked carefully to avoid leakage of funds for other uses, a policy the Chinese officials called “closed circulation of funds” (资金封闭运行).
4.3.4 Rural Cooperative Foundations (RCFs)

In the early 1980s, the Ministry of Agriculture introduced a network of financial providers known as rural cooperative foundations (RCFs) to address farmers’ credit needs by centralizing idle and unused people’s communes’ funds after they were terminated.29 Most RCFs were established by township or village governments’ Agricultural Economic Management Station, therefore effectively under the control of township governments or village committees. While RCF’s start-up capital came mainly from collective funds of township governments or village committees, its subsequent growth depended on the capital that came from the savings of rural households. Because RCFs were informal credit institutions which were not regulated by the central bank, RCFs were able to attract deposits by offering interest rates higher than formal banking institutions did. RCFs’ ability to attract farmers’ savings was further aided by the implicit perception that their deposits were guaranteed by the local government (Cheng et al., 1998; Ong, 2012).

Although falling short of giving them an official blessing, the central government tacitly permitted the development of RCFs which they believed to carry the potential to stem the outflow of rural savings to urban state-owned enterprises and to channel capital into income-generating agricultural activities. In 1996, there were over 21,000 township-based RCFs with total deposits surpassing 150 billion yuan, almost 20% of the 800 billion yuan held by the much more established 40,000 RCCs nationwide. However, after the fiscal recentralization of 1994, some local governments started setting up RCFs to finance local economic development given

29 Following the termination of Cultural Revolution, the No.1 Document promulgated by the Central Committee in 1982 affirmed household contract responsibility system which took over the economic function of the people’s communes. On June 30th, 1984, the central government also terminated the political function of people’s communes by replacing them with township governments.
their declining shares of fiscal revenue (discussed in more details in the next section of this chapter). Audits of RCFs in Hebei province in 1998 revealed that loans to township and village enterprises accounted for almost half of RCF’s loan portfolio. Over 90% of such loans disbursed were based on county or township governments’ directives, most of which, unsurprisingly, were not recovered. The audit also revealed that some portion of the RCF’s funds was even siphoned off by township governments to make up their fiscal shortfalls (Bo, 2004).

Such misuse of funds by local governments led to a series of bank runs of RCFs in Sichuan and Hebei provinces in the late 1990s. Some of the bank runs grew to such a massive scale that the central government was concerned that the social and political instability would “put the central government’s credibility at stake” (Ong, 2012, p.70). This concern over the financial turmoil and social unrests was reinforced by the 1997 Asian Financial Crisis, which, aside from economic recession, also overturned the authoritarian Suharto regime in Indonesia. As a result, the central government shut down all RCFs nationwide and ordered local governments to honor all households’ deposits in 1999 (Wen, 2000).

4.3.5 Other Informal Credit Institutions

Faced with the difficulties in accessing credits from the formal financial market, rural people have turned to their social networks, including families, relatives, fellow villagers, and friends. They borrow for a variety of purposes, including consumption, start-up capital for businesses, children’s education, medical expenses, house-building, ceremonial events such as weddings and funerals, and so forth. According to some researchers, informal institutions such as rotating savings and credit associations, pawnshops and even loan sharks have also become important
sources of lending capital in rural China since the market reform began in the late 1970s (Hu, 2003; Tsai, 2004; Turvey and Kong, 2010, Zhao, 2011).  

4.4 Central and Local State Relationships

As microfinance programs can only be implemented with a relationship formed with both the central and local governments, it is necessary to discuss the relationship between the central and local governments. This section reviews how the Chinese Communist Party (CCP) sought to control lower-level government via the nomenklatura and bianzhi system, the cadre evaluation system, and the fiscal system. It also sheds some light on how such institutional and fiscal designs generated incentivized local government to pursue local industrialization and maximize revenue at all costs, which often incurred consequences unintended by the central government.

4.4.1 Nomenklatura and Bianzhi System

Administrative power in China is divided between the center and four subnational levels: provinces (centrally-administered municipalities), prefectures, counties, and townships. The nomenklatura system (“list of names” in Soviet terminology) is an essential feature of the CCP’s political institutional design for attaining compliance from local levels. The central nomenklatura

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30 There are three major types of credit associations in rural China: rotating associations (lunhui 轮会), in which loans are given by rotations among group members; bidding associations (biaohui 标会), in which loans are determined by a bidding process; and escalating associations (taihui 台会) and pyramidal investment schemes, which are strictly illegal.

31 Centrally-administered municipalities: formally as municipality under the direct administration of central government, is the highest level of classification for cities used. These cities have the same rank as provinces, and form part of the first tier of administrative tier of China. Currently, there are four centrally-administered municipalities: Beijing, Tianjin, Shanghai, and Chongqing.
list comprises the top 5,000 positions in the party-state, all of which are controlled by the Organization Department (zuzhibu 组织部). This includes all ministerial and vice-ministerial position, provincial governorship, and provincial first party secretary appointments, as well as appointments of presidents of state-owned banks, presidents of the Academy of Social Sciences and etc. For example, under this system, township leading cadres are appointed and managed by the county party organization department, those of the county by the prefecture, those of the prefecture by the province, and those of the province by the central party organization department. Related to the nomenklatura is the bianzhi system. While the nomenklatura system gives the CCP the prerogatives to nominate, appoint, promote, and dismiss leading cadres, the bianzhi system gives the CCP the power to determine the authorized numbers of personnel in government administrative organs, state-owned enterprises, and service organizations and therefore their level of budgetary appropriation (Ong, 2012, p.58).

All government bureaucracies, including the state-owned banks, have agencies at each subnational level. Each subnational agency is managed vertically by its counterpart at the level above it. This is the agency’s functional accountability or “professional relationship” (yewu guanxi 业务关系). In addition, all agencies also need to report to the party committee set up by the CCP at each subnational level to lead the local governments. This is the agency’s party accountability or “leadership relationship” (lingdao guanxi 领导关系). Of the two superiors that local agencies face, local party committees usually have the upper hand. This is because, through

32 Higher-level governments have used the frequent turnover of lower-level cadres, who are usually rotated every two to three years, to align the preferences of lower-level authorities and curb local factionalism.
nomenklatura and bianzhi system, the party committees control not only personnel appointments but also the allocation of financial resources to agencies. For example (see figure 4.1), while the county branches of the Agricultural Bank of China (ABC) report to the provincial branches of the ABC, the county party committee not only has the power to appoint the internal party committee leaders and managers of the ABC branches at county level, but also a say in evaluating their job performance and determining their career advancement. Therefore, the county party committee can intervene in ABC county branches’ lending operations, such as directing credit to industrialization projects, regardless of these projects’ profitability.

**Figure 4.1 Agricultural Bank of China (ABC) accountability system**

- **ABC Head Office (ABC Head Office Internal Party Committee)**
- **Central Committee of Communist Party**

- **ABC Provincial Branches (Provincial ABC Internal Party Committee)**
- **Provincial Party Committee**

- **ABC County Branches (County ABC Internal Party Committee)**
- **County Party Committee**

- Functional accountability/ Professional relationship
- Party accountability/Leadership relationship
4.4.2 Cadre Evaluation System

The cadre responsibility system (gangwei zerenzhi 岗位责任制) was instituted by the CCP in the late 1980s as an additional institutional design for central leadership to manage lower-level cadres. Under the cadre responsibility system, leading cadres sign performance contracts with their counterparts at one level above (for example, county leading cadres sign performance contracts with their province) in which they pledge to attain certain quantified targets. Determining leading cadres’ career advancement, such performance contracts provides strong incentives for them to achieve these goals.

Leading cadres’ performance targets (kaohe zhibiao 考核指标) are divided into three types, representing different levels of importance in the eyes of the central government (table 4.2 lists the cadre evaluation criteria under each target of a township in Hebei in 2010). The first type is “veto targets” (yipiao foujue 一票否决), such as maintaining social stability and population control. Failure to achieve a veto target means a failed assessment for the leading cadre, even if the locality scores high on other criteria. However, achieving veto targets is only a necessary but not a sufficient condition for a successful political career in the CCP. There are other two types of targets: “hard targets” (ying zhibiao 硬指标) and “soft or ordinary targets” (yiban zhibiao 一般/软指标). Hard targets are quantifiable binding targets, such as tax revenue and the amount of investment attracted. Soft targets are more difficult to measure and therefore often non-binding targets, such as health-care provision, education, and environmental protection. The hard targets command far more attention and effort from leading cadres than the “soft targets” do because they are the critical factors in determining their career prospects: “those who score high on these binding targets are politically and financially rewarded, while those with dismal performance are
not” (Ong, 2012, p.78). In this way, the prioritized targets of revenue-making set by central leadership become concrete deliverables that leading cadres at all subnational levels have a personal incentive to meet.

Table 4.2 Cadre Evaluation Criteria

| Veto Targets                  | • Social stability     |
|                              | • Population control   |
|                              | • Petition cases       |
|                              | • Industrial production|

| Hard Targets                 | • Revenue              |
|                              | • Amount of investment attracted |
|                              | • Farmers’ income      |
|                              | • Agricultural Development|

| Soft Targets                 | • Forestry conservation|
|                              | • Education and health-care provisions|
|                              | • Cultural and social development|
|                              | • Grassroots organization development|

Source: Ong (2012, pp.80-81)

For example, under the cadre evaluation system, if the township signs a performance contract with the county to generate 400,000 yuan of extra income in next fiscal year, the township party committee will in turn require each township bureau to meet a target of 40,000 yuan, even including bureaus of education or agriculture whose primary function is to provide relevant services rather than generate income. The leading cadres in these township bureaus, like the leading cadres in the township government, will be awarded both financially with bonus and politically with promotion by meeting the revenue targets.
4.4.3 Fiscal Relationships

Before 1979, local governments had few incentives to promote industrialization or to maximize tax revenue because they remitted most revenues to the central government and only received transfers for expenditures based on the national budget. To garner local governments’ support for the market reform and to stimulate them to increase tax revenue, the central government introduced a series of fiscal reforms during the 1980s, including separation of local governments’ revenue and expenditure responsibilities in 1980, the Proportional Sharing System of 1982, and the Fiscal Contracting of 1988. Since then, each level of government set up a revenue-sharing scheme with its immediate superior and was left with relative autonomy of balancing its revenue and expenditures. These fiscal reforms immediately incentivized local governments to set up or expand township and village enterprises (TVEs) because profits and taxes from TVEs constituted the bulk of local governments’ revenue during that period (Whiting, 2000). The fervent pursuit of rural industrialization following the reforms is famously termed by Jean Oi (1992, 1999) as “local state corporatism.”

However, in 1994, the central government reversed some aspects of the reforms by introducing a fiscal recentralization policy, called the Tax Sharing System (fenshuizhi 分税制). This decision was largely impelled by the central government’s fear that a declining share of tax revenue would inhibit its political control over those rich provinces. Under the new tax system, the central government’s share of total budget revenue rose from 22% in 1993 to 56% in 1994 (Shah and Shen, 2006). This, of course, made local governments’ share of tax revenue decline drastically even though they continue to bear the brunt of public expenditures. While local authorities in prosperous regions with profitable industries are better equipped to fund the
provision of public goods and services, grassroots authorities in poor regions tend to cut basic public goods and services as they are hard-pressed for revenue to meet even basic obligations, such as paying wages (World Bank, 2002).

As table 4.3 shows, sales tax was effectively the only viable source of within-budgetary revenue for an agricultural township in 2012. Personal income tax was not a major source of revenue for agricultural townships because of rural residents’ low income. Until the early 2000s, the agriculture tax and other agriculture-related taxes (e.g., special product tax and slaughter tax) used to be the important sources of revenue for agricultural townships. In addition, township governments also supplemented their revenue through agriculture and education surcharges, township and village levies, or fees and fundraising for local infrastructure projects, which were extra-budgetary revenue and not subject to sharing with higher-level governments. However, following *Outline for Development-oriented Poverty Reduction for China’s Rural Areas* (2001-2010), these agricultural related taxes and fees were abolished by the central government in 2002 and 2005 respectively. Although the intention behind this move was to alleviate the burdens of the rural and agricultural population, it also worsened the fiscal plight of many agricultural townships with few or even no industry-related tax revenue. In turn, these townships have been relying on intergovernmental transfers and the unshared land conversion income for their survival.\(^{33}\)

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\(^{33}\)“Transfers from the central government are divided into two broad categories: general-purpose and specific-purpose transfers. The general-purpose transfers are made up of revenue-sharing transfers, tax rebates, and equalization transfers aimed at addressing widening regional disparities. Specific-purpose transfers consist of grants for wage increases, for the rural tax reform, for minority regions, and for pre-1994 subsidies and more than 200 ad hoc or earmarked grants. However, these transfers lack transparency and are often hoarded at provincial or county level before they reach the township governments” (Ong, 2012, p.87).
### Table 4.3 Sources of townships' revenue in 2012

<table>
<thead>
<tr>
<th>Within-Budgetary Revenue</th>
<th>Source or Basis</th>
<th>Ratio (Central Govt.: Local Govt.)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-added Tax (VAT)</td>
<td>Percentage of added value; that is, difference in value between raw materials and final products</td>
<td>75:25</td>
<td>Became a largely central government's tax since 1994</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>Percentage of turnover or sales of service industries, such as construction, real estate, transport, restaurants, and supermarkets</td>
<td>20:80</td>
<td>Used to be a 100% local tax</td>
</tr>
<tr>
<td>Company Income Tax</td>
<td>Percentage of company's profits</td>
<td>68:32</td>
<td>Used to be a local government tax. Shared with the central government since 2002.</td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>Percentage of individual's income.</td>
<td>50:50</td>
<td></td>
</tr>
<tr>
<td>Agriculture Tax and Agri-related Taxes Miscellaneous, including stamp duty, land use tax</td>
<td>Percentage of size of farmland</td>
<td>Local; split between county and township</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Local</td>
<td>Abolished in 2005</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Intergovernmental Transfer</th>
<th>Source or Basis</th>
<th>Ratio (Central Govt.: Local Govt.)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax revenue transfer from central government</td>
<td>Using 1993 figures as the base, for every 1% increase in VAT and company tax, fiscal transfer increases by 0.3%.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal remittance/subsidy</td>
<td>Based on agreement between county and township governments; relatively rich township remit fiscal revenue while poorer ones receive subsidies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural tax abolition subsidy</td>
<td></td>
<td>For 5 years after abolition. One of the special-item transfers (zhuangxiang zhuanyi zhifu)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Extra-Budgetary Revenue</th>
<th>Source or Basis</th>
<th>Ratio (Central Govt.: Local Govt.)</th>
<th>Remarks</th>
</tr>
</thead>
</table>
6.

<table>
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<tr>
<th>Administrative fees and fines</th>
<th>Often collected at township government's will</th>
<th>100% township</th>
<th>Abolished in 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collective enterprises' profits</td>
<td></td>
<td>100% township</td>
<td>Largely disappeared with collapse and privatization of collective enterprises since mid-1990s</td>
</tr>
<tr>
<td>Land fees and land conversion income</td>
<td>Local; split between county and township governments</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ong, 2012, pp.90-91

The fiscal recentralization has also affected how local governments pursue economic growth – from owning and running township and village enterprises (TVEs) to shedding unprofitable ones and extracting tax from the remaining profitable ones (Ong, 2012, p. 92). Prior to 1994, the local governments were keen on increasing the number and scale of TVEs because the bulk of local revenue came from the value-added tax (VAT - zengzhishui 增值税) which is determined by the number, size, and revenue scale of enterprises, regardless of their level of profitability.34

However, the 1994 fiscal recentralization reassigned 75% of the VAT to the central government, which left only 25% to be shared among all levels of local governments. Instead, the company income tax (qiye shoudeshui 企业所得税) became the primary source of local tax revenue. In other words, what mattered was no longer the sheer size of enterprises, but their profitability. As a result, local officials started privatizing the collective TVEs in the mid-1990s and shifted focus on extracting taxes from profitable ones. As Ong (2012) notes that, the local governments “were still interested in promoting industrialization, even though the manner in which the firms were managed had changed” after the fiscal recentralization (p. 87).

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34 Value-added tax is calculated as a percentage of the added value in the local economy (i.e. the differences between raw material and end product prices).
4.5 Conclusion

Since the 1980s, microfinance has gained worldwide popularity as a non-state poverty alleviation mechanism via the promotion of the CGAP. During the same period, the central state was coming to realize that the economic reform had left the rural areas, especially the hinterlands of the central and western provinces, behind and responded with a series of rural poverty alleviation initiatives featuring a subsidized loan program. Despite the evident contrast between the commercialized model of microfinance promoted by the CGAP and China’s government-led subsidized poverty alleviation loan program, the fact that the latter had largely failed the expectation originally envisioned created the condition for the former to be considered as an alternative approach to poverty alleviation.

However, the failed subsidized poverty alleviation loan program does not summarize the difficulties for the rural poor to access to credit. Instead, the difficulties have deeper roots in the financial sector’s bias towards urban areas and the central and local relationships that reward industrialization at the costs of rural development. Indeed, the subsidized poverty alleviation loan became attractive targets for local governments because under the existing nomenklatura and cadre evaluation system the local governments were eager to support revenue-generating industrial projects and observable “political achievement projects”, such as the construction of grand office buildings, industrial parks, roads, and bridges even if they know such projects were incapable of paying back the loans. Moreover, after the fiscal recentralization in 1994 which worsened the fiscal plight of rural grassroots governments, they more than often interfered with the lending operations of local financial institutions to boost their revenue base. While the central
government started the commercialization of the state-owned banks in the mid-1990s in order to weaken the inference from the local governments, it also left rural credit cooperatives as the only formal financial institutions servicing the rural poor. The important takeaway here is that process of adopting and adapting microfinance could not be separated from 1) the central state that was constantly reviewing and renewing its poverty alleviation programs, 2) local states that were hard pressed for financial resources and left with the relative autonomy to interfere with local credit institutions’ lending operations, and 3) a rural financial sector largely monopolized by rural credit cooperatives.
Chapter 5. The Formation of Microfinance Programs in China

This chapter describes how microfinance was adopted and adapted in China by describing four chronologically established microfinance programs implemented in Yi County, Hebei Province from 1993 to 2017. Examining how these sometimes-overlapping microfinance programs were initiated, maintained, adjusted, or failed, this chapter is divided into four sections.

- The first section discusses how the first microfinance program, Funding the Poor Cooperative (FPC), was established as a non-governmental organization in Yi County in 1993 and how its success had influenced poverty alleviation policymakers at the central level.
- The second section discusses how microfinance was included as a credit expansion mechanism for the subsidized poverty alleviation loan program promoted by a series of national poverty alleviation initiatives since 1994.
- The third section discusses how rural credit cooperatives as the only formal credit institutions servicing the rural households after the state-owned banks went for commercialization were invested by central government with a new microfinance program since 2001.
- The fourth section discusses how the commercial microfinance, as an approach to improve the diversity of the rural financial sector, was first brought to the table of the central policymakers and was approved and promoted as a wave of international microfinance enthusiasm after 2006.

To note is that currently, FPC is the only active credit provider for the poor rural households in Yi County. While the microfinance program of subsidized poverty alleviation loans was
suspended from time to time based on guidelines from the central and local governments, the rural credit cooperative microfinance program and the commercial microfinance program were largely absent for the rural households in Yi County.

5.1 NGO Microfinance Program

Inspired by Grameen Bank’s success, researchers from the Chinese Academy of Social Sciences were determined to experiment microfinance in the Chinese context. The transition from planned economy to market economy and the largely failed national subsidized poverty alleviation loan program created the conditions for the first microfinance non-governmental organization, Funding the Poor Cooperative (FPC), to be established in 1993. To date, FPC is still in operation and serving more than 20,000 clients in Yi County, while most of the microfinance NGOs established in the late 1990s, following the establishment of FPC, failed outright within years. FPC’s success can be attributed to its dedication to the mission of poverty alleviation and that it has managed to keep close relationships with international development institutions and local governments. While the central government does not recognize FPC as a formal financial institution, which was and still is the biggest obstacle to its expansion, FPC has strategically kept microfinance circulating as an effective poverty alleviation concept among policymakers at the central level.

5.1.1 An Alternative to The Failed Subsidized Poverty Alleviation Loan Program

By the end of the 1980s, it was recognized by researchers and policymakers that national subsidized poverty alleviation loan program has failed the expectation originally envisioned. As discussed in Chapter 4, the cadre evaluation system and the fiscal decentralization in the 1980s
provided local officials with strong incentives to increase the number and scale of industrial enterprises, regardless of their level of profitability. Subsidized rates of 2.88% (compared to official interest rates of 8-10%) had made the poverty alleviation loans an attractive target for local leaders who were eager to support revenue-generating industrial projects even if they knew they were incapable of paying back the loans. Moreover, there was a widespread misconception among local government officials and borrowers that poverty alleviation loans are public funds that did not require repayment. As a result, the subsidized poverty alleviation loans had low repayment rates. For example, a survey carried out by the China Science and Technology Commission between 1991-1993 indicated that repayment levels averaged 54 percent, which is well below sustainable rates.

As an effort to improve the national subsidized poverty alleviation loan program, Chinese researchers of poverty alleviation studied cases from other countries and noticed the international movement of microfinance. Du Xiaoshan, a researcher at the Rural Development Institution (RDI) housed within Chinese Academy of Social Science (CASS), talked about his feelings when he first heard about microfinance at a forum in the late 1980s: “I was shocked to know about how Grameen Bank lent to the rural poor without collateral and could still achieve a 98% repayment rate. This overturned my knowledge about credit theory. I had a feeling it could be an alternative to the failed subsidized poverty alleviation loan program.” 35

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35 Affiliated with the State Council, the Chinese Academy of Social Sciences is the most comprehensive academic research organization and national center in China for study the fields of philosophy and social sciences and policies. It was described by Foreign Policy magazine as the top think tank in Asia (2009).
From then on, Du Xiaoshan and his colleagues started publishing articles about microfinance practices, especially the case of Grameen Bank, not only in research publications but also in newspapers and magazines. These articles, some of which were direct translations of the World Bank’s documents, were bold at that time to emphasize that microfinance’s success lies in being a non-state mechanism of channeling credit to poor rural households and charging a market interest rate (Zhou, 1991; Hulcome, 1996). By contrasting the high repayment rates of the Grameen Bank with the extremely low repayment rates of the Chinese subsidized poverty alleviation loan program, these researchers argued that microfinance could be a more efficient way of credit extension because it, by cutting off all the bureaucratic procedures, connected the rural poor directly with the credit institutions. It was also argued that the market interest rate (if not higher than that) was necessary not only for microfinance programs to be sustainable but also to keep away nonpoor borrowers. One of the reasons that led to the failure of subsidized poverty alleviation loans is that these loans with lower than market interest rates became the targets of the politically well-connected. Another aspect of microfinance that these researchers repeatedly emphasized in these articles was its substitution of “social” for economic forms of collateral. This was especially important in the Chinese context because rural households only had user rights of the collectively-owned land and therefore could not use their most valuable assets, the land on which they built their homes or set up their businesses, as collateral for bank loans.

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36 Before 1996, the Peoples’ Bank of China had strict interest rate control on all financial institutions.

37 For example, in Baoding area where my case is located, only 5% of the 280 million subsidized loans was repaid between 1986 and 1998.
5.1.2 Establishment of Founding the Poor Cooperative

Despite their optimism regarding microfinance, these researchers knew they had to wait for the right timing. China’s economic reform started in the late 1970s and the Decision on the Reform of the Economic Structure by the Third Plenary Session of the 12th Chinese Communist Party (CCP) Central Committee of 1984 where the conception of the “commodity economy”, in contrast to the “planned economy”, was officially endorsed for the first time and signaled further reforms following.

However, the Tiananmen Square protests in 1989 resulted in the purge of the more liberal leaders at the central level, and socialist economics were restored as orthodoxy (Peck and Zhang, 2013).38 Only in 1992 did Deng Xiaoping resume the momentum of the reform with his famous southern tour of market-oriented hotspots. “Married with robust rhetoric and a willingness to deploy the military in the service of intra-party struggle,” Deng Xiaoping showed his determination on reform with this tour. In the same year, the Fourteenth Party Congress which adopted the most liberal economic document in CCP history, “sanctioning sweeping economic reforms under the rubric of the ‘socialist market economy’” (ibid, pp.368-369). According to Du Xiaoshan, the official endorsement of the concept of “socialist market economy” meant that “the political condition is ready for the adoption of microfinance in China because microfinance programs that we proposed to set up would require market interest rates and non-state mechanisms to provide credit to the poor population. It was impossible under the planned economy system.” In 1993, not long after the Fourteenth Party Congress, Du Xiaoshan, together

38 The Tiananmen Square protests of 1989, commonly known as the June Fourth Incident, were student-led demonstrations in Beijing, which were forcibly suppressed by military forces.
with his colleagues from the Rural Development Institute (RDI) of Chinese Academy of Social Science (CASS) proposed the idea of establishing an NGO-based microfinance program in the Yi County government.

Yi County is located at the west part of Hebei Province, 120 km from Beijing, 160 km from Tianjin and 60 km from Baoding (see figure 5.1). Yi County is a mountainous area with only 7.5% of its total area of 2534 km² is plain. In 2013, arable land accounted only for 14.7% of the entire area. Since the late 1980s, Yi County has established four major industries in fruit, animal husbandry, mineral building materials, and tourism among which the animal husbandry accounted for almost half of its agricultural GDP and was supported by the county government as the “pillar industry” (Yi County government, 2013).

Figure 5.1 Map of Yi County

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**Figure 5.1 Map of Yi County**

[Map of Yi County]
Yi County has 8 towns, 19 townships, 467 administrative villages, and 1857 natural villages.\textsuperscript{39} It has 22 ethnic groups including Han, Manchu, and Hui. Yi County is an agricultural county, with more than 80\% of the households registered as rural households.\textsuperscript{40} In 2013, the total population of Yi County was 543,923. Out of the 233,963 labor force, 183,229 were engaged in agricultural work, and 39,785 people had migrated to urban areas for jobs. The average population density is 215 per km\(^2\). Plain areas have a higher population density of 900 per km\(^2\), while the population density of mountainous area can be as low as 63 per km\(^2\) (Yi County government, 2013).

\begin{table}[h]
\centering
\begin{tabular}{llc}
\hline
\textbf{Province} & \textbf{Hebei} & \textbf{per capita income of rural households (yuan)} \\
& & 6,028 \\
\hline
\textbf{Population} & 543,923 & \textbf{per capita income of urban households (yuan)} \\
& & 18,249 \\
\hline
\textbf{Population density (per sq. km)} & 214.5 & \textbf{Land area (sq. km)} \\
& & 2534 \\
\textbf{No. of migrant workers} & 39,785 & \textbf{Distance to closest urban center (km)} \\
& & 70 \\
\hline
\end{tabular}
\caption{Basic Indicators of Yi County in 2013}
\end{table}

Source: Yi County Government Website (http://www.bd.gov.cn/content-401-27565.html)

\textsuperscript{39} A number of villages constitute a town (xiang 乡) or township (zhen 镇), where the primary level of government is established. In general, the population of a township is smaller than that of a town. A "village" in this case can either be a natural village, one that spontaneously and naturally exists, or an administrative village, which is a bureaucratic entity.

\textsuperscript{40} Household registration system in China is also called Hukou (户口) system, which officially identifies a person’s household as agricultural or non-agricultural. This two-fold organization structure was linked to social policy and migration control. Many researchers have argued that this system have aggravated urban-rural disparity and contributed significantly to the deprivation of rural population (Chan, 2010).
Yi County was selected by Du Xiaoshan and his colleagues for three reasons. First, in 1994, Yi County had a population of 105,000 (19% of the total population) living under the provincial poverty line of 400-yuan per capita annual income, which provided a reasonable base of microfinance clients. At the same time, it was the provincially designated poor county closest to Beijing where RDI was located, which would make the management of the program easier.41 Second, the director of RDI knew the deputy county mayor (they went to college together). Not long after the 1989 Tiananmen Square protests, the county government was not sure about setting up a nongovernmental organization as there was this “consistent fear that social organizations might become covers for groups engaging in political activities” (Saich, 2000, p.127). To clear county government’s doubt, the director personally visited the Yi County to ensure them the nonpolitical nature and the feasibility of microfinance programs. Last, Yi County, like most of the poor rural counties, had a small revenue base. Especially after the 1994 fiscal recentralization, county government expenditures exceeded revenues and therefore the subsidies from the central government were essential for coping with the persistent and accumulating fiscal deficits (see table 5.2). Du Xiaoshan recalled, “the county government accepted our proposal, mainly because the new microfinance program would not use the existing government poverty alleviation fund transferred from the central government, which is often

41 In 1986, the State Council’s Leading Group for Poverty Reduction (LGPR) developed a national roster of 328 poor counties which were eligible for development assistance. A county was identified as poor if its 1985 average rural per capita income fell below poverty line of 300, 200, or 150 yuan, depending on other locational or political factors, including access to safe drinking water, road transport, and other basic infrastructure, total and per capita arable land, and fiscal strength and etc. In addition to the national roster, 368 provincially-designated poor counties, eligible for provincial funding, were selected on the basis of poverty lines determined by the provinces. In 1993, the LGPR revised the list of nationally-designated poor counties to include an additional number of extremely poor counties, which increased the number of nationally-designated poor counties to 592 (World Bank, 2010).
hoarded at the provincial level. Instead, our proposal would bring in new funding sources. That was attractive to them.”

Table 5.2 Yi County Fiscal Statistics (yuan million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Subsidies from Central Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>31.30</td>
<td>44.43</td>
<td>11.32</td>
</tr>
<tr>
<td>1994</td>
<td>23.55</td>
<td>48.70</td>
<td>24.54</td>
</tr>
<tr>
<td>1995</td>
<td>31.46</td>
<td>66.77</td>
<td>35.48</td>
</tr>
<tr>
<td>1996</td>
<td>41.79</td>
<td>85.57</td>
<td>41.07</td>
</tr>
<tr>
<td>1998</td>
<td>66.20</td>
<td>102.28</td>
<td>36.80</td>
</tr>
<tr>
<td>2000</td>
<td>74.73</td>
<td>142.47</td>
<td>74.98</td>
</tr>
</tbody>
</table>

Source: China Economic Information Network Statistics Database
*1997 and 1999 data are not available from the source.

In October 1993, CASS was invited by Grameen Trust to attend training sessions and site visits in Bangladesh.42 Du Xiaoshan went there with the proposal of Yi County microfinance program and was approved for a low-interest (1.2%) loan of $50,000 from Grameen Trust and a grant of $50,000 from the Ford Foundation. With funding ready, Funding the Poor Cooperative (FPC), the first microfinance nongovernmental organization (NGO) in China, was established in Yi County in the same month. FPC’s council was set up with three staffs from CASS responsible for financing and liaising with international organizations and two staffs from Yi County government responsible for the operation. Because all NGOs in China must be registered with

42 Grameen Trust managed a special loan for projects that adopt the Grameen Bank mode of microfinance.
the Ministry of Civil Affairs (minzhengbu 民政部) and must have a sponsoring government unit
guakao danwei 挂靠单位) to supervise activities, FPC was registered as a community
organization under the auspices of Poverty Alleviation Office of Yi County. At that time, FPC
was located in the building of Poverty Alleviation Office. The vice director of FPC, Zhou
Xuere and the other two staffs of FPC were registered as government workers of the Poverty
Alleviation Office and paid by that entity.

FPC largely copied the Grameen model, including small loan amounts (as low as 340 yuan),
short loan terms (between 3-12 months), peer screening and monitoring, weekly repayment,
increased loan quotas for those with a record of timely repayment, delinquency penalties, and
security deposits proportional to the amount of the loan. Nonetheless, two major changes were
made to accommodate the local settings. First, Grameen bank used a 5-person group for lending
and 30-person center for meetings held weekly not only for repayment but also for borrower
education. However, in China, hierarchical government organizational structure penetrates the
rural life. As a result, weekly center meetings were usually attended by the whole village, the
most grassroots organizational unit in China, with village officials leading the meeting. Second,
due to the strict state control over interest rates, FPC charged a moderate 8% (compared to the
market interest rate of 6%-7% at the time), while Grameen Bank’s average interest rate is around
20%.

43 Because of the strict threshold of financial institutions in the 1990s, it was not possible for FPC or any
other grassroots organizations to be registered as a financial institution.

44 The nominal director of FPC was the director of Yi County Civil Affairs Bureau.

45 Although the interest rate is 8%, when installment payments begin immediately after the loan is made,
the effective annual interest rate almost doubles to 16%.
From the first loan distributed in May of 1994 to the end of 1998, FPC maintained a moderate expansion pace and achieved nearly perfect repayment rates (see table 5.3). The near 100% repayment rate does not mean that all farmers who borrowed from FPC had benefited. There were cases where farmers’ projects failed, and the loans were paid back on time by the joint guarantee group or farmers borrowing from other resources. Nonetheless, the first few years experiences of FPC were concluded to be “highly successful” (CASS, 2010, p.70). This success can be attributed to three reasons. First, credit officers strictly followed the rules, especially in terms of investigating applicants’ background, forming 5-person lending groups and collecting repayment on time. A typical credit officer’s workload included 6-8 lending centers of about 300 clients. Most of the time, the credit officers had to visit two centers per day to collect repayment. They spent around 3 hours on the road, traveling more than 100 kilometers per day. During my interview with local farmers, they told me that they used to call FPC the “motorcycle bank” because credit officers rode motorcycles to disburse and collect money in villages. When I mentioned this to an FPC credit officer, he confirmed this and told me that “every three months I would need a new motorcycle because they were too heavily used in mountainous areas” (personal communication, Nov 17, 2017). Second, Yi County had a relatively small number of population that had migrated to urban areas for jobs. This created a larger client base for FPC, as households with migrant workers usually depended on their remittance instead of borrowing from credit institutions when they were short of funds. Third, most of the FPC borrowers were engaged in fruit and animal husbandry businesses, for which Yi County had mature sales channels to big urban markets in Beijing and Tianjin. And in the late 1990s, the county government set up three marketplaces to facilitate the procurement of fruits, beef, and pork respectively from local rural households.
Table 5.3 Funding the Poor Cooperative development from 1995 to 1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of borrowers</th>
<th>Loans Disbursed</th>
<th>Repayment Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>472</td>
<td>459,400 yuan</td>
<td>100%</td>
</tr>
<tr>
<td>1996</td>
<td>1,578</td>
<td>1,446,500 yuan</td>
<td>98%</td>
</tr>
<tr>
<td>1997</td>
<td>2,711</td>
<td>2,780,000 yuan</td>
<td>98%</td>
</tr>
<tr>
<td>1998</td>
<td>3,709</td>
<td>2,700,410 yuan</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Funding the Poor Cooperative annual reports

Not long after FPC was established, farmers reflected that the existing loan products did not fit their real needs. In 1997, with help from two experts of Grameen Bank who personally came to Yi County, FPC transitioned from Grameen I model to Grameen II model which introduced more flexibility to the products. First, a wider range of loan contracts with variable terms and repayment schedules were made available. Loans were allowed for not only income-generating purposes but also consumption smoothing. Loans may be “topped up” or paid off early. Borrowers with repayment difficulties, especially those engaged in seasonal agricultural work, could have their loans rescheduled. Second, realizing that poor households often failed to make the payment during the period when their kids’ tuitions were due, FPC set up an education grant which targeted the households who had difficulties paying tuitions for their kids. By 2010, FPC had disbursed more than 600,000 yuan and helped more than 130 households to pay tuitions.

According to the director of FPC, Zhou Xueren, “when they [experts from Grameen Bank] were here, they not only stayed in our offices but also went to the homes of our clients. They were
generally happy to see what we had achieved. But at the same time, they were concerned about local government’s interference, because FPC was still using the offices located in the county government building and the staffs of FPC were still paid by the County Poverty Alleviation Office at that time.” FPC responded to these concerns. They not only found a new location and all the staffs officially terminated their registration within county government. Zhou Xueren continued, “this means we could no longer go back to work for the county government even if FPC failed. It was the proof of our determination to make FPC work.” Nonetheless, FPC’s connection with County government was not terminated but intentionally and strategically kept. That FPC was disbursing loans without a financial institution status was only made possible under local government’s shield. And this connection was also necessary for FPC’s future development as will be discussed later.

5.1.3 Obstacle to Expansion

In its 1998 annual report, FPC claimed that it had achieved operational sustainability (i.e., it was covering operating costs inclusive of subsidies) and was aiming for financial self-sufficiency where costs, especially capital, are measured at their market value. In the same year, Sun Ruomei, a researcher from CASS attended the Microfinance Institutions (MFI) training sessions held by the World Bank in the United States and introduced the Microfin, the MFI planning and budgeting computer model designed by the Consultative Group on Poverty Alleviation (CGAP), to FPC. Based on the calculations of Microfin, which sets financial self-sufficiency as the primary goal, FPC needs to expand to at least 34 branches with a total capital of 51 million yuan to reach this goal under the current condition of loan ceiling and interest rate (CASS, 2010, p.72). However, by the end of 1998, FPC had a total capital of only 5.23 million yuan which was
mostly provided by low-interest loans or grants from international development organizations. To expand, FPC would need to take public deposits, which was not allowed as it was registered as a community organization rather than a financial institution.

With the successful experiences with Yi County, CASS also established branches of FPC in Yucheng County and Nanzhao County in Henan Province in 1995, Danfeng County in Shanxi Province in 1996, Laishui County in Hebei Province in 2002, and Jintang Province in Sichuan Province in 2003. FPC’s development paralleled the establishment of NGO microfinance programs supported by the United Nations Development Programme (UNDP) and Australian Agency for International Development (AusAID), which “set off a small wave of NGO microfinance programs in China” according to one of the officials in People’s Bank of China (PBoC) (personal communication, Oct 26, 2017). However, all these programs, like FPC in Yi County, suffered from ambiguous legal status. Because these programs were mostly registered as a community organization or a local office of the international development institution, they were not recognized as a financial institution which severely limited their operations.

In 1999, FPC’s success story and the microfinance movement caught the eyes of policymakers at the central level. For example, Jiang Chunyun, the former Vice Premier of the State Council commented on the Central Policy Research Office report on FPC: “FPC’s experience is worthy

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46 Except for FPC in Yi County, the other branches were merged with China Foundation of Poverty Alleviation in 2013 because of poor performances.

47 Britzelmaier et al. (2013) mentioned that at their peak time, there were approximately 300 microfinance NGOs or projects in China, and only around 100 of them remained operational in 2010. Among them, only about 10 institutions had ever managed to become operationally self-sufficient.
of recognition.” This directly led to the official approval of FPC’s “pilot project” status from both the People’s Bank of China and the State Council. According to Du Xiaoshan, “this approval solves the problem of FPC being legal or not. Before the approval was granted, FPC could be banned by local governments because it was registered as a community organization but carrying out financial activities. However, FPC is still not recognized as a financial institution and is not allowed to take public deposits, which is the biggest obstacle for it to expand. Nonetheless, we understand the central government’s concern. They believe that as long as FPC does not take public deposits, it cannot cause systemic risks and does not need much supervision.”

Yet, FPC did not give up on seeking a financial institutional status, although in a more indirect way. Since 2000, FPC has organized a series of conferences on microfinance development, with support from CASS and international development organizations including CGAP and Ford Foundation. Featuring positive experiences of FPC and some other microfinance NGOs, these conferences kept microfinance as a heated topic in the circle of policymakers at the central level. Stephen McGurk, Director of the International Development Research Center (Singapore) and former Ford Foundation Program Officer for Economic and Social Policy in China, remarked, “FPC grew in its ability to influence people, and this became an important role over time. In a way, their work was less about microfinance and more about policy reform” (Duval, 2004, p.3).

5.2 Subsidized Poverty Alleviation Loan Microfinance Program

With the NGO microfinance movement catching the attention of the policymakers at the central level, microfinance was included in the first national poverty reduction plan (the 8-7 Plan) as an
approach for improving the existing subsidized poverty alleviation loan program. With incentives reinforced by the cadre evaluation system, local government officials quickly took the lead and required the Agricultural Development of China (ADBC) and later the Agricultural Bank of China (ABC) to start microfinance programs with funding from the existing subsidized poverty alleviation loan programs. FPC successfully worked with both the ADBC and the ABC in terms of distributing and recovering the subsidized poverty alleviation loans. However, as the ABC has been pushed for commercialization since the mid-1990s, the subsidized poverty alleviation loan microfinance programs came to a standstill when the 8-7 Plan came to an end in 2000.

5.2.1 Agricultural Development Bank of China Microfinance Program

In the 1994 National Seven-year Priority Plan for Poverty Reduction (also known as the 8-7 Plan), the central government recognized the deepening disparity between urban and rural areas and the increased concentration of poverty in the more remote and mountainous areas of central and western provinces. Setting up the objective of “lifting the majority of remaining 80 million poor above the government’s poverty line during the seven-year period 1994-2000,” it marked the “transition from relief approach to development approach to poverty reduction,” with which the general cadres and the masses in poverty-stricken areas should carry forward the spirit of self-reliance and hard work. With the support of the country, we must rely on market demand, rely on scientific and technological progress, develop and utilize local resources, develop commodity production, and solve the poverty problem (State Council, 1994).

The 8-7 Plan renewed the roster of nationally designated poor counties by graduating better-off counties in the coastal provinces and including more counties from the central and western provinces. It also called for improved management of poverty reduction funding, including
increased attention to the appraisal and financial viability of poverty reduction investment activities, greater recovery of loan funds, and reducing leakage of poverty reduction funding (World Bank, 2001).

To follow up the implementation of the 8-7 Plan, in September of 1996, the State Council and the Party jointly held a National Poverty Reduction Conference attended by governors and party secretaries of all provinces. President Jiang Zemin and Prime Minister Li Peng delivered keynote speeches (World Bank, 2010). The Conference emphasized the already high-profile poverty reduction task as essential to national development and marked a new milestone in terms of poverty alleviation loan funding. As shown in Table 5.4, poverty reduction funding in real terms increased more than 50% in 1997 and reversed a decade of decline.

The Conference reconfirmed the 8-7 Plan’s call for better management of poverty reduction funding by requiring that at least 70% of the subsidized loans be provided directly to poor household engaged in crop and livestock production and agro-processing instead of rural enterprises and industrial projects. The Conference also established a new “poverty reduction responsibility system” which held the leading cadres of provinces and of poor counties directly responsible for meeting a series of quantitative targets of poverty reduction in their jurisdiction, including subsidized poverty alleviation loans reaching a designated number of poor households and increasing the repayment rates of the loans.

With such requirements set out by the 1996 National Poverty Reduction Conference, microfinance’s potential as a poverty funding distribution mechanism was discussed by
policymakers at the central level. FPC and some other microfinance NGOs proved that they could provide credit directly to the poor rural households and keep an excellent repayment history at the same time. In February 1998, the director of the State Council Leading Group

Table 5.4 Central Government Poverty Reduction Funding (yuan million)

<table>
<thead>
<tr>
<th>Year</th>
<th>State Poverty Alleviation Loan Funds</th>
<th>Ministry of Finance Grant Funds¹</th>
<th>Food-for-Work Funds²</th>
<th>Total Poverty Reduction Program Funds</th>
<th>Yuan (current)</th>
<th>Yuan (Constant 1997)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>2900</td>
<td>1000</td>
<td>900</td>
<td>4800</td>
<td>14583</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>3000</td>
<td>1000</td>
<td>900</td>
<td>4900</td>
<td>14018</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>3050</td>
<td>1000</td>
<td></td>
<td>4050</td>
<td>9860</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>3050</td>
<td>1000</td>
<td>100</td>
<td>4150</td>
<td>8469</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>3050</td>
<td>1000</td>
<td>600</td>
<td>4650</td>
<td>9081</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>3550</td>
<td>1060</td>
<td>1800</td>
<td>6410</td>
<td>12237</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>3550</td>
<td>1120</td>
<td>1600</td>
<td>6270</td>
<td>11432</td>
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<tr>
<td>1993</td>
<td>3550</td>
<td>1180</td>
<td>3000</td>
<td>7730</td>
<td>12396</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>4550</td>
<td>1240</td>
<td>4000</td>
<td>9790</td>
<td>12722</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>4550</td>
<td>1300</td>
<td>4000</td>
<td>9850</td>
<td>10894</td>
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<tr>
<td>1996</td>
<td>5500</td>
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<td>10045</td>
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<tr>
<td>1997</td>
<td>8450</td>
<td>2815</td>
<td>4000</td>
<td>15265</td>
<td>15265</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>10000</td>
<td>3315</td>
<td>5000</td>
<td>18315</td>
<td>18733</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>9700</td>
<td>3315</td>
<td>5000</td>
<td>24800</td>
<td>26056</td>
<td></td>
</tr>
</tbody>
</table>

Sources: The State Council, The World Bank. Total may not add up due to rounding.

¹ Ministry of Finance Grant funds are directly provided to local, mostly county, government in poverty-stricken areas.

² Food-for-work Program was designed to use surplus commodity stocks as in-kind payment for construction work on water supply systems and road building projects in poor areas.
Office of Poverty Alleviation and Development, Chen Junsheng, pointed out at a national poverty alleviation symposium attended by the officials of local poverty alleviation offices that “microfinance is an effective way of poverty alleviation.” This was the first-time that microfinance was mentioned publicly at a national level meeting. Chen Junsheng went further to suggest that “from this year on, all provinces that have not started the microfinance programs should actively carry out pilot programs. Provinces with existing successful pilot programs should be gradually expanded to a larger area.” Although the format of the microfinance programs was not clarified (NGO or other formats), it was generally agreed by the local officials who attended the symposium that programs should be carried out with the subsidized poverty alleviation loans funding since it made up the biggest part of the poverty alleviation funding (also see table 5.4).

With blessing from the central government, provincial governments became active proponents of microfinance. The initiative derived mostly from their eagerness to use microfinance as a mechanism to help meet the quantitative targets set by the 1996 Conference. Under the new “poverty reduction responsibility system” set up in the conference, these targets were “veto targets” (yipiao foujue 一票否决) in local government officials’ cadre evaluation - the failure to achieve a veto target results in an overall failing assessment for the official, even if the locality scores high on other criteria (Ong, 2012, p.78). Most provincial governments, in turn, required the Agricultural Development Bank of China (ADBC), which was responsible for disbursing

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48 For more details about cadre evaluation see Chapter 4.
subsidized poverty alleviation loans, to establish microfinance programs and allocate a designated portion of their lending portfolios to poor rural households through these programs.\(^{49}\)

Without experiences in lending to the rural poor who lacked an established credit history and collateral, these programs largely copied the most important features of NGO microfinance programs such as small loan amounts, weekly repayment, and joint guarantee group, all of which required a huge amount of work. The ADBC, which did not have enough local branches and qualified staff, usually ended up merely funding the microfinance programs. The township Poverty Alleviation Offices were responsible for administering them, including providing the list of rural households qualified for the loans and collecting the payments every week. The township Poverty Alleviation Offices’ emphasis, however, was ensuring that a certain number of loans were disbursed, regardless of the identity and needs of the borrower. An official from local Poverty Alleviation Office told me during an interview that: “right after the 1996 National Poverty Reduction Conference was held, there was this big pressure for local governments to reach the target of disbursing a certain amount of loans to households. I knew an old couple who were forced to borrow a few thousand yuan from ADBC’s subsidized poverty alleviation loans. They had never seen such a lot of money and had no idea of how to use the money. Worried about losing the money, they just wrapped it up in a newspaper and hung it under the roof” (personal communication, Nov 19, 2017).

\(^{49}\)While ADBC is an independent institution, its operation is highly influenced by the provincial governments because provincial party sectaries had the power to appoint the internal party secretaries (and effective managers) of provincial Agricultural Development Bank of China, to evaluate their job performance, and to determine their career advancement.
Moreover, with a highly subsidized interest rate around 2-3%, these loans remained targets for politically well-connected borrowers who usually had no incentives to repay them. And in the absence of effective audit systems, local officials and loan officers often “cooked the book” to meet the target set by their superiors. For example, to increase the repayment rates on paper, a common tactic was to “roll over” or “ever-green” the loans, under which the lender issues a new loan to the borrower who would use the new loan to pay back the old one (Ong, 2012, p.64).

In this sense, these government-led microfinance programs differed little from the failed subsidized poverty alleviation loan program they planned to improve, even though the number of households which received loans and the repayment rates increased dramatically on record. Yi County was an exception. In Yi County, FPC took over the Poverty Alleviation Office’s function with its existing microfinance program as proposed by the county government. In 1997, one million yuan of subsidized poverty alleviation loans were re-loaned from the ADBC to FPC with an interest rate of 2.3%, while FPC kept its interest rate of 8% to its clients (compared to other localities where the interest rate of subsidized poverty alleviation loans was kept around 2-3%). FPC was solely responsible for selecting the households qualified for the loans and collecting the repayment. The loans reached 1,380 rural households, and 99% of them paid back in time. In the same year, the success story of FPC implementing the subsidized poverty alleviation loans was reported by China Central Television.⁵⁰ According to Zhou Xueren, the director of FPC, this broadcast was considered “an informal recognition from the central level.” However, the

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⁵⁰ China Central Television, commonly abbreviated as CCTV, is the predominant state television broadcaster in China. It is also known to be the channels for central government’s propaganda campaign.
cooperation between the ADBC and FPC ended after one year when subsidized poverty alleviation loans were taken over by the Agriculture Bank of China (ABC).

5.2.2 Agricultural Bank of China Microfinance Program

In 1998, to better monitor the flow of agricultural procurement funds, the central government decided to give the ADBC the sole responsibility of supplying the loans related to procurement of major agricultural products and that “the ABC should take over the issuance and management of subsidized poverty alleviation loans with all the preferential policies unchanged” (PBoC, 1998). However, the ABC had dismantled or merged branches in rural townships and villages since its transition from a state-owned specialized bank to a state-owned commercial bank in the mid-1990s. The number of the ABC branches declined from 67,092 in 1996 to 28,234 in 2005. On average, 85.4% of villages and townships had no ABC branches by 2005 (ABC, 2006). Without institutional and human resources to handle the subsidized poverty alleviation loans, which involved a large number of transactions of small-size loans, most of the ABCs continued to cooperate with local Poverty Alleviation Offices as the ADBC did.

In Yi County, cooperation between FPC and the ABC was proposed by both FPC and the county government. Considering that FPC was registered as a community organization instead of a financial institution, the County ABC stopped re-loaning the subsidized poverty alleviation loans to FPC as the ADBC did but merely hired FPC as the agent for disbursing and collecting the loans. In other words, FPC could no longer directly issue the loans to households but became

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51 Notice on strengthening the management of poverty alleviation and comprehensive development special loans. More details about ADBC and ABC see Chapter 4.
merely responsible for providing lists of households qualified for subsidized poverty alleviation loans. The decisions of whether to make those loans were left to the ABC. Nonetheless, compared to an average of 20% repayment rates of subsidized poverty alleviation loans nationwide, FPC was able to reach a 91% repayment rate between 1998 and 2000 (FPC, 2000). Although cooperation between FPC and the ABC lasted for less than two years, FPC’s successful cooperation with ABC attracted attention from the central government. In 1998, the vice president of the People’s Bank of China and the deputy leader of the State Council Leading Group for Poverty Alleviation visited FPC and commented highly about its cooperation with the ABC.

5.2.3 The Suspension of Subsidized Poverty Alleviation Loan Microfinance Programs

According to the ABC’s calculation in 1998, the average operational cost of subsidized poverty alleviation loans in Yi County was over 10% per annum, whereas the interest rate of these loans was only around 3%. Moreover, the ABC branches in Yi County had more loans than deposits and had to request funds from other ABC organs. These ABC branches incurred an extra cost because ABC had an intra-bank lending rate of 4.32% per annum. As a result, even with a subsidy of 5.85% from the central bank, the ABC branches in Yi County had to bear a net loss of 5.47% for disbursing subsidized poverty alleviation loans even without considering the repayment ratio. During the implementation period of the 8-7 Plan (1994-2000), subsidized policy alleviation loans were categorized as policy loans even though they were carried out by a state-owned commercial bank. The losses of subsidized poverty alleviation loans were tolerated by all levels of government as the costs of “reaching the targets of the 8-7 Plan” (personal
communication, Nov 19, 2017). At the central level, the central bank provided the ABC with the funding of poverty alleviation loans. In Yi County, the county government not only required the ABC to disburse a certain amount of subsidized poverty alleviation loans to households regardless of the losses they would incur but also ordered the Poverty Alleviation Office to pay FPC’s labor costs of working for the ABC.

However, as the 8-7 Plan came to an end, the subsidized poverty alleviation loans transitioned from policy loans to commercial loans. In 2001, the People’s Bank of China (PBoC), the Ministry of Finance, and the State Council Leading Group Office of Poverty Reduction jointly issued the Measures on Management of Poverty Reduction Loans with Discounted Interest Rates, which prescribed that subsidized poverty alleviation loans should continue to have a preferential interest rate (2.88%) but be managed in accordance with commercial standards. The funding for subsidized poverty alleviation loans should come from the deposits of the ABC, while the government provided only interest subsidies. As a result, the ABC stopped its special evaluation of subsidized poverty alleviation loans and combined it with the evaluation of other types of loans. According to the National Poverty Alleviation and Development Office survey in 22 provinces and autonomous regions, the ABC provided 17.6-billion-yuan worth of poverty reduction loans in 2001, of which only 3.8 billion yuan was loaned to farmers, accounting for slightly more than 21% of the total (the percentage of poor farmers among all farmers who received loans is unknown). In Baoding area where Yi County is located, subsidized poverty alleviation loans also came to a standstill after 2000. According to the report from Baoding

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52 Interview with an official from Yi County Poverty Alleviation Office.
branch of ABC, only 2 subsidized poverty alleviation loans worth 6,000 yuan were disbursed from 2000 to 2009 (Baoding Branch of ABC, 2013).

The situation only changed when another national poverty alleviation plan, the *National Outline for Rural Poverty Alleviation and Development (2011-2020)*, was released in 2011. The outline renewed central government’s momentum for the subsidized poverty alleviation loan program. Under the new plan, the subsidized poverty alleviation loan program was no longer exclusively managed by the Agricultural Bank of China. The funding was provided directly to the local governments which had the autonomy to choose the proper credit institutions to implement the subsidized poverty alleviation loan program. In 2011, with county government’s permission, the Yi County branch of ABC re-loaned the one-million-yuan poverty alleviation loan funding to FPC which was able to disburse the loans to 3,000 households in a month. The repayment rates reached over 90%.

However, as the director for FPC commented, “we (FPC) worked as ABC’s ‘legs’ when they needed because they did not have branches in the rural area but needed to carry out political missions from time to time. You can say that we keep a ‘good’ relationship with them, but it is a very delicate one.” He was right. The working relationship between FPC and the ABC could be disturbed easily even with incidents not directly related to them. In 2016, the county branch of ABC re-loaned another six-million-yuan poverty alleviation loan funding to FPC, which was guaranteed by the Yi County Financing Guarantee Company. However, this cooperation was

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53 The county financing guarantee company was established in response the State Council executive meeting held by Premier Li Keqiang on July 31st, 2015, which put forward specific steps for reforming the financing guarantee industry. It was proposed that the central government set up a national financing guarantee fund, and with the fund local governments would set up financing guarantee institutions that
cut off within one year. In August of 2017, it was disclosed that the county financing guarantee company was “involved in nonstandard and risky operations” by providing the guarantee for the 30-million-yuan poverty alleviation loan which was credited to the rural credit cooperatives in Yi County (Bureau of Industry and Information Technology of Baoding, 2017).54 Because of the big amount of poverty alleviation fund involved, the county government shut down all the loans guaranteed by the county guarantee company, including loans operated by FPC, to make a thorough investigation.

5.3 Rural Credit Cooperatives Microfinance Program

The rural credit cooperatives microfinance program is the third microfinance program in China, following microfinance NGOs and microfinance program housed within national subsidized poverty alleviation loans. After the Agricultural Bank of China’s commercialization in the late 1990s and when the 8-7 Plan came to an end in 2000, the subsidized poverty alleviation loan program also came to a standstill nationwide. Rural credit cooperatives (RCC), in turn, became the only formal credit institutions that had branches below the county level to service rural households, even though by the late 1990s the RCC system was the on the verge of collapsing

serve the small and micro enterprises and the “three rural issues” – activities related to “nurturing agriculture, improving the life of farmers and speeding the development of rural areas” (the “three rural issues” concept will be discussed in more details later in this chapter).

54 During my research process, one official from the county Poverty Alleviation Office agreed to accept my interview (I was referred by the director of FPC). However, he was “asked” to step down from the position in Poverty Alleviation Office because he was involved in setting up and operating the county financing guarantee company. When I visited Yi County in November of 2017, he refused to meet me in person. The director of FPC was able to get him on the phone with me, although he refused to answer most of the questions “because it [was] still a politically sensitive period” for him. Nonetheless, to my question about what actually happened with the poverty alleviation loans to RCCs guaranteed by the county financing guarantee company, he gave his answer, “the loans were not recovered, but there were no illegal operations. They were disbursed to industries we thought that would work out. But they did not.” I found later the loans were disbursed to the county mushroom production park, which I will discuss in more details in the Chapter 6.
with nonperforming loans reaching over 50% nationwide. In response, the central government designed the agriculture-supporting microloan program, which provided wholesale loans with subsidized interest rates to RCCs to simultaneously enhance their profitability and improve rural households’ access to credit. However, when it came to implementing the agriculture-supporting microloan programs, RCCs usually gave priority to profit maximization at the cost of supporting the agricultural sector and farmers’ livelihoods.

5.3.1 “Rural credit cooperative system is technically bankrupt”

The rural financial reform in 1996 separated rural credit cooperatives from the Agricultural Bank of China to push forward the latter’s commercialization. It also restructured the financial sector to centralize the power to appoint the state-owned bank managers at all sub-national levels to the Central Finance Work Commission between 1998 and 2002, and subsequently to the Leading Group on State Banking Reform, both institutions reporting directly to the CCP Central Committee. On the other hand, the local party committee’s influence on RCCs remained pervasive between 1996 and 2003. During that period, top officials of township RCCs were appointed by county unions, and those of county unions by the central bank offices at the prefecture and provincial level, compared to the case of the state-owned banks whose counterparts were appointed by the top-ranking bureaucrats in Beijing. (Ong, 2012, p.60).

After the 1994 fiscal reform, local governments faced a systemic imbalance between revenues and expenditures. To augment revenue, local governments siphoned resources from formal credit institutions to finance local industrialization. Compared to the state-owned banks, the RCC system was centralized to a much lesser degree and therefore became the easier target in this
process. As the deputy mayor of Yi County from 1989 to 1998 recalled, “one of the county’s biggest missions in the late 1990s was to establish new ‘pillar industries’ to boost the local tax base. Credits, usually from RCCs, were directed to newly established willow craft factories, carton factories, printing factories, and shoe-making factories.” However, against the transition from planned economy to market economy, most of these hastily established factories failed to compete with others and collapsed within few years. In turn, the loans directed to these factories from RCCs became bad debts (personal communication, Nov 17, 2017). According to a local RCC officer, “While RCCs had strict rules on credit officers who failed to recover loans, especially individual loans, these bad debts used for ‘nurturing pillar industries’ were often tolerated as long as they were based on local government’s decisions (personal communication, Nov 19, 2017).” As a result, according to the central bank’s statistics, the overall nonperforming loan rate of RCCs reached 50% in 1999, and 55% of the RCCs (19,542 RCCs nationwide) were “technically bankrupt” in 1999 (Yu, 2003).

5.3.2 RCCs Were Too Big to Fall

In the late 1990s, it came to central policymakers’ attention that the RCCs would go out of business without the government coming to its rescue. While the central government immediately closed down the Rural Cooperative Foundations (RCFs) after bank run occurred in Sichuan and Hebei provinces in 1998, shutting down RCCs was not an option for the central

55 “Technically bankrupt” here means RCC’s asset value was smaller than the sum of their liabilities and equity, which implies that they would have closed for business if they had operated under market conditions. And until 1996, RCCs were required to place about 20% of their deposits with the ABC as a reserve. While RCCs were paid about 4% interest for the reserve they left at the ABC, they had to pay around 9% interest on their deposits. The negative interest margins were a major source of losses for RCCs (Ong, 2012, pp.39-40).
government. As a former official from the central bank explained, this was because “closing down RCCs would not only deprive rural households of the only formal provider of credit, but also trigger panic and social unrests in the rural sector as RCCs were the primary holder of rural households’ savings which they believe to be guaranteed by the central government (personal communication, Oct 25, 2017).”

In 1999, the central bank, People’s Bank of China (PBoC), came to the rescue of RCCs with the agriculture-supporting microloan program (zhinong xiaoe daikuan). By providing a total of 128.8 billion yuan of highly subsidized loans (with an interest rate of 2-3% per annum) to RCCs between 1999 and 2007, the central bank was hoping the subsidy would not only enhance RCC’s profitability but also encourage RCCs to lend to farmers since RCCs were allowed to charge interest rates up to two to three times the subsidized rate. However, the two goals of ensuring RCC’s commercial sustainability and improving the credit access of rural households were often at conflict.

The RCC agriculture-supporting microloan program contained two specific lending products: individual microloans and joint guarantee microloans. The essential feature of the microloan program is that household borrowers did not need to have collateral or any guarantor once they

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56 To pacify millions of rural savers and to prevent such bank runs from spreading nationwide, the central government instructed RCFs to close down immediately and ordered township governments to honor savings of individual depositors. For more details, please see Chapter 4.

57 Owing to the heavy involvement of local governments in RCC’s daily operations, farmers view their deposits in RCCs as risk-free assets protected by the government.

58 Though actual lending rates differed according to loan terms, with longer-term loans charging higher interest rates, they were still below the market interest rates.
were awarded “credit pass” by RCCs, which were supposed to be given on the basis of borrowers’ age, asset value, income level, and job type. When the amount individuals needed to borrow exceeded the amount that “credit pass” allowed (usually around 50,000 yuan), a 3-5 people joint guarantee group could be set up for group lending. In Yi County where RCCs had only one branch in each township (stations in villages were closed down in the 1990s as an effort to save costs), to carry out the agriculture-supporting microloan program would require few loan officers in a township RCC deal with a few thousand borrowers. RCCs, with an almost monopoly position in the local financial market after Agricultural Bank of China closed their branches in the late 1990s, had few if not zero incentive to commit to such hard work. To be more specific, as the only formal credit institution available in Yi County, RCCs got applications for loans from both farmers and large businesses. They preferred the latter which will incur lower cost in terms of per dollar disbursed because the fixed costs of disbursing a loan (e.g., administrative and human resource costs) are similar for big and small loans.

The performance evaluation criteria for RCC loan officers reinforced such preference. Loan officers’ remuneration consists of a base salary and performance-based components which can account for as much as 75% of total compensation. Performance evaluation of loan officers at township RCCs by is conducted by county unions based on quarter criteria and annual criteria (table 5.5). With only one criterion related to agriculture support (as highlighted in table 5.5), these performance indicators suggest that RCCs would be more interested in profit-maximization than in serving the rural households. As a result, according to the report by Baoding branch of People’s Bank of China (2008), agriculture-supporting microloans accounted for less than 14% of the 1.65-billion-yuan loans issued by Baoding RCCs between 2001 and 2008. And among the
50 households surveyed in the report, only 4 households ever received agriculture-supporting microloans, totaling only 80,000 yuan.

**Table 5.5 Rural Credit Cooperatives Employee Performance Evaluation Criteria**

<table>
<thead>
<tr>
<th>Quarter Criteria</th>
<th>Annual Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of assets measured by the ratio of nonperforming loans to total loans</td>
<td>Deposit growth</td>
</tr>
<tr>
<td>Deposit-to-loan ratio per employee</td>
<td>Reduction of nonperforming loans</td>
</tr>
<tr>
<td>Average profit per employee</td>
<td><strong>Expansion of agricultural loans</strong> (at least 75% of newly disbursed loans annually must be allocated for an agricultural purpose)</td>
</tr>
<tr>
<td>Average expense (administrative and operational) per employee</td>
<td>Collection of interest income</td>
</tr>
<tr>
<td></td>
<td>Overall management</td>
</tr>
</tbody>
</table>

Source: Ong (2012, pp. 63-64)

According to the interviews with farmers in Yi County, credit passes were typically given to all households in a village, giving rise to what RCCs called “a creditworthy village” (xinyongcun 信用村). However, such a sweeping classification did not lead to the improvement of farmers’ credit access, since they would still be required to provide collateral or guarantor even if they lived in a “creditworthy village” and application for joint guarantee group microloans was often, if not all the time, rejected outright. Moreover, as discussed above, local leaders were still able to direct RCC to lend to revenue-generating projects or households that have a “relationship” with them. To quote a local farmer’s comment on RCC’s agriculture-supporting microloans program:

They (staff at RCCs) are bankers who wear shiny leather shoes who would never set their foot in villages. The amount of paperwork they require is ridiculous, and you have to make several trips to the township just to submit the application. That is why we all heard about agriculture-supporting microloans, but we all know that unless you have a
relationship with RCCs or with the leading cadres of the local government, it is impossible for you to get it (personal communication, Nov 17, 2017).

5.4 Commercial microfinance programs

To address the ever-increasing rural grievances and unrests, the first policy guideline issued every year since 2004 by the central government has always been targeting agriculture and rural development. One of the emphases of these so-called No.1 documents has been on pushing forward the diversification of rural financial sector, especially in terms of establishing new microfinance organizations which were believed to be the key factor of improving living standards in rural areas. However, with “stability first” mentality within the regulatory authorities at the central level, the momentum was only picked up when Yunnus visited China in 2006 right after he and the microfinance programs of Grameen Bank were granted the Nobel Peace Prize. In 2008, the People’s Bank of China and China Banking Regulatory Commission approved microfinance companies. Although they were meant to target farmers and rural micro-enterprises, these microfinance companies usually preferred larger entities in their pursuit of profit.

5.4.1 The Rural Unrests

It was estimated that more than ninety thousand incidents of social unrest occurred annually in China between 1994 and 2005, nine times more than what was reported the decade before (Yu, 2010). These unrests were mostly triggered by the fact that farmers bore heavy burdens caused by a variety of taxes, fees, and fines, such as agricultural and education surcharges, township and
village levies, or fundraising for infrastructure projects.\textsuperscript{59} As Ong (2012) found in her surveys, at their peak these arbitrarily imposed financial taxes and fees were equivalent to a 25-30\% of farmers’ income, far above the 5\% standard mandated by the central government.

To address the issue of farmer’s burden, the central government abolished rural fees and fines in 2002 and other remaining taxes and fees in 2005. However, it also forced the local governments to rely on land conversion income (tudi churangjin 土地出让金) as the only remaining source of revenue that is unshared with the central government. The Land Management Law (tudi guanlifa 土地管理法) in 1998 stipulates that farmlands are collective lands and therefore it is illegal for farmers to transact directly with private developers regarding the land on which they live. Instead, farmlands have to be expropriated from farmers by local authorities before land use can be converted from agricultural to industrial or commercial use and the use rights can be leased to real-estate or industrial developers.\textsuperscript{60} In this process, the local governments were able to obtain lucrative profit from the large gap between the “low administratively determined prices” at which they acquired land from farmers and the “high market-determined prices” at which they sold that land to private developers (Ong, 2012, p.112).

The 1998 Land Management Law sets up a specific formula to compensate the farmers who lost their land. For the loss of their land, households should be paid 6 to 10 times as much as the

\textsuperscript{59} These taxes and fees were not subject to sharing with higher-level governments and therefore were the important sources of income for rural grassroots governments after fiscal recentralization in 1994. For more details see Chapter 4.

\textsuperscript{60} Commercial-use land is that used for building shopping malls and shop houses; it costs three to five times as much as industrial-use land, used for construction of factories.
value of their land’s average annual yields (calculated for the last three years). In addition, a per capita settlement subsidy should be paid at 4 to 6 times as much as land’s average annual yields. However, farmers have been complaining that the compensation did not consider the fair-market value of the land and therefore was far from sufficient. Although the central state put forward the Property Law in 2007 to protect small farmers’ land rights, which established a “more reasonable” compensation standard and required land conversion to go through a series of procedures including application, review, notification, and public hearing, the local government had more leeway to maneuver in this process. In Yi County, farmers usually obtained around 20,000 yuan for a mu (one-sixth of an acre) of farmland in 2015. Meanwhile, the price at which local authorities sold to private companies is around 300,000 yuan per mu for commercial-use land, reaching as high as 600,000 – 800,000 yuan at times, which translated up to forty times surplus for local authorities (Yi County government, 2015). Rural unrests arose when farmers were dissatisfied with their compensation and escaladed when some local governments resorted to violence to evict farmers. In the first nine months of 2006, there were 17,900 reported cases of “massive rural incidents” with a total of 385,000 farmers protesting against the local government. More than 80% of these incidents were related to farmers losing their land on what they perceived to be unfair terms (Zhu and Prosterman, 2007).

Such unrests directly threatened the CCP’s legitimacy and the country’s stability. As reported in January 2006, Premier Wen Jiabao admitted that “the efforts to narrow the rural-urban wealth gap had fallen short and that land takings by local government were provoking mass unrest in the country-side and could threaten national stability and economic growth” (Kahn, 2006).
response, the Hu & Wen administration’s (2003-2013)\textsuperscript{61} emphasized “three rural issues” (sannong wenti) in terms of “nurturing agriculture, improving the lives of farmers and speeding the development of rural areas.”\textsuperscript{62} Since 2004, the very first document published by the central committee of CCP at the beginning of each year (also called \textit{No. 1 document}) has always reflected the priority given to the “three rural issues.”\textsuperscript{63} In addition to reducing farmers’ burdens and ordering local governments to tighten land management, these documents also reflected central policymakers’ determination to make rural finance the critical solution to the rising rural grievances – it was believed that the “the rural poor, especially those landless rural households would be able to start an alternative livelihood given access to credits” (personal communication, Oct 24, 2016).

Both in 2004 and 2005, the \textit{No. 1 documents} emphasized the deepening of rural finance reform and support for microfinance programs. In 2004’s \textit{No.1 document}, the \textit{Opinions of the Central Committee of the Communist Party of China and the State Council Concerning Several Policies on Promoting Farmers’ Income} stated:

\begin{quotation}

\textsuperscript{61} Hu-Wen Administration is the 4\textsuperscript{th} generation Chinese leadership took office in 2003, which uses the two leaders’ surnames – the new Party General Secretary and President Hu Jintao and Government Premier Wen Jiabao. They are viewed by political observers more reform-oriented and more open-minded than Jiang Zemin and Li Peng administration.

\textsuperscript{62} Three rural issues as a concept was formally proposed by the economist Tiejun Wen in 1996. The Concept was included in the CCP work report in 2003. It is called three “nong” problem (三农问题) as it includes areas of “agricultural development” (nong ye 农业), “rural areas” (nong cun 农村) and “farmers” (nong min 农民).

\textsuperscript{63} From 1982 to 1986, at the beginning of each year, the central committee of Communist Party of China released the so-called No. 1 document, which provided key central government policy guidelines on agriculture and rural development. After almost twenty years of suspension, in 2004, the central committee resumed the No. 1 document and has been released annually since then.
\end{quotation}
It is necessary to sum up the experiences in the reform of Rural Credit Cooperatives. RCC’s programs of rural household microloans and joint guarantee group microloans should be promoted nationwide. With strict prevention of financial risks, some localities should attract private funds and foreign investment to start multi-ownership financial institutions that directly serve the three rural issues – agricultural development, rural areas, and farmers.

In 2005, the *No.1 document Opinions of the Central Committee of the Communist Party of China and the State Council concerning Several Policies on Strengthening the Rural Work and Improving Agricultural Comprehensive Production Capacity* stated:

In order to cultivate a competitive rural financial market, relevant departments should step up to formulate the access conditions and the supervision measures for newly established multi-ownership financial institutions. Where conditions permit, microfinance organizations that serve the farmers and rural areas could be set up by natural persons and enterprises.

Although the two *No.1 documents* reflected the consensus that had been reached at the central level regarding the construction of a market-oriented rural financial system and the diversification of rural financial institutions, they were policy guidelines without enforceability. Between 1999 and 2003, the People’s Bank of China (PBoC) never approved any new rural financial institution as the priority was given to stabilize the rural financial system after the closure of Rural Credit Foundations. When the China Banking Regulatory Commission (CBRC) was established to take over supervisory responsibility from PBoC in 2003, the “stability first” mentality remained. Instead of promoting new microfinance organizations, CBRC kept pushing forward RCC’s agriculture-supporting microloan program, even though it was realized that most of the RCCs had failed to target the poor rural households.
5.4.2 New-types of Rural Financial Institutions

The only move to follow up the No. 1 documents’ push for new microfinance organizations came from the PBoC in 2005. Wu Xiaoling, the PBoC’s deputy governor at that time, personally visited several provincial governors to promote the establishment of microfinance companies, which were expected to be similar to the NGO microfinance programs in terms of lending in small size loans and not being allowed to take deposits. To quote Wu Xiaoling, “China has a large number of private funds waiting to enter the financial market. Microfinance companies could provide a legal platform for these funds and also fit the requirement of prudent regulators because they do not absorb deposits.” In the same year, five provinces including Guizhou, Inner Mongolia, Shaanxi, Shanxi, and Sichuan started pilot microfinance company projects. These microfinance companies were registered with PBoC and approved by the Provincial Finance Office but were not recognized as financial institutions from CBRC. These microfinance companies usually required collateral and the average loan size was about 500,000 yuan which exceeded the international standard of microfinance loans being smaller than three times local GDP per capita. The clients of these microfinance companies were usually small and medium enterprises that were short of cash flow. Nonetheless, Du Xiaoshan, one of the founders of Funding the Poor Cooperative commented that “even these microfinance companies did not target poor rural households as their international counterparts do, we considered it as a positive signal for the future development of microfinance organizations, as the central government was taking the lead not only in policy papers but also in real actions.”
In July 2006, Muhammad Yunus and Grameen Bank won the Nobel Peace Prize. In October of the same year, Yunus was invited by the China Association of Microfinance to visit China. Although it was not the first time Yunus visited China, the title of Nobel Prize winner made him the most popular media target. “There was a ‘microfinance and Yunus heat’ at that time.” Du Xiaoshan recalled, “microfinance never received this much attention in China.” A series of meetings were held with Yunus, among which the most important one was with top-level officials from PBoC and CBRC that was held in PBoC’s head office in Beijing. During the meeting, Wu Xiaoling, the deputy governor of PBoC asked Yunus: “There are more than 30,000 Rural Credit Cooperatives (RCCs) in China, whose network coverage is close to the network of Grameen Bank in Bangladesh. What do you think about reforming this huge system for microfinance programs?” Yunus replied: “Grameen Bank once was a rural branch of a major commercial bank in Bangladesh before its independence. According to my experiences, it is a waste of time to transform the existing financial institutions. Grameen’s financial innovations were made possible only after its independence which got rid of the traditional bank operational methods (China Daily, 2006).”

According to the memory of one of the CBRC official, this meeting was the turning point for CBRC to decide to experiment with new-type financial institutions, not only because of the face-to-face communication with Yunus but more because of the pressure from the top-level leaders of CCP. The CBRC official recalled: “Premier Wen Jiaobao read the reports of this meeting and

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64 In November 2005, with the support from Citi Foundation, the Rural Development Institute of Chinese Academy of Social Science, the China International Economic and Technical Exchange Center of the Ministry of Commerce and the Women’s Development Department of China Women’s Federation jointly founded the China Association of Microfinance.
personally asked the top-level officials of CBRC to start new programs to follow this ‘Bangladesh model’. As a result, in December 2006, the CBRC published Opinion Regarding Easing Market Access for Banking Financial Institutions in Rural Areas in order to Better Support the Construction of a New Socialist Countryside. The new policy lowered minimum capital requirements, expanded the scope of permitted banking activities, authorized flexibility in corporate governance structures, and liberalized shareholder rules for new-type rural financial institutions, including village and township banks, lending companies, and rural mutual aid funds. However, the policy did not require these new-type financial institutions to start microfinance programs.

Village and township banks and lending companies which had to be set up by domestic commercial banks usually performed as their subsidiary. In 2017, there was no village and township banks and lending companies in Yi County. Rural mutual aid funds were originally set up by the State Council Poverty Alleviation Office and the Ministry of Finance. Funded by central government’s fiscal fund for poverty alleviation and villagers who voluntarily purchase the share of the funds, rural mutual aid funds are established at village level and operate as a revolving fund. By 2014, Yi County has established 26 mutual aid funds of more than 4.8 million yuan (with 4 million from the governmental fiscal fund and 0.8 million from villagers’

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65 According to my interview with the official from CBRC, this initiative to start new-type rural financial institutions was like an effort to show the top-level leaders of the central government that CBRC is following the lead, especially since PBoC already stepped up to start microfinance companies experiments. “It’s more like, you know, we are not losing. You took a step first, but we are taking a bigger step.”

66 By the end of 2010, there were 349 village and township banks, 9 lending companies and 37 rural mutual aid funds nationwide, approved by CBRC.
private capital). However, most of these funds do not lend to rural households but target the local “pillar industries.” During my interview with farmers in Zhaogang Village, Yi County, I was told the village head went house-to-house to persuade villagers to purchase shares from the rural mutual aid funds which were invested into a cherry nursery. And given the relative autonomy of using the fund, the village head promised households who participated that they could get interest rate higher than the average saving account in banks (personal communication, Nov 17, 2017).

5.4.3 Microfinance Companies

Although the new-type rural financial institutions did not carry out microfinance programs, the discussion about new microfinance organizations continued in PBoC and CBRC. According to Wu Xiaoling, “Yunus’s comment had a great impact on us [both PBoC and CBRC]. Although microfinance organizations may not be able to become mainstream in China, we think there is hope that they can stimulate change in the existing rural financial institutions.” In May 2008, the PBoC and CBRC jointly released Opinions on the Pilot Operation of Microfinance Companies, which required:

Microfinance companies choose the loan target under the principle of serving the development of farmers, agriculture, and rural areas. Microfinance companies’ loans should adhere to the principle of being “small and decentralized,” targeting farmers and micro-enterprises. The loan balance of the same borrower must not exceed 5% of the net capital of the microfinance company. Within this standard, the maximum loan limit can be set up according to local economic conditions and GDP per capita.

Such microfinance companies needed to be approved by Provincial Finance Management Office whose attitude towards microfinance companies determined their scale of development at the local level. While the Beijing municipality did not approve any microfinance companies until
2009, Inner Mongolia approved around 400 microfinance companies during the same period. In Hebei, the provincial government released the *Opinions on Implementing Microfinance Companies*, which increased the PBoC and CBRC’s policy of 5-million-yuan minimum registered capital to 50 million yuan. And Hebei province forbids microfinance companies to borrow from other financial institutions, which was allowed in PBoC and CBRC’s policy. Due to the conservative attitude of the provincial government, microfinance companies developed slowly in Hebei. In 2017, there were 5 microfinance companies in Yi County, all of which were founded by big local enterprises. These microfinance companies targeted only their affiliate enterprises instead of rural households and often exceeded the maximum loan limit set up by the provincial Financial Management Office.

By June of 2018, there are 8,394 microfinance companies nationwide, with most of them targeting medium-sized enterprises. According to my interview with Ji Shaofeng, the founder of a microfinance company located in Nanjing, Jiangsu Province:

> In a financial market largely monopolized by the state-owned banks, microfinance company is the only possible license private capital can pursue to be recognized as a financial institution. Therefore, most of the microfinance companies in China cannot be compared to their international counterparts. They are ‘for profit’ enterprises. It is simply not realistic to ask them to target poor rural households, especially given the condition that they are not allowed to take public deposits (personal communication, Oct 30, 2017).

### 5.5 Conclusion

Table 5.6 summarizes the four microfinance programs existing in Yi County in 2017. However, if a rural household, especially a poor one, wants to apply for a microloan from one of these programs today, Funding the Poor Cooperative is the only one that will take the application. The subsidized poverty alleviation loan microfinance program was suspended in 2017 for inspection,
while the rural credit cooperative agriculture-supporting microloan program and commercial microfinance companies target better-off households and enterprises in their pursuit of profit.

<table>
<thead>
<tr>
<th>Table 5.6 Four microfinance programs existing in Yi County</th>
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</thead>
<tbody>
<tr>
<td><strong>Funding the Poor Cooperative</strong></td>
</tr>
<tr>
<td><strong>Starting Time</strong></td>
</tr>
<tr>
<td>1994</td>
</tr>
<tr>
<td><strong>Size of Loan (yuan)</strong></td>
</tr>
<tr>
<td>1000 - 10000</td>
</tr>
<tr>
<td><strong>Model</strong></td>
</tr>
<tr>
<td>Grameen Bank group-based model</td>
</tr>
<tr>
<td><strong>Collateral</strong></td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td><strong>Interest Rate</strong></td>
</tr>
<tr>
<td>18%</td>
</tr>
<tr>
<td><strong>Target</strong></td>
</tr>
<tr>
<td>Poor rural households</td>
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</tbody>
</table>
To conclude, Funding the Poor Cooperative (FPC) was an important actor in the process of microfinance development in China, not only because it was the first organization to implement a microfinance program but also because it was able to form and maintain complex relationships with the poor rural households, the domestic poverty alleviation researchers, the international development institutions, the local government, and the central government, all of which are important actors in the other microfinance programs developed later. In this process, FPC’s relationships with the most two important actors, the central and local government, changed from time to time. With the help of international development institutions and domestic researchers, FPC produced a series of conferences and reports to involve the central government in recognizing microfinance as an innovative approach to poverty alleviation. Nonetheless, FPC was never recognized as a formal financial institution from the central level, which poses the biggest obstacle to expansion. On the other hand, FPC’s initial relationship with the county government was largely based on its ability to bring in funding for poverty alleviation, given the ever-decreasing revenue base of the local governments since the mid-1990s. Witnessing the FPC’s ability to disburse loans directly to poor rural households and recover them in time, the county government provided the shield for FPC to carry out financial activities without the proper license from the central government.

The alignment between FPC and the local governments was reinforced by FPC’s successful cooperation with the Agricultural Development Bank of China (ADBC) and later the Agriculture Bank of China (ABC), which helped the local government to achieve the targets of disbursing subsidized poverty alleviation loans and increasing the repayment rates set out by the 8-7 Plan. However, the working relationship between FPC and the ABC, intermediated through the local
governments, was suspended when the 8-7 Plan came to an end. As the ABC started being commercialized in the mid-1990s, its microfinance programs were only a temporary component which was required by the central government during the 8-7 Plan period (1994-2000). Within the discontinuance of the ABC’s microfinance programs in 2000, rural credit cooperatives (RCCs) became the only formal credit institutions servicing households in rural China. However, the RCC system nationwide was on the verge of going bankrupt in the late 1990s. The central government designed the agriculture-supporting microloan program to simultaneously enhance RCCs profitability and improve rural households’ access to credit. Local government, which was no longer under the political pressure to set poverty alleviation as its priority like it was during the 8-7 Plan period, was more interested in using its influence over RCCs to direct credit to profit-generating projects. With a monopoly position in the local rural financial market, RCCs also had little if not zero incentive to target the poor rural households.

Embedded in the discourse of the “three rural issues,” the development of a “diversified rural financial market,” in which microfinance was explicitly included, was put forward by the central government as a solution to increasing rural unrest (State Council, 2004; State Council, 2005). But given the “stability first” mentality of financial policymakers at the central level, Wu Xiaoling, the deputy governor of People’s Bank of China, was the only one who took the lead to personally persuade local governments to start commercial microfinance companies. The China Banking Regulatory Commission was not involved in the process until Yunnus won the Nobel Peace Prize and visited China in 2006. This visit was important in terms of expediting an agreement on commercial microfinance models between the top level financial regulatory authorities. However, the permission of setting up microfinance companies was transferred to the
provincial government which was conservative about the initiative and weakened the momentum. Moreover, similar to the RCC microfinance programs, the microfinance companies that were set up also had no incentive to target the poor rural households in their pursuit of profit.
Chapter 6: Capacities

This chapter uses assemblage approach as the analytic lens to interpret the case of microfinance development in Yi County. The four microfinance programs are conceived as four assemblages composed of a diversity of elements that do not necessarily cohere into seamless organic wholes. Following assemblage approach’s claim that “relations are exterior to their terms,” these elements come together in particular conjunctures to form assemblages, but relations within an assemblage do no constitute the identity of the elements. On the contrary, these elements always have the relative autonomy to be assembled otherwise (either to stabilize or destabilize the assemblage).

This chapter explores the shifting and contradictory roles played by the four sets of elements that are existent in all the four microfinance assemblages – 1) international and domestic experts on poverty, 2) central state, 3) local states, and 4) poor rural households (see table 6.1). Using the concept of capacity from the assemblage approach, I argue that these roles can be understood as “polymorphous” capacities improvised “in the face of rapid socioeconomic and institutional change and heightened global integration” (Howell, 2006, p.282). However, the analytical gaze is not only on how these disparate and often contradictory logics, projects, and activities have become entangled with one another in assemblages, but more importantly on what have been the sources of instability of the assemblages, and the progressive (or regressive) political possibilities opened up in the process.
### Table 6.1 Elements in each microfinance assemblage

<table>
<thead>
<tr>
<th>Elements Common in all assemblages</th>
<th>NGO assemblage</th>
<th>Agricultural Development Bank of China (ADBC) / Agricultural Bank of China (ABC) assemblage</th>
<th>Rural credit cooperatives (RCC) assemblage</th>
<th>Commercial assemblage</th>
</tr>
</thead>
</table>
| Elements in individual assemblage | - International and domestic institutions promoting microfinance: e.g. CGAP, Grameen Bank, Chinese Academy of Social Sciences  
- Central State  
- Local states  
- Poor rural households | The 8-7 Plan  
ADBC and ABC FPC | RCC | No. 1 Documents  
Nobel Peace Prize in 2006  
Yunus’s visit to China |
| Elements effective from outside   | Funding the Poor Cooperative (FPC) | The failed national subsidized poverty alleviation loan program created the condition for NGO microfinance. | unknown | The commercialization of ABC and the failure of Rural credit foundations created the condition for RCC to be the carrier of another government-led microfinance program. | Rural unrests |

### 6.1 International and Domestic Institutions Promoting Microfinance

The first set of elements is the international and domestic institutions that promote microfinance via a network of experts, diffusion of best practices, and imposition of benchmarks. Social theorists such as Heloise Weber, Julia Elyachar, and Katharine Rankin argue that microfinance which has been celebrated by some institutions as “a panacea of poverty alleviation” as discussed in Chapter 4 is actually a mechanism for deepening financial sector liberalization while ensuring
social legitimacy at the same time – “a handmaiden of, rather than alternative to, neoliberal globalization and free-market ideologies, microfinance serves as the social safety net for devastating programs of structural adjustment” (Rankin, 2010, p.29). International development institutions, such as the World Bank and UNDP, have been treated in these studies as a “homogenous group” exerting coherent neoliberalizing pressure (Rankin and Shakya, 2007). Yet it is important not to ignore that there is also a different approach to microfinance at work, best known to be promoted by Bangladesh microfinance institutions such as Grameen Bank, BRAC, and ASA which center the idea of microfinance as part of the social services and the improvement of human capital, instead of the mechanism to integrate the poor into global financial markets.67 The point of this section is not to pinpoint the differences between the two approaches to microfinance promoted by different institutions, but to reveal how these two approaches converge in China microfinance assemblages to produce dynamic capacities in the domestic institutions to stabilize or destabilize the assemblages. Such capacities cannot be reduced to a coherent project but have a unique articulation which attempts to retain some social protection aspects while also accommodating some of the “neoliberal programmatic prescriptions” (Rankin and Shakya, 2007).

67 BRAC started off as “an almost entirely donor-funded, small-scale relief and rehabilitation project” and transformed into “an independent, virtually self-financed paradigm in sustainable human development … one of the largest Southern development organizations”. ASA’s was formed in 1978 by seven young men, including Shafiquel Haque Choudhury, “to train poor villagers to fight for their political and social rights.” At its inception ASA was best understood as a “brotherhood to fight rural poverty”. By the 1990s, ASA had morphed from an organization of “rural revolutionaries” to one of “village development bankers” (Rutherford, 1995, p.1).
6.1.1 Minimalist Approach to Microfinance

As discussed in Chapter 4, the “minimalist” approach to poverty lending promoted by CGAP, prioritizes financial sustainability of the microfinance institutions, rather than the welfare of the poor population. Such “commercialization of microfinance” requires work. In China, CGAP has funded study tours, training sessions, translation of technical materials, research grants, and conferences. By the end of the 1990s, these actions allowed Chinese experts on poverty, especially those from Chinese Academy of Social Sciences (CASS), to become conversant in a set of market norms of “best-practice” of microfinance: from the repudiation of interest rate ceilings and donor subsidies to the emphasis on financial transparency. The failed national subsidized poverty alleviation program also conditioned the acceptance of a more market-led approach to poverty lending, despite the strict regulations on interest rates and non-state financial institutions. For example, during my interview with one scholar from the Rural Development Institute of CASS, he quickly turned to a neoliberal interpretation of subsidies to analyze what went wrong with the national subsidized poverty alleviation loan program. He offered the famous metaphor, “giving farmers subsidized loan is like handing out fish without teaching them how to fish. Such subsidies also inhibit the transparency in the financial sector” (personal communication, Nov 20, 2016).

Moreover, CGAP has disseminated a new set of indicators and benchmarks to measure microfinance institutions’ financial performance, such as operational self-sufficiency and financial self-sufficiency, which now dominate the microfinance sector. In this way, CGAP was able to ensure a “meta-language” in management and reporting of microfinance institutions.

Since late 1990s, the China Microfinance Training Center sponsored by Ford Foundation has
been lending out its technology professionals to microfinance institutions to build Microfin, the budgeting and planning tool designed by CGAP and MIX to help them to advance “by improving loan portfolio management, customer data analytics, and access to capital markets” (Grameen Foundation, 2007).68

6.1.2 Bangladesh Consensus of Microfinance

In contrast to the minimalist approach to microfinance, what Roy (2010) termed as “Bangladesh consensus” of microfinance promoted by Grameen Bank, as well as BRAC and ASA, suggests a logic of development that fits “much more comfortably in the ‘social protection’ family of programs and policies than in the ‘micro-enterprise’ family” (p.93). For example, Grameen Bank encourages the borrowers to adopt goals in social, educational, and health areas, which are known as its "sixteen decisions" and monitors the education of the children (it routinely gives them scholarship and student loans), housing, sanitation, access to lean water, and their coping capacity for meeting disasters and emergency situations. This social service-oriented approach to microfinance has highly influenced FPC which received subsidized loans from Grameen Foundation at its inception and has been working closely with Grameen Bank ever since. In the late 1990s, the Grameen Bank sent experts to help FPC set up the Grameen II model, which allows for customized loans, more flexibility with repayment schedule, and even a “flexi-loan

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68 The paradox here is that one of the reasons that microfinance NGOs in China were eager to adopt such “financial sustainability” standards was that they were not allowed to take public deposits or borrow from banks and therefore were highly dependent on the subsidies from international donors at least in the early phase.
detour,” a way of “exiting the loan highway and returning several months later in the case of repayment difficulties” (Roy, 2010, p.110; Yunus, 2002, p.8).69

6.1.3 The Two Approaches Converged

FPC’s success stories were highly publicized through media and attracted the attention of the Central Policy Research Office in 1995.70 In a report to Li Peng, the Premier of the State Council of the time, the Central Policy Research Office summarized FPC’s operations in the past two years and concluded that71

The Party and the central government have invested a large amount of capital in rural poverty alleviation. However, due to the lack of management and the highly subsidized rates, the poverty alleviation capital failed to reach the poor rural households but led to large-scale rent-seeking behavior. According to the statistics of the Agricultural Bank of China, most of the subsidized poverty alleviation loans disbursed in the last few years were unable to be recovered. Moreover, the loans disbursed to rich households and enterprises bear the lowest repayment rates. The Bangladesh Model carried out by the Funding the Poor Cooperative, to a certain extent, solves the problems listed above, which provides us a new way into the rural poverty alleviation work.

69 While this approach was highly popular among the rural poor, especially those who plant seasonal crops, it was criticized by some international and domestic scholars for discouraging prompt loan repayment and losing “financial transparency”. And according to an FPC staff, the adoption of Grameen II model was one of the reasons that “FPC lost to a Nepalese microfinance NGO in applying for a big grant from CGAP in 2005.”

70 The Central Policy Research Office is an institution directly affiliated to the Central Committee of the Communist Party of China responsible for providing policy recommendations and insights to matters of governance, spanning political, and economic realms.

71 The reports prepared by the Central Policy Research Office are confidential. This report is an exception as it was first sent to Li Peng, the Premier of the State Council, who noted on the report that “Please send it for Jiang Chunyun to read.” According to the dates and signatures, the report was sent to Jiang Chunyun, the vice premier of the State Council within a week. Jiang Chunyun noted on the report that “FPC’s experiences is worth of recognition and copy this report to send to Rural Development Institute of CASS”. By the end of 1995, FPC was operating without any licenses, therefore this report was sent as an informal approval for CASS and FPC.
While this report was essential in circulating the concept of microfinance among the policymakers at the central level, microfinance was mostly considered as a mechanism to improve the existing subsidized poverty alleviation loan program, which directly led to the formation of the Agricultural Bank of China microfinance assemblage. However, domestic experts on microfinance, especially researchers from CASS who worked closely with FPC and international development institutions, were more prone to the idea that microfinance, as an effective poverty alleviation mechanism, should be undertaken by financially sustainable, non-state institutions. In 2001, in a report to the State Council, the researchers of CASS remarked:

We suggest that the central government should establish a market access system for independent microfinance institutions. With strict access system, in addition to approval system, supervision system, and reporting system, existing microfinance institutions should be allowed to be converted to commercial companies or financial institutions, which would broaden their operation scopes (CASS, 2001).

Despite their agreement on developing commercial microfinance programs, these experts knew that their ideas had to be aligned with dominant discourses put forward by the central government. Such alignment was made possible when a series of No.1 documents called for new types of rural financial institutions as an innovative means of solving the “three rural issues.” These No.1 documents underwritten by the central government are the main force behind the formation of commercial microfinance assemblage in 2005.

While most of the domestic experts on microfinance applauded the central government’s decision to approve commercial microfinance companies in 2005, debates about microfinance’s mission drifting from poverty alleviation to profit maximization soon started to arise since evidence showed that the majority of the commercial microfinance companies failed to serve the poor rural households and some of them went out of business within a year because of
overexpansion. In 2006, the “Microfinance and Rural Finance in China” conference held by Zhejiang University and the Ford Foundation was attended by more than 60 representatives from microfinance institutions (including FPC and the China Foundation of Poverty Alleviation), financial regulatory authorities (the People’s Bank of China and the China Banking Regulatory Committee) and international development institutions (the World Bank, the Ford Foundation, and the International Finance Corporation). During the conference, one panel discussed whether microfinance institutions in China could achieve the goals of financial sustainability and poverty alleviation at the same time. During the discussion, Liu Dongwen, the director of microfinance department of the China Foundation of Poverty Alleviation cast doubt on the “hasty and unplanned expansion of microfinance which could lead to the misuse of local resources.” In language that echoed the earlier social protectionist vision of subsidized poverty lending, he argued that “microfinance should not be ‘commercialized,’ which means putting profit as the priority. Microfinance’s priority should be targeting the poor which could be achieved with ‘market operation.’ This means that microfinance institutions should be subsidized when needed because targeting the rural poor, especially the poorest incurs large costs. Our focus should be on whether the subsidy is used efficiently” (Cheng and Liu, 2010, p.112).

Aligning with central state’s determination to address the socioeconomic inequality that arose in the economic liberalization, there is now a group of experts calling not only for regulation that can curb “market excesses” of commercial microfinance companies but also for promoting “responsible finance” for the poor even if it is not maximizing their profit (Ji, 2017). Such experts had different effects on the NGO microfinance assemblage and the commercial microfinance assemblage. On the one hand, they destabilize the commercial microfinance
assemblage as they note commercial microfinance’s “limits of self-regulation” (Ji, 2015), although it is not an outright rejection of the commercial microfinance model as they leave the fundamental assumptions of microfinance – that poverty can be eradicated through “market operation”– untouched. On the other hand, these experts proposing a “more socially responsible microfinance” constantly use FPC’s success in serving the rural poor as “the example to follow” (Sun, 2010). Therefore, they are important in stabilizing the NGO microfinance assemblage which still lacks a strong alignment with the central government. For example, researchers of the Baoding branch of the People’s Bank of China proposed to the Beijing office in 2009 to set up wholesale loans for NGO microfinance institutions as “existing NGO microfinance institutions, especially Funding the Poor Cooperative in Yi County, have made important contributions to rural poverty alleviation work. The central government should grant support on the policy level.”

6.2 Central State

The second element is the central state which microfinance or any financial activities cannot avoid in an authoritarian party-state. Not directly involved in the NGO microfinance assemblage, the central government played a crucial (yet partial) role in assembling the ABC, RCC, and the commercial microfinance assemblages although its policies in other areas often led to destabilizing the assemblages. Without denying the central state’s top priority which lies in maintaining its legitimacy, these roles are the articulations of the liberalizing and protecting capacities of the central state caught in the tensions between the “demands of explosive, market-led growth imperatives with the maintenance of virtually total political control” and the imperatives of socio-spatial redistribution in the face of rising political discontent (Peck and Zhang, 2013, p.374). These two categories do not suggest two consistent logics at work but can
be only understood in relation to the other elements within the assemblages, including local government, farmers, FPC, and banking institutions.

6.2.1 Liberalizing

Unlike some of its East Asian neighbors, the Chinese leadership has initiated rather than has been forced into market reforms in return for assistance from international development institutions (Breslin, 2006). While the Third Plenum of the 11th Central Committee in December 1978 is usually seen as the start of the reform process, the Fourteenth Party Congress in 1992 promoted the economic reforms to full scale under the rubric of the “socialist market economy.” However, the most liberal stance of CCP in history was matched with “undiluted commitment to political control” (Saich, 2010, p.87-88). Throughout the reform, party leaders have increasingly staked their legitimacy upon the maintenance of a stable environment for promoting economic growth and prosperity, which is not only for the central government’s fiscal fortune but also people’s economic fortune (Shue, 2004, pp.28-29). As Breslin (2006, p.116) similarly has argued, “what has emerged is an unwritten social contract between the party and the people whereby the people do not compete with the party for political power as long as the party looks after their economic fortunes.”

72 To be sure, the entry criteria that China signed to join the WTO has led to further liberalization. But this resulted from the deliberate choice of Chinese leaders that WTO entry was in China’s best economic interests and was not an external imposition in the wake of financial crisis.

73 When China embarked on its economic reform in the late 1970s, about 80% of its population resided in rural areas, being primarily engaged in agriculture. Record-breaking rates of growth were achieved from this low base. Modern China remains a low-income country in many ways, with about half of its population yet to be “urbanized”.
Through the nomenklatura and cadre evaluation system which emphasized quantifiable binding targets such as tax revenue, the central state was able to align the local states with the priority given to economic growth. As a result, local states including agriculture-based localities like Yi County all rushed for industrialization which directed resources away from the agricultural sector. Such resource allocation was worsened by the 1996 rural financial reform, which, as part of the liberalizing market reform, prioritized financial performance over other targets such as reaching the poor rural households. In the wake of the reform, the Agricultural Bank of China (ABC), one of the four state-owned commercial banks, quit the rural sector -which it was established to serve - in order to maximize its profit. Rural Credit Cooperatives (RCC), which were left to be the only formal banking institution in the rural sector, also preferred large industrial projects over rural households. This was a result of both local states’ pressure over RCC to lend to revenue-generating projects and the central state’s push for the marketization reform of RCC following the Asian financial crisis and the bank run of local rural credit foundations (for more details see Chapter 4). As a result, the enthusiasm for industrial projects at the local level and the rural financial reform which prioritized profit maximization have together led to the exclusion of the rural poor. In turn, they have contributed to the failure of ABC and RCC microfinance assemblages.

Another aspect of the state’s liberalizing capacity has been the emphasis placed on the moving the state away from “its primarily transformative, redistribute, command, and managerial roles during the Maoist era” (Berstein and Lu, 2003, p.2). In other words, the central state has been offloading its welfare and social services, including pensions, healthcare, housing, and education, to households, to the private sector and more carefully to the civil society (Peck and Zhang,
Such transfer of responsibility created space for institutions like Funding the Poor Cooperatives (FPC) and microcredit companies to be involved in the assemblages by initiating activities that fill the “welfare vacuum” but are short of political liberalization. Nonetheless, with a conservative “stability first” attitude towards NGOs, the central state never recognized FPC’s status as a formal financial institution which severely narrowed its financing sources and limited its development. Instead of forming a stable alliance with FPC (or NGO microfinance program in general), the central state is more interested in reassembling its lending technology with the existing banking institutions such as Agricultural Bank of China and Rural Credit Cooperatives when needed.

6.2.2 Protecting

While the central state demonstrated a strong capacity to stimulate economic development, in the process of which it came to face widening regional inequalities and increasingly severe tension between local officials and villagers in the agricultural-dependent central and western provinces. The central state has been responding with a series of poverty alleviation initiatives, including the 8-7 Plan in 1994 and the New Progress in Development-oriented Poverty Reduction Program for Rural China in 2001 and 2011. While the ABC has been pushed for commercialization reform, it was nonetheless the carrier of these poverty alleviation programs. As Ma (2009) has remarked, the reforms in China are managed by “a strong but flexible leash” which “can be tightened by the top leadership any time as political and economic needs arise.”

74 The redistribution of rural social benefits was both minimal and consistently regressive during the 1988-2002 period, accounting for only 1% of total rural household income (Li and Zhong, 2009).
Tasked with distributing poverty alleviation loans via a microfinance scheme, the ABC usually turns to work with local states and existing microfinance NGOs. In this sense, the central state was the major force shaping the ABC microfinance assemblage.

In addition to socioeconomic inequality, many have argued that China’s most pressing challenges have been the so-called “three rural issues” of agriculture, peasants and village economies (Wen, 1999). Most striking was the “peasants’ burden” issue in central and western rural provinces, which was largely a result of the fiscal recentralization of 1994. As a large portion of the value-added taxes was redirected to the central state, agricultural localities like Yi County relied on the agriculture tax, and other agriculture-related taxes, such as the special product tax as the main sources of revenue. In addition, there was arbitrary extraction of fees and fines, such as communication fees, slaughter fees, vaccination fees, and fines for population control. There have been numerous farmer petitions and protests at the local officials for the rapacious extraction (Lin et al., 2007; Zweig, 2003). In response to that, the central state abolished the agricultural tax in 2002 and other remaining taxes and fees in 2005 (although the abolition worsened the fiscal plight of the local state which will be discussed in the next section). Therefore, on the burden issue, because of its concern with stability, the central state sided with the peasants, “leading to an implicit alliance between the central state and the peasantry in which the latter explicitly invoked the authority of Central state regulations when protesting against the levies imposed by local officials” (Berstein and Lu, 2003, p.13).

Though only mentioned implicitly, what fueled the formation of the RCC and the commercial microfinance assemblages was the steady escalation in rural unrest. After the ABC shifted away
from the rural sector since the mid-1990s, central policymakers believe that RCC, being the cornerstone of rural finance, are critical to solving such social and economic problems and provided a total of 128.8 billion yuan of wholesale loans to RCC through agricultural on-lending microloan program in 1999. However, by the time Hu-Wen administration came to power in 2003, it was realized that the RCCs which largely monopolized the rural financial market had failed to target rural households as intended. Witnessing the ever-increasing rural unrests triggered by then not only peasants’ burdens but also rural land takings by local governments (as discussed in more details in the next section), the new administration put confidence in diversifying the rural financial market as the new way to tackle the rural issues, which in turn led to the formation of the commercial microfinance assemblage.

6.3 Local States

The third set of elements common in all microfinance assemblages are the local states, including the county and township state. There are studies showing that a set of institutions – recentralized revenue sharing, reliance on localities to supply public goods, and an evaluation system to reward successful industrialization – have led to both predatory and developmental capacities of the local state (Segal and Thurn, 2001; Berstein and Lu, 2003; Howell, 2006; Ong, 2012; Peck and Zhang, 2013). The argument is that while local states with an entrepreneurial tradition, mostly in coastal localities, have shown developmental capacities which some scholars have famously labeled as “local corporatism” (Oi, 1999), those agriculture-based local states, such as Yi County, where the prospects for industrialization were bleak have tended to be predatory in terms of extracting resources from farmers.75

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75 Scholars studying local states in China are divided into two camps, conjuring up starkly contrasting images of China’s rural development, primarily due to their different foci. One camp examines the role of
Without denying local states’ priority in revenue generation, predatory and development capacities coexist in the Yi County’s microfinance assemblages. Also, as local states tried to obtain more discretionary fiscal power for themselves, they managed different roles in initiating, negotiating, implementing, and resisting various reforms, policies, and rules, which in turn produced space for FPC, RCC and farmers to both stabilize and destabilize the assemblages.

6.3.1 Predatory

As discussed in Chapter 4 and 5, since the 1994 fiscal recentralization, township authorities (the lowest administrative level in China) in Yi County have lost the bulk of their revenue to the central state. The fiscal pressure these grassroots governments faced made them resort to arbitrary taxes and fees paid by farmers, which accounted for about half of the revenue. However, the income from taxes and fees was also lost after the tax-for-free reform in 2002 and 2005. Despite the central state’s promise to compensate grassroots authorities for their loss through intergovernmental transfers, they are inherently opaque and usually hoarded by the provincial and county governments. In turn, fiscally-strapped township governments have increasingly turned to lucrative land conversion, by acquiring farmlands from farmers at low administratively determined prices, converting to non-agricultural use, and selling to private developers at a much higher price. As shown in table 6.2, for an agricultural-based township in local states in rural industrialization and township and village enterprises (TVEs) promotion and generally lauds local states’ role in economic development. The most influential researcher in this camp is Jean Oi, who has coined the term “local state corporatism” to depict local government’s corporate-like behavior in running enterprises. On the other end of the spectrum is the camp that sees the nature of local states through the lenses of “peasants’ burdens” and corruption. This body of literature depicts local bureaucracies as having weak capacity and facing many “unfunded mandates,” which drive them to extract revenue surpluses from peasants and local enterprises. Through this lens, local states are portrayed as “predatory” and “booty socialist”.

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Table 6.2 Revenue and expenditures of an agriculture-based township in Hebei province (2004)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Million Yuan</th>
<th>Township’s Share (Million Yuan)</th>
<th>Expenditures</th>
<th>Million Yuan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within-budgetary revenue</td>
<td>319.7</td>
<td>15</td>
<td>Within-budgetary expenditures</td>
<td>18</td>
</tr>
<tr>
<td>Value-added tax</td>
<td>171</td>
<td></td>
<td>Administrative expenses, including officials' salaries</td>
<td>14</td>
</tr>
<tr>
<td>Company income tax</td>
<td>82</td>
<td></td>
<td>Population control, education, and social welfare (paid for by intergovernmental transfer)</td>
<td>4</td>
</tr>
<tr>
<td>Consumption tax</td>
<td>0.4</td>
<td></td>
<td>Extra-budgetary expenditures</td>
<td>70</td>
</tr>
<tr>
<td>Sales tax</td>
<td>28</td>
<td></td>
<td>Urban development</td>
<td>34</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>26</td>
<td></td>
<td>Rural Development</td>
<td>14.7</td>
</tr>
<tr>
<td>City development tax</td>
<td>6.1</td>
<td></td>
<td>Education (building and salary bonus)</td>
<td>10</td>
</tr>
<tr>
<td>Property tax</td>
<td>2.8</td>
<td></td>
<td>Social safety and welfare</td>
<td>6.3</td>
</tr>
<tr>
<td>Stamp duty and value tax</td>
<td>3.4</td>
<td></td>
<td>Environment</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Healthcare</td>
<td>1</td>
</tr>
<tr>
<td>Intergovernmental transfer</td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Extra-budgetary revenue</td>
<td>71.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land conversion income</td>
<td></td>
<td>71.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>90.3</td>
<td>Total expenditures</td>
<td>88</td>
<td></td>
</tr>
</tbody>
</table>


Hebei province, while most of the within-budgetary revenue were collected by the central government, the land conversion income became the main source and accounted for almost 79% of township’s total revenue in 2004.
While more prosperous areas where farmers are compensated adequately given local authorities’ better-off financial capacity, townships in Yi County were often unable to provide proper compensation to the farmland’s residents. Moreover, there have been incidents where township authorities have resorted to violent eviction when farmers refuse to vacate their homes.\footnote{Land takings happen most frequently in peri-urban areas where demand for converting land into industrial and urban usage is high. However, as land-leasing income has become the most significant source of local revenue, local governments also expropriate farmland for urban development purposes, even when no clear demand for urbanization exists, particularly when easy finance from banking institutions is readily available.} Indeed, land-related issues arising from state expropriations or acquisitions have become the top cause of rural protests not only in Yi County but over the country. During my interview with farmers in Xiazhuang Village in Yi County, I was told that around 100 mu farmlands were taken from them without any notification in 2015. Without consent signatures from the farmers which are required in the land conversion process, the township government sent bulldozers to clear the land and set up fences around it. Dissatisfied with the process, the farmers protested and tried to push down the fences which led to 6 farmers being arrested by the township police department (personal communication, Dec 1, 2017).\footnote{Later I found out that the land was converted to build a food processing company which the county government promoted as one of the “pillar poverty alleviation companies” on their website in 2017.}

Land takings in Yi County had unexpected consequences in terms of influencing the activities of Funding the Poor Cooperatives (FPC) and rural credit cooperatives (RCCs), although with very different effects. On the one hand, the fervent land takings produced a “new group of clients for FPC, who lost their land to local government and need to find new ways of living”, as the
director of FPC, Zhou Xueren commented, “with microfinance loans from us, they are able to start a business such as a restaurant or a shuttle bus operating between villages.” FPC’s services to this new group were highly praised in one of the county government meetings for “absorbing these farmers without land and therefore maintaining the local stability.” On the other hand, RCCs which were more vulnerable to local governments intervention than state-owned banks became the targets of local governments to siphon credit to fund the real estate projects which would generate the lucrative land conversion income. As a result, the central government’s huge investment in RCC’s agricultural supporting microloan program usually ended up in the local real estate projects instead of the rural households.

6.3.2 Developmental

As described in Chapter 5, the county government was the main force behind establishing FPC in 1993 and maintaining its existence throughout the years. When the central state adopted a conservative attitude towards civil society in the wake of the calamitous 1989 Democracy Movement, it was a bold movement to “swim against political tide of that time” for Yi County to develop close institutional ties with civic groups and bring them into areas of financial activities which were still monopolized by the state-owned banks in the 1990s (Dickson, 2003, p.4).

According to Stephen McGuirk, former Ford Foundation Program Officer in China,

We thought microfinance was not a possibility [in the mid-1990s]. It seemed crazy in some ways and was very removed from what had been going on [in rural sectors in China] … [yet] it was made possible because the local government was willing to take risks and experiment (Duval, 2004).

78 The comparison between RCC corporate design and state-owned banks please see Chapter 4.
However, in important respects, the county government was still acting in its self-interest by forming a long-term alliance with FPC. Given low revenue base and a large part of the intergovernmental transfers hoarded at the provincial level, its actions were part of its survival strategy to find innovative and proactive ways of fulfilling the task of poverty alleviation defined in the 8-7 Plan and the following national poverty alleviation initiatives. As FPC was financed not via the local government but nonetheless provided credit to poor rural households, the county government tacitly and implicitly encouraged its growth by facilitating FPC’s cooperation with both the Agricultural Development Bank of China and the Agricultural Bank of China and recognizing FPC’s role in relieving the tension arising in the land takings.

Also, as an effort to boost local tax base, the county and township governments went on to use the full panoply of “developmental state levers” to push the development of “pillar companies or industries” (Blecher and Shue, 2001, p.390). Embedding the setting up of these industries in a discourse of poverty alleviation, the local government more than often directed the poverty alleviation funding to these pillar companies or industries (except the 8-7 Plan period when the central government explicitly required poverty alleviation loans be disbursed to rural households). These efforts in a typical developmental state fashion, including picking a winner company or industry and directing credit to preferred big projects over rural households, have produced mixed results. On the one hand, such credit direction destabilized the RCC

79 During my interview, the local farmers told me that the county government invested the poverty alleviation funding in rabbit breeding in the early 1990s and bee breeding in early 2000s. According to one farmer, “I participated in both projects, which looked promising in the beginning. The [local] government provided the rabbits and bees and promised us the sales prices. However, without the experiences in raising rabbits and bees, they got sick within months. The County government sent experts to check once and provided us the medicine. However, it did not work. To my knowledge, both projects failed within a year.
microfinance assemblage by excluding the poor rural households. On the other hand, these pillar companies or industries had positive effects on poverty alleviation and increased the local tax base, although often with unexpected “side-effects.” For example, mushroom farming was listed as one of the “county pillar poverty alleviation industries” in 2012 (Yi County government, 2013). In the same year, a 1000-mu mushroom production park was established, where more than 1800 rural households from 30 villages participated in mushroom farming. The county government not only bargained with local farmers to buy their land which was converted to the park but also showered resources on the development of the park. The county finance bureau provided subsidy for the participating households and the county poverty alleviation office directed, via the local rural credit cooperatives (RCC), more than 30-million-yuan subsidized poverty alleviation loans to the development of the park. In 2015, the park generated more than 120-million-yuan output value with the participating households made an average annual income of 2,000 yuan by mushroom farming. However, in 2017 it was found that the poverty alleviation loan from RCCs to the park was never recovered. Unexpectedly, this incident led to the destabilization of the Agricultural Bank of China microfinance assemblage. As discussed in Chapter 5, because the county financing guarantee company provided the guarantee for this 30-million-yuan subsidized poverty alleviation loans, all the other loans guaranteed by the county financing guarantee company were also suspended for investigation, which included the loans from the Agricultural Bank of China to Funding the Poor Cooperative.

6.4 The Rural Poor

The fourth element is the rural poor. The inclusion of and the alliance with the rural poor is essential for all the microfinance assemblages since the poor are (or at least supposed to be) the
“targets” of all these programs. However, as has shown in the earlier discussions, the rural poor are not passive receivers of policies and programs but active elements of the assemblages who can also express capacities both to stabilize and destabilize the microfinance assemblages.

6.4.1 Aggressive

As discussed in Chapter 5, facing the increasing taxation burdens and land takings, farmers started to take aggressive forms of petition, demonstrations and even riots. A survey (Cui and et al., 2015) conducted in 2009 asked 2,210 villagers in 60 villages located in 5 provinces whether, in the last ten years, they had participated in collective petitions and/or other “collective incidents” – e.g. obstructing traffic, blocking construction, arguing with local government representatives. The survey found out 38 villages (63%) had experienced collective petitions in the years between 2000 and 2009, while 23 villages (38%) had experienced collective incidents.

Such petitions and protests against the arbitrarily imposed taxes and fees and land takings attracted attention from top leadership at the central level which responded with policies to align with farmers in the interest of maintaining social stability and averting political crises (Peck and Zhang, 2013). As discussed earlier, formation of the RCC microfinance assemblage and the commercial microfinance assemblage partly resulted from the central government’s effort to appease the accelerating rural unrests. However, such collective actions of the rural poor required very delicate articulations of being non-political, which could otherwise lead to straightforward suppression. As Cui et al. (2015, p.95) argued “granted in a country where outright criticism of the communist party authority is anathema, protest leaders may make such tactical declarations to protect themselves from the wrath of the party-state.” For example, in a
protest against land takings in a county next to Yi County in 2011, the protesting farmers were careful to emphasize that their complaint was directed at officials at the local level, not at the center, as they clarified to the journalists: “We are not a revolt. We support the Communist Party. We love our country” (Wong, 2011).

6.4.2 Non-harmonious

All of the microfinance programs which utilized social networks as a substitute for collateral in underwriting loans to poor rural households involved an implicit assumption that local social networks have inherently benign qualities – “families and communities are assumed to be the harmonious institutional frameworks within which benefits of social ties” are enjoyed (Rankin, 2002, p.6). As one trainer for a microfinance NGO commented, “in every culture there is something that works, and the thing is to find out what it is. Is it the headman, the religious leader, community pressure, or the police? Find out what it is and use it” (Elyachar, 2002, p.509). However, the Yi County case has shown that rural communities can have contradictory capacities to overturn such assumptions (and in turn to destabilize the assemblages) from two aspects.

First, the lending groups in microfinance programs could entrench, rather than challenge, some already existing modes of subordination (Rankin, 2002, p. 16). For example, women participating the FPC microfinance program have been shown to self-select for groups members with better-off income and excludes the “the poorest of the poor”. According to my interview with one credit officer from FPC, besides that fact that “no one wants to join a group with those more disadvantaged than them,” self-exclusion is also another reason. “These very poor
households were often plagued by age, family members suffering from illness, or high dependency ratios. As a result, they often felt that they were not ‘qualified’ to participate in these microfinance programs” (personal communication, Nov 17, 2017). Another example is that increased income earned by women have in some cases resulted in an increased overall work burden and/or the withdrawal of contributions by men. For example, a farmer told me that she and her husband borrowed 1,000 yuan from FPC in 2014 to start a snack shop next to a local bus stop. However, after the business started to make money, her husband went to Beijing to work at a construction site in 2015. “He said that now the business is on track, I can handle it all by myself. If he goes to work in the city, there would be extra money. But the remittance he sent was irregular and I am left alone to take care of the kids and in-laws” (personal communication, Nov 25, 2017).

Second, associational life which provides the fundamental assumption for microfinance to work might incur not only cooperation but also conflict. For example, one rural household I interviewed had been forced to leave the village where they used to live when they borrowed from FPC to raise chickens as an off-farm business. In a village traditionally engaged in corn farming, their new business was “highly complained by the other villagers about the smells of the chickens” (personal communication, Nov 25, 2017). Although with the help from FPC staff they are able to find a new location on a highland not far from the village, they have to use a trolley to move supplies up and eggs down since there is no road for cars to access where they live now. Another example was the conflict between the people of Hui ethnic group and other people in Yi County. People of Hui ethnic group in the county, the Chinese-speaking adherents of the Muslim faith, have a long tradition of dominating the local beef and lamb market.
Therefore, other people who borrow from microfinance programs to start beef or lamb business have been complaining about being disadvantaged in terms of “always later than the local Muslim to know about the beef and lamb price change (personal communication, Dec 1, 2017).”

6.5 Conclusion

This chapter has provided a processual and relational account of how elements common to all of the assemblages played different and even contradictory roles within and across assemblages. Using the concept of capacity from assemblage approach, I focused on the set of the elements that were present in all the four microfinance assemblages and how they were able to stabilize and destabilize the assemblages by exercising different capacities:

- First, there are international institutions that embrace two very different approaches to microfinance. These two approaches converged in China by producing a network of domestic experts with different capacities. On the one hand, the minimalist approach to microfinance promoted by CGAP forms an alliance with those supporting financial sector liberalization. On the other hand, the Bangladesh consensus approach to microfinance aligned with those holding onto the social protectionist view. While it is reasonable to conclude that the former stabilizes the commercial microfinance assemblage, the latter stabilizes the NGO and government-led microfinance assemblages, it is also important to notice that these domestic experts are constantly changing their views in the face of different incidents such as the failure of national subsidized poverty alleviation loan program or the overexpansion of commercial microfinance companies.

- To maintain its one-party-state legitimacy, the central state has been implementing two sets of seemingly contradictory – liberalizing and protecting – policies throughout the
economic reform. It is straightforward that the protecting policies are the major forces behind the ABC and RCC microfinance assemblages, and the liberalizing policies have led to the disassembly of ABC and RCC microfinance assemblages by directing resources away from the rural sector to revenue-generating projects. However, the liberalizing policies also created the space for NGO microfinance assemblage to take place, although in a much more indirect way. And both sets of policies have led to unexpected results which in turn have had effects on the different assemblages, such as liberalizing policies have led to farmers’ burden issue or protecting policies have led to land takings by the local states.

- Both predatory and developmental behaviors coexist in the local states, as they wiggle for more discretionary fiscal power for themselves. While the developmental behaviors of the local states were behind establishing and maintaining the NGO and ABC microfinance assemblages, they destabilized the RCC microfinance assemblage by directing the credit away from rural households to bigger projects. The predatory land takings of the local states also contributed to the disassembly of RCC microfinance assemblage as the local states seized RCC’s agricultural-support microloan funding for lucrative real estate projects. But at the same time, the land takings unexpectedly led to the stabilization of the NGO microfinance assemblage as the local states recognized FPC’s role in maintaining stability by turning the farmers who lost their lands to borrow from microfinance to start an alternative living.

- Lastly, rural poor have expressed non-passive capacities to facilitate the formation of RCC and commercial microfinance assemblages and non-harmonious capacities that defy
the benign assumptions of social capital, which in turn can destabilize any microfinance assemblage.
Chapter 7: Practices of Assemblage

The last chapter discussed the different and even contradictory capacities of the common elements and how such capacities could both stabilize and destabilize the assemblages. This chapter focuses on the practices required to draw the different elements together, forge connections between them, and sustain these connections in the face of such capacities. To be more specific, this chapter seeks to find out through what institutional networks and within what sorts of discursive regimes the “neoliberal microfinance project” has aligned with a Chinese state unwilling to let go of its control on the rural financial sector. What are the contestations and conflicts that arise in this process of aligning and how they are managed? Howe does social protectionist commitment still find expression in the increasingly evident market rationality of rural finance in China? How is microfinance negotiated as it takes place through local institutions and employees as well as through their borrowers?

By foregrounding the process of how the elements of the assemblages are made to cohere (or not), this chapter elaborates on three practices that are crucial to all of the microfinance assemblages:

- Enabling assumptions: the work of linking together the interests and objectives of the international development institutions and the state policymakers via assumptions about poverty, which involves “reposing political issues as matters of technique” and “framing the arena of intervention” by ruling out the unruly forces in the rural social networks (Li, 2007, pp.265).

- Managing contradictions: smoothing out contradictory views of the presence of the state in microfinance development. While confrontation or rejection lays bare the fragility of
the alliances between the donors, the state, and local NGOs and therefore threatens the formation of the assemblages, compromises and adjustments are critical to holding assemblages together and opens up the possibility for new kinds of alliances.

- Reassembling: reworking the existing elements of microfinance lending scheme for new purposes and transposing the meanings of key terms to different assemblages. This involves presenting failures of other assemblages as rectifiable through unplugging and plugging the elements into different assemblages with which they can relate differently.

**7.1 Enabling Assumptions**

Constituent elements within assemblages have to share fundamental understandings of how assemblages should persist. The fundamental *assumptions* that align different elements -- including the international development institutions, the state and the rural poor -- within all the four microfinance assemblages are that 1) the cause of poverty lies in the lack of finance capital and 2) microfinance addresses this deficit by providing the poor with credit which enables them to participate in the market in a more humanized way (Fernando, 2006). Such assumptions, however, involve work that must be done to represent the complex array of rural political, economic, and cultural forces as a bounded arena in which microfinance will produce beneficial results. In other words, only forces that can be rendered technical are admitted and unruly forces are ruled out of the formula in which microfinance leads to development. This section will discuss such work by focusing on two practices. The first is the product of the subjectivity of “poor entrepreneurs” who are responsible for taking care of themselves and their families. The second is the utilization of the concept of “social collateral” as a medium for the poor to be absorbed into the market.
As discussed in Chapter 4, microfinance emerged as a favored model of poverty alleviation in the global shift from “state-centered planning and comprehensive welfare state” to “policies and programs intended to devolve capacity to the local level” and civil society (Rankin, 2002, p.9). Crucially, this shift was to be achieved through “new means of structuring relationships with the poor” (Von Pischke et al. 1993, p. 5). Such restructuring is accomplished through a social identity embedded in the microfinance model, which represents a transformation in the specification of the subjects of development from “beneficiaries” or “small farmers” with social rights to “entrepreneurial clients”, especially women with cultural propensities to invest wisely and “responsibilities” to look after their families and communities (Rose, 1996; Rankin and Shakya, 2007; Rankin, 2013). When the rural poor are reconstructed in this way, citizenship manifests no longer through entitlement to state services or social rights but through their capacities for self-reliance (Miller and Rose, 1990). In other words, the dominant political rationality of microfinance is never about the poor’s rights to access financial capital but indeed about how to shift the onus of development downward to the rural poor’s capacities for self-reliance.

With covers graced by smiling, hard-working poor women, Consultative Group to Assist the Poor’s (CGAP) reports make a case for how microfinance promises economic freedom by “transforming the poor into microentrepreneurs” (CGAP, 2007). Bluntly stating that the poor don’t want charity but rather microfinance, CGAP’s concern is instantly “with entrepreneurialism rather than redistribution, with opportunity rather than equality” (Roy, 2010, 

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80 On a global scale donors and lenders have recognized that women are simply lower credit risk than men and a more “efficient” venue for distributing the benefits of economic growth. Women are also more likely to comply with the strict disciplinary routines of the Grameen-based group system.
Similarly, while Yunus’s vision for microfinance is framed in the language of human rights, he has repeatedly emphasized that the goal of Grameen Bank loans is self-employment rather than wage employment. Behind Yunus’s fierce notion of self-reliance is a poverty reduction model that is anti-welfare, as he explained at the 2004 microfinance conference at UC Berkeley’s Clausen Center: “I say this to the children of Grameen Bank borrowers: You are different [from your parents]. You must be self-reliant. You must create a job. You must never ask for a job” (ibid, p. 62).

This can be seen as the “depoliticization of development” that seeks to “represent problems rooted in differences of power and in class relations as purely technical matters that can be resolved outside the political arena” (Hariss, 2001, p.2). Such “depoliticization” of both the cause of and the solution to poverty is also obvious throughout a series of poverty alleviation discourses in China since the market liberalization in 1978. For example, to quote the 8-7 National Poverty Alleviation Plan: “while the gap between poor areas and developed coastal areas has widened in the process of establishing a socialist market economy system, it has also brought unprecedented opportunities and broader prospects to the development of poverty-stricken areas.” The assumption here is that poverty is a temporary problem in the process of establishing a socialist market economy system rather than viewed as endemic to prevailing and enduring institutional relationships. In this sense, a solution could be achieved without disturbing the current balance of political power and leadership. Instead, improvements occur along previously established paths. In the speeches and reports of national poverty alleviation conferences following the 8-7 Plan, the discourse of “entrepreneurship” was also echoed in the

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81 CGAP is a multi-donor consortium housed in the World Bank, which promote microfinance worldwide. For more details see Chapter 4.
efforts to “transform from relief-type approach to development-type approach to poverty alleviation”, under which “the poor have to change their mindset of waiting for and depending on the government for help and work their own way out of poverty” (State Council, 1994). And during my interview with an official from State Council Leading Group Office of Poverty Alleviation and Development, he repeatedly emphasized that poverty lending should target “not the lazy poor without ethics of self-reliance but the economically active poor who have the entrepreneurial capacities” (personal communication, Oct 24, 2016). Such discourses shift the focus to the poor as “agents of their own survival” and obscure the structural sources of inequality produced by the existing political-economic conjuncture (Rankin, 2002).

The state officials also shared with the international development institutions’ optimism about the potential for microenterprises to drive rural development, which invokes a paralleled need for rural finance development. In the No.1 documents and the more recent Outline for Poverty Reduction and Development of China’s Rural Areas (2011-2020), “to ensure rural households’ access to financial capital” has been constantly emphasized “as an effective mechanism of poverty alleviation” (State Council, 2011). Microfinance is an important component of this rural finance framework by providing the poor access to credit on the basis of “social collateral” obtained through membership in lending groups. By ensuring against default through social sanction and peer enforcement, social capital substitutes the need for information about borrowers’ credit and employment histories and physical collateral (Rankin, 2002, p.12). As the World Bank’s social capital web page puts it, “poor but closely-knit communities pledge their social capital in lieu of the material assets that commercial banks require as collateral” (World Bank, 2001). However, as discussed in the last chapter, what is assumed here is the inherently
benign qualities of social collateral but overlooks the possibility that associational life might incur not cooperation but conflict. While the Hu-Wen administration’s campaigns of “harmonious society” and “new socialist countryside” since 2003 recognized that how existing social institutions, norms, and networks have exploited certain population in the economic reform, they did not systematically connect this to a political or social analysis but offer only rather broad statements about “coordination, participation, and mutual learning”. The purpose is to shift the attention away from collective movements against the social costs entailed in the economic restructuring and the devolution of social protections to strengthening social capital so that “markets are to work better for poor people” (World Bank, 2002, p.26). In this way, unruly social networks are ruled out, and the poor are transformed into dependent and passive clients of microfinance and a market rationality in a broader sense.

7.2 Managing Contradictions

Even though these fundamental assumptions are shared, the assemblage can never be devoid of the contradictions which have to be managed. For example, the uncanny convergence of the international development institutions’ and the central state’s assumptions of the cause of and the solution to poverty does not guarantee the imposition of a microfinance model that has been promoted by these mainstream development institutions, especially CGAP, as these institutions and the central government imagine very different roles for the state in the implementation of microfinance programs. Crucially, CGAP disparages the use of subsidies and state interference

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and rejects state-led poverty lending as a form of “financial repression.” Through a series of benchmarks and guidelines, the training of microfinance practitioners, and the dissemination of best-practice models mostly located in structurally adjusted Latin America, CGAP insists that microfinance can promote rural development only when it is implemented in a financially sustainable manner. While a generation of development economists have argued that subsidized poverty lending focuses on outreach at the expense of sustainability, CGAP went further to claim that outreach failures are nonetheless committed in the absence of financial discipline. It was argued that subsidized poverty lending introduced “nonmarket considerations” into decisions on credit allocation, which leads loans to be “captured” by local elites (Killick, 1993). Moreover, subsidies perpetuate financial institutions’ dependency on overextended governments and donors, which inhibits their development of accountability and sustainability. For example, the World Bank’s report on microfinance programs in Asia cautions against subsidized credit which is used for political patronage. It is argued in the report that these subsidized lending programs not only failed to achieve the intended outreach to the poor but also discourage prompt loan repayment - and the resulting defaults required even more public subsidies to keep the system running (Rankin and Shakya, 2007, p.57).

In China, identifying the fiscal troubles and failed outreach of the national subsidized poverty alleviation loan program as resulting from the lack of financial sustainability and accountability created the condition for a market-led approach to become the “solution.” CGAP’s ambition had been to pilot NGO microfinance projects (usually in a Grameen model like Funding the Poor Cooperative), adapt them as necessary to the Chinese context, and then scale up to create “a market-based rural financial infrastructure at the national scale”, which would involve not only
introducing the joint liability (group lending) system to substitute collateral, but also mobilizing savings, charging market interest rate, and “achieving economies of scale in the disbursement of credit” (Rankin, 2008, p.1970). CGAP’s claim is clear here is that in order for microfinance to achieve both outreach and sustainability, policymakers have to turn to “a market rationality” - to recognize that the poor are not only willing to save money and but more importantly pay market rates for credit (Holt and Ribe, 1992, p.1993). For example, CGAP listed three core principles for Egypt’s national strategy for microfinance:

poor people will be best served when they have access to a wide range of services, for the best price, with choice between different financial services and different providers … this is most likely to happen when a free market for microfinance exists in Egypt .. and only through the mobilization of commercial capital (Waly, 2005).

However, efforts to apply a market-led approach to microfinance in China were systematically quelled as finance was (and still is) one sector over which the central state has been hesitant to relinquish its control because the state-owned banks serve as the important mechanism of managing the budgeting process and the state-owned enterprises. Without outright rejection or confrontation that lay bare the contradictions, the central government managed the contradictions through practices that effectively contained the development of market-led approach of microfinance from two aspects. First, the regulatory framework kept strict control over interest rates and “offered no clear legal status for non-bank financial institutions or achievable guidelines for how they could engage in small-scale savings and loan activities” (Rankin, 2008, p.1969). At the same time, donor-funded NGO microfinance programs were confined to discrete projects to be implemented with a local “partner” organization. Secondly, the central government increasingly engaged with the state-owned banks - Agricultural Development Bank of China (ADBC) and Agricultural Bank of China (ABC) - as key mechanisms to start their own
microfinance programs.\textsuperscript{83} By August 1998, the government-led microfinance programs had been expanded to over 605 counties in 22 provinces, totaling loans of up to 600 million yuan (about 72.5 million US dollars using the 1998 exchange rate), almost immediately dwarfing the NGO microfinance programs (Park and Ren, 2001; Park et al., 2003).

Facing containment from the central state, including interest rate control, regulatory obfuscation, and local partnering, international development institutions and their funded NGO microfinance programs including FPC pursued a “politically realistic” strategy “within the limits set by their need to continue to engage with the state apparatus” (Li, 2007, p.281). To quote Li (2007, p.277), these international development institutions can be pro good governance and they can be suspicious of opportunistic officials seeking to access project funds, but they need officials to sign off on memoranda of understanding, issues visas and so on. They cannot be anti-state. Nor can they upset the status quo by engaging in an explicit political challenge.

In FPC’s case, while it retained its NGO status and closely aligned with international development institutions, such as UNDP, the Ford Foundation and the Grameen Bank Foundation, it worked closely with the local governments to serve as intermediaries of the state-led microfinance programs by forming lending groups, assisting in the loan application, distribution, and collection processes. Through such compromises not only were the contradictions managed but also the state, the international development institutions, and FPC became implicated, which enabled the latter to identify the key strategic allies who had the institutional resources to not only promote the market-approach to microfinance but also reform the regulatory and enabling environment in which it operates (Johnson, 2013). In this way, the

\textsuperscript{83} These programs were run as a microfinance component of the national subsidized poverty alleviation loans.
role of the state was recognized, although still in a limited sense, to be an “enabler, not direct provider” (CGAP, 2004). For example, Andrew Watson, Resident Representative of the Ford Foundation in China 1999 to 2008, pointed out that in the late 1990s, the Ford Foundation had already begun to work with FPC and sponsor researches on key policy issues such as rural financial reform which helps “Chinese policymakers think about creating a more flexible rural financial environment within which microfinance could play a role.” According to him, a Vice President of the People’s Bank of China and officials from the Rural Credit Cooperative and staff from the Agricultural Bank of China attended Ford Foundation conference on rural financial reform in August 2003, which took place at the same time when the central bank launched the new experimental policy for Rural Credit Cooperative reform (Duval, 2004).

The international development institutions’ perspectives shifted from prescribing a specific model of microfinance to promoting a wider financial sector or financial market development in China. This was evident in the World Bank’s 2008 publication of Finance for All, which also reflects the wider shift in development policy towards the post-Washington Consensus on “getting institutions right” (Gore, 2000; World Bank, 2002; World Bank, 2008).\(^{84}\) As the Finance for All concludes,

\begin{quote}
financial sector reforms that promote broader access to financial services should be at the core of the development agenda . . . Government policies should focus on building sound financial institutions, encouraging competition (including foreign entry), and establishing sound prudential regulations to provide the private sector with appropriate incentive structures and broaden access (World Bank, 2008, p. 17).
\end{quote}

\(^{84}\) While the motivation for promoting markets can be seen in the original concerns of the Washington Consensus to get markets working, it is modified by the concerns of the “post-Washington Consensus” for poverty reduction, and the understanding that without adequate structured opportunities for poor people this promotion is set to increase inequality (World Bank, 2006).
While the concept of inclusive finance also started to gain popularity among top-level officials after the People’s Bank of China translated and published the United Nations’ *Blue Book on Building Inclusive Financial Sector for Development* in 2005, the concept is articulated with ongoing socialist commitments of the central state. In other words, inclusive finance is understood to be the mechanism for the poor to participate in the market, which is the key to significant reduction in poverty. For example, the *Financial Inclusion in the People’s Republic of China* co-published by CGAP and People’s Bank of China remarked that,

A market that works for the poor is one which expands the choices available to poor people and produces outcomes that benefit the poor, judged in terms of access to markets and overcoming exclusion; affordability of purchases; returns to products and labour; and increased choice and reduced risk, with these effects leading to increased participation over time (2005, p.10).

### 7.3 Reassembling

Amid such contradictions, the elements of any assemblage need to be constantly assembled and re-assembled, and this was a major dynamic of the microfinance initiatives. While the efforts to apply a market-led microfinance approach were confounded by ongoing state practices, they were pivotal in increasing the circulation of the concept of microfinance as a financial mechanism for poverty alleviation in the central policy circles through conferences, forums, and training sessions. Embedded within a social protection discourse, microfinance had been *reassembled* into a series of poverty alleviation initiatives led by the central government since the late 1990s “like bricks taken from one fallen building and used in the construction of another” (Prince, 2009, p.180). Even when it was realized that most of the ABC microfinance programs failed to serve the poor rural household, the failures were presented as “side effects” of ABC’s transformation from a state-owned special bank to a state-owned commercial bank. The doubt was not cast on the assumption of microfinance as an effective poverty alleviation
mechanism. Rather, the way forward was in locating “the right institution to carrying out the microfinance programs” (personal communication, Oct 30, 2016).

While the orthodox microfinance model was often associated with a Grameen Bank lending methodology: lending groups, joint liability, weekly meetings, investment in “economically productive” projects, and rigid repayment schedules, the government-initiated microfinance programs involved constant reworking of such schemes.85 For example, the proven practice of forming groups of five clients, a hallmark of the Grameen Bank’s strategy, was difficult to carry out in Yi County for two reasons. First, in Yi County, poor rural households are much less densely populated than Bangladesh villages served by the Grameen Bank. Therefore, the weekly meeting has been complained by some farmers as a “burden,” especially for those who have to travel hours to the office of FPC for the meeting. During the interview with clients of FPC, when I asked about recent meetings, some farmers explained that during the busy season, they simply did not have time to attend weekly meetings. Instead, group members agreed that when they run into each other in the village, this would count as a meeting too. Secondly, in China, both rural and urban areas are organized into hierarchical units under the central government.86 Therefore, microfinance institutions had to create groups that more closely resembled existing organizations not only because people, especially poor rural households, are not used to working outside of the political units, but also because village leaders are very sensitive about group meetings that take

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85 This would include not only Agricultural Development Bank of China and Agricultural Bank of China microfinance programs but also Rural Credit Cooperative microfinance programs and microfinance companies as they were also initiated by central government policies.

86 There are five practical levels of local government: the provincial (province, autonomous region, municipality, and special administrative region), prefecture, county, township, and village, each of which has its own party committee.
place without their knowledge. As one of the credit officers of FPC told me about an incident that happened in 1994:

The day after I held the first center meeting of 6 lending groups which consisted of 30 women borrowers, I was visited by the police and the village leader. They told me that one of the villagers saw the meeting “where all the women had to read some kind of slogan” so he called the police as he thought “these women were probably summoned for religious or political gatherings.”

As a result, in government-initiated microfinance programs, weekly meetings were either terminated or became compulsory for almost the entire village to attend, which would be held not by credit officer but by the village leader. According to the rural households interviewed, such meetings would usually serve some other purposes such as informing villagers of new guidelines of raising livestock or educating women on the need for their children to take the vaccine.

In addition, as the rural financial reform prioritizes profit maximization for financial institutions which create incentives for them to relinquish some of the labor-intensive and time-consuming innovations originally developed for servicing the poor and promoting more financially “productive” investments. Instead, lenders shifted from group to individual borrowers, from “production credit” to “consumption smoothing credit.” Concepts like “customer differentiation” or “client upstreaming” have entered the microfinance glossary, as MFIs seek to isolate the “economically active” poor in more densely populated areas to expedite outreach and achieve economies of scale (Rankin, 2013, p.560). Paradoxically, the redlining that excludes the

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87 The microfinance program implemented by the Rural Credit Cooperatives and microfinance companies even let go of the group lending methodology altogether, while the former would grant a “credit pass” to a whole village, microfinance for the latter literally means “credit in small amounts” and bore almost no relation to the orthodox Grameen model.
The poor rural households, the actual users of microfinance, were also in the constant process of reassembling microfinance programs as they were implemented. For example, according to rural households interviewed in the Yi County, some loan capital from microfinance programs were commonly diverted from the intended income-generating investments to weddings, funerals, and other ritual and social practices necessary to secure a household’s location within social networks. According to some interviewees, they used the loans for purchasing “prestige items” such as televisions, which, to a certain extent, is also necessary to keep up with the “network standards” in order to remain a good social standing among the relatives and neighbors. Since 2010, FPC has bent the rules and allowed such consumption loans as an effort to “keep the rural households away from borrowing from local usurious money lender” (personal communication, Nov 24, 2017).

And although FPC started individual loan since 2010, when the loan amount one household needed exceeded the limit of 100,000 yuan set by FPC, a lending group of five households would be formed with friends and relatives so that each household would receive the loans which, however, would only be used by one household. Here, not only the rule of not allowing relatives to be in the same lending group was relaxed, the microfinance institutions turned a blind eye to what they would call “building a big base.” According to a loan officer I interviewed:

Of course “building a big base” is not allowed on paper [because in orthodox financial theory it raises risks]. However, when some rural households are just out of poverty and are in a good path of what they are doing, they need capital to expand their business, so they can be more well off. I do not think it is unethical for them to be not satisfied with just “out of poverty” and want something better, but our program would not allow the
amount they are requesting, and formal banks would not take them either. So “building a big base” is a practical solution here, especially since the joint liability is still working, which means if the household who is using the capital cannot pay back the other household will be held responsible. I would call it people’s wisdom (personal communication, Nov 17, 2017).

7.4 Conclusion

This chapter begins by tracing how international development institutions and the Chinese state are aligned together by enabling a discourse of arguments and justifications where microfinance is proposed as the universal solution to poverty. There are critical omissions and erasures in this process: while the unruly forces are ruled out, forces that can be rendered technical are admitted (Li, 2007). However, given the dominance of state-led rural finance in China, there are divergent interests among the elements, especially between the development institutions and the state planners on the role played by the state in the assemblages. To manage such tensions, various elements have made compromises which in turn produced a “soft form” of neoliberalism (Peck and Tickell, 2002) – neoliberal orthodoxy articulated with the institutions and political commitments in China. In this process, financial institutions, employees, and borrowers are constantly adapting microfinance’s schemes, such as the group lending mechanism, to the state-led microfinance programs and local socio-economic networks. Here, I refer again to the notions of distributed agency and non-linear causality from the assemblage approach as these practices analyzed above are without a master-plan or a consistent interest and intention but can be only understood as “reciprocal presuppositions and mutual insertions [that] play themselves out” (Deleuze and Guattari, 1987, p.85). Moreover, I also emphasize contingency and fracture – that assemblage is not a seamless whole but with ever-present possibility that it may not be maintained by existing practices and “disintegrate under the weight of its own contradictions or
be reassembled in forms so different that [it] no longer plausibly travel[s] under the old name” (Li, 2007, p.287).
Chapter 8: Conclusion

In this dissertation, the state regulation under the socialist-market economy in China presents a particularly interesting context in which the single-party authoritarian state has constantly been containing the experiment with microfinance and subsuming them into a series of state-led initiatives. By illustrating how four microfinance assemblages in Yi County – the NGO microfinance assemblage, the Agricultural Development Bank of China (ADBC) and Agricultural Bank of China (ABC) microfinance assemblage, the rural credit cooperatives (RCC) microfinance assemblage, and commercial microfinance assemblage - were produced, maintained, transformed and/or deteriorated, this dissertation has sought to reveal the messy and complex processes of composition that produce political and social formations. Inspired by but distinct from policy mobilities literatures which focus on how heterogeneous elements cohere in an assemblage, this dissertation focus on foregrounding the contradictory, contingent, and overdetermined capacities of the elements common to all microfinance assemblages and the practices required to draw these elements together, forge connections between them, and sustain these connections in the face of such capacities. Highlighting the notions of distributed agency and nonlinear causality, this chapter also discusses their relevance to the planning literature, the limitations of the assemblage approach employed in this dissertation, and the directions for future research on microfinance.

8.1 The Four Assemblages

The NGO microfinance assemblage in Yi County was largely assembled around Funding the Poor Cooperatives (FPC). It was able to form relationships with the domestic poverty alleviation researchers (especially Chinese Academy of Social Science), the international development
institutions, the local governments, the central government, and the poor rural households, all of which are important elements in the other microfinance assemblages formed later. However, the relationships between the elements were constantly changing and therefore continually worked at. On the one hand, FPC together with the international donors were able to align with the central government via the powerful assumption that the cause of poverty lies in the lack of finance capital and microfinance addresses this deficit by providing the poor not only credit but also the opportunity to participate in the market in a more humanized way (Fernando, 2006). Through a series of conferences, forums, and reports, FPC and international donors (especially CGAP and the Ford Foundation) enabled this assumption by producing the subjectivity of “poor entrepreneurs” who are responsible for taking care of themselves and their families and utilizing the concept of “social collateral” as a medium for the poor to be absorbed into the market. This is a process of “depoliticizing” both the cause of the solution to poverty, which found an echo in the national poverty alleviation discourses since the market liberalization in 1978. Moreover, the fiscal troubles and failed outreach of the national subsidized poverty alleviation loan program created the condition for FPC, and microfinance NGOs in a broader term, to become the “solution.” While FPC was hoping to the stabilize its relationship with the central government in terms of being recognized as a formal financial institution, international development institutions like CGAP had a more ambitious goal of scaling up the microfinance NGOs in China to create a market-based rural financial infrastructure at the national scale. However, both efforts were systematically quelled by the central state as finance was one of the sectors over which the Party-state has been reluctant to relinquish its control. Despite its efforts in containing the NGO microfinance assemblage via interest rate control, regulatory obfuscation, and local partnering, the central government was proactive in embedding microfinance in a series of social protection
discourses in response to the increasing urban-rural disparity. As a result, microfinance, as a lending technology instead of an institutional framework, was reassembled by the central government with the ABC and later RCC microfinance assemblages.

On the other hand, FPC started and remained in strong alignment with the local governments in both the NGO microfinance assemblage and the ABC microfinance assemblage. As FPC was not financed via local government budget but nonetheless helped provide credit to poor households, the local governments tacitly and implicitly facilitated its development and its cooperation with the ABC. Given low revenue levels since the fiscal recentralization in 1994, the local governments’ relationship with FPC could largely be understood as its innovative way of fulfilling the task of poverty alleviation defined by the central government. And as fiscal plight of the local governments worsened after the central government abolished the agricultural tax in 2002 and other remaining taxes and fees in 2005, FPC’s role was again recognized by the local governments as it relieved the grievance arising in the rural poor whose land had been taken by the local governments for lucrative real estate development. This new class of rural landless poor were absorbed by the NGO microfinance assemblage which supported them with credit to find an alternative way of living.

While the NGO microfinance assemblage and the ABC microfinance assemblage had more stabilized presences (although ABC microfinance assemblage was largely suspended since 2000 when the 8-7 Plan came to an end and reassembled in 2011 with a renewed subsidized poverty alleviation loan program) and were more “visible” to be located in Yi County, the RCC microfinance assemblage and commercial microfinance assemblage were never stabilized in Yi
County. As the 8-7 Plan came to an end in 2000, ABC largely quit the rural market as it had been pushed for commercialization by the central government since the mid-1990s. This left RCCs as the only formal credit institutions in the rural sector. However, the RCC system nationwide was on the verge of going bankrupt in the late 1990s. By putting forward the agriculture-supporting microloan program, the central government was creating the RCC microfinance assemblage in the hope of simultaneously enhancing RCCs’ profitability and improving rural households’ access to credit. However, local governments, which were not under the political pressure to set poverty alleviation as their priority as they were in the ABC microfinance assemblage, were more interested in using its influence over RCCs to direct credit to profit-generating projects. Moreover, with its monopoly position in the local rural financial market, RCCs also had few, if not zero, incentives to assemble the poor rural households into the assemblage.

The failure of the RCC microfinance assemblage did not overturn the assumption that microfinance is an effective mechanism to address rural poverty. Rather, debates fueled by the international development institutions and the domestic research institutions shifted to locating the “right carrier of microfinance.” Such debates paralleled with the ever-increasing rural unrests triggered by the heavy peasants’ burdens and land takings. In turn, the commercial microfinance assemblage was formed in alliance with the discourse of the “three rural issues” in which the development of a “diversified rural financial market” was put forward by the central government as a solution to the escalating rural unrest. However, the commercial microfinance assemblage was destabilized by the financial regulatory authorities at the central and local level which “put stability first” and avoided setting up new grassroots financial institutions, especially given that
the rural credit foundations failed not too long ago. Despite the fact that efforts from both domestic (e.g., the deputy governor of People’s Bank of China personally persuaded local government leaders to start commercial microfinance companies) and international (e.g., Yunus visited China right after he was awarded the 2006 Nobel Peace Prize) side constantly worked at the “stability first” mentality, the conservative attitude towards commercial microfinance assemblage remained in Yi County. As a result, struggling to stabilize under a series of strict requirements imposed by the local financial management office, the commercial microfinance assemblage in Yi County failed to align with the poor rural households, which would incur more costs and were largely considered a risk “not worth taking” (personal communication, Oct 30, 2016).88

8.2 Distributed Agency, Nonlinear Causality

By using assemblage approach as an analytic lens to interpret the case of microfinance development in Yi County as four assemblages composed of a diversity of elements that do not necessarily cohere into seamless wholes, this dissertation focuses on providing processual and relational accounts of how a set of elements common to all four assemblages expressed different and even contradictory capacities within and across assemblages (table 8.1) and the practices required to draw these elements together, forge connections between them, and sustain these connections in the face of such capacities. In these accounts, this dissertation emphasizes the notions of distributed agency and nonlinear causality.

88 Interview with official from People’s Bank of China.
Table 8.1 Capacities of elements common to all microfinance assemblages in Yi County

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<th>Elements</th>
<th>Capacities</th>
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<th>Destabilizing</th>
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<td><strong>International &amp; Domestic Institutions</strong></td>
<td><strong>Promoting the minimalist approach to microfinance</strong></td>
<td>- NGO assemblage</td>
<td>- ABC assemblage</td>
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<td>promoting microfinance</td>
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<td>- Commercial assemblage</td>
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<td><strong>Promoting the Bangladesh consensus approach to microfinance</strong></td>
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<td>- NGO assemblage</td>
<td>- Commercial assemblage</td>
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<td><strong>The central state</strong></td>
<td><strong>Liberalizing:</strong></td>
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<td>- Commercial assemblage</td>
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<td>- prioritizing industrialization and urbanization</td>
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<td>- diversifying rural financial sector</td>
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<td><strong>Protecting:</strong></td>
<td>- ABC assemblage</td>
<td>- RCC assemblage</td>
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<td></td>
<td>- National poverty alleviation initiatives, such as the 8-7 plan</td>
<td>- Commercial assemblage</td>
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<td>- “three rural issues” discourse</td>
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<td></td>
<td>- abolition of rural taxes and fees</td>
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<td><strong>The local states</strong></td>
<td><strong>Predatory:</strong></td>
<td>- NGO assemblage</td>
<td>- RCC assemblage</td>
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<td></td>
<td>- peasants’ burdens</td>
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<td>- land takings</td>
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<td></td>
<td><strong>Developmental:</strong></td>
<td>- NGO assemblage</td>
<td>- RCC assemblage</td>
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<td>- Facilitating the development of FPC</td>
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<td>- Nurturing pillar industries</td>
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<td><strong>Aggressive:</strong></td>
<td>- NGO assemblage</td>
<td>- ABC assemblage</td>
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<td>- Protests against peasants’ burdens and land takings</td>
<td>- Commercial assemblage</td>
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<td>The rural households</td>
<td><strong>Non-harmonious:</strong></td>
<td>- All assemblages</td>
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<td></td>
<td>- Entrenching subordination</td>
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<td>- Instilling conflicts</td>
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Without instill constituent elements with a master-mind or a singular interest, a distributive notion of agency finds a series of situated elements with partial, overlapping, and conflicting degrees of productive power. As Jane Bennett (2005, p.463) argues, “if one looks closely enough, the productive power behind effects is always a collectivity.” This recognition that agencies do not precede, but rather emerge through the distributed process of making and
unmaking assemblages shifts the analytical gaze from individual elements themselves to the “intra-active becoming” (i.e. the constant interactions between the elements that give the form of the assemblage) (Anderson et al., 2012, p.181) And because of such “ontological inseparability/entanglement of interacting ‘agencies’” (Barad, 2007, p.139), this dissertation writes of assemblages rather than the singular or self-sovereign elements as the primary ontological unit. Even in the analysis of the capacities of the elements common to all assemblages, the emphasis was on how these capacities were not fully determined by the properties of each element but could only be understood as emerging from the interactions with other elements. For example, while the property of the central state lies in maintaining its legitimacy as a one-party-state, it expressed different and sometimes even contradictory capacities: liberalizing capacities in interaction with the state-owned banks (e.g., prioritizing their commercialization) but protecting capacities in interaction with ever-increasing urban-rural disparity (e.g., a series of national poverty alleviation initiatives).

The notion of distributive agency connotes nonlinear causality. If linear causality seeks to treat some elements as external causes and others as dependent effects, the nonlinear causality focuses on the process in which elements are linked *rhizomatically* as “reciprocal presuppositions and mutual connections play themselves out” (Deleuze and Guattari, 1987; p.85-91). In other words, within assemblages, one does not find “an effect obedient to a determinant”; instead, one finds “circuits where effect and cause alternate positions and rebound back upon each other” (Bennett, 2005, p.459). For example, in the assemblages illustrated in this dissertation, the fiscal

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89 Deleuze and Guattari (1980) use the terms “rhizome” and “rhizomatic” to describe theory and research that allows for multiple, non-hierarchical entry and exit points in data representation and interpretation, which is contrasted with an tree-like conception of knowledge, which works with dualist categories and binary choices.
recentralization led the grassroots governments that lost their revenue sources to impose heavy taxes and fees on rural households. While the rural unrests against such heavy burdens led to the central state’s response in terms of abolishing the agricultural tax in 2002 and other remaining taxes and fees in 2005, such reform worsened the fiscal plight of grassroots governments which forcibly converted rural land into real estate projects as land conversion income became their main revenue source. It is impossible to distinguish the causes and effects in this process, as the central state, the local states, and the rural households together generated results via “a series of feedback loops that operate between them” (Connolly, 2004, p.342-343).

Moreover, the notion of causality advocated in this dissertation not only seeks to depart from the notion of linear causality but also make more room for novelty and randomness in emergence. Deriving from assemblage approach’s fundamental claim that “relations are exterior to their terms” – while it is through the dynamic relations between elements that emerge the capacities of the elements and therefore the form of the assemblages, these relations do not determine or exhaust the capacities of the elements – this dissertation emphasizes that elements always retain the autonomy to express “undertapped” capacities that may or may not alter the assemblages.\(^{90}\) In other words, given the “emergent capacities which are thus capable of independent variation and therefore of being out of phase with one another in time,” there is always a sense of uncertainty to the agency of assemblages, a potential for relations to be otherwise (Archer, 1995, p.66). This dissertation illustrates such unexpected capacities of some elements, such as the local states that engaged in a tactic of “jumping up the scale” to enlist the cooperation of international

\(^{90}\) Harman’s explanation of “relations of exteriority” is useful here. According to him, “relations are a matter of symbiosis, not of organism (Harman, 2008, p.372).”
development institutions that promoted microfinance or the rural households that engaged in aggressive and non-harmonious activities to subvert the assumptions of microfinance. The recognition of the indeterminate notion of causality disputes the formulations of “getting the elements right” which a lot of planners believe would automatically lead to desired results. Instead, there is no predictable (let alone deterministic) pattern of interaction between elements – their observable coming together are always contingent (Harvey, 2009, pp-243-244). As Anderson et al. (2012, p.183) argue:

Rather than produce an essentialist account of the internal characteristic of make-up of this or that assemblage, assemblage thinking insists that that range of causal factors might have produced similar emergent forms, and in different conditions the same constituent parts might have produced different assemblages.

8.3 Relevance to Planning

The notions of distributed agency and nonlinear causality underlined in this dissertation provide more than a theoretical tool. They are also a sensibility and an ethos for planners to think about the nature of political and social assemblages, such as a migration policy or a redevelopment plan, in which heterogeneous elements interact in unpredictable ways. To be more specific, the significance of the assemblage approach to planners lies in its two commitments: relationality and contingency. First, planners looking for changes “are not much intervening in the world as they are drawn into associations” (Rydin, 2014, p.519). Planners are not outside but within the assemblage and need to prepare themselves with the practices of allying with other elements around shared interests or objectives (Beauregard and Lieto, 2017). For example, this dissertation traces how international development institutions and the central state are aligned together by enabling a discourse of arguments and justifications where microfinance is proposed as the universal solution to poverty. Beauregard (2016, p.11) also argues that planner’s task lies
in not only forming alliances but also weakening or dismantling the existing alliances that block changes. Such relational understanding advocated here conceives of any hegemonic social or political assemblage, such as self-regulating market, as specific instantiations that require strategic alliances among differently positioned social groups who build the assemblages. In any given instantiation of market formation, however, there are inevitable protections against the “social costs entailed in committing land, labor and money to their commodity form” (Rankin, 2008). Planners with different purposes, therefore, could be containing the counter-movements to maintain the assemblage or allying with them to unpack and rearrange the interdependencies within the assemblage.

Second, planners should concern themselves with “always-emergent conditions” (Hirschman, 1970), because the assemblages that planners are involved with and constantly working at can be destabilized either by the appearance of some new elements or the emergence of previously undertapped capacities of existing elements (Bennett, 2010; Connolly, 2005). In other words, “relations may change, new elements may enter, alliances may be broken, new conjunctions may be fostered. Assemblages are constantly opening up to new lines of flight, new becomings (Anderson and McFarlane, 2011, p. 126).” This not only means that planners should be more flexible with the unpredictable but also always be ready to identify the array of possibilities at play, which are a vital source for planners to identify other, more progressive, imaginaries of the world (Beauregard and Lieto, 2017, p.160). For example, Yunus’s visit to China right after he won the Nobel Peace Prize in 2006 created an unexpected opportunity to make alliances with the Chinese top-level financial regulatory authorities. International development institutions, domestic research institutions, and microfinance NGOs were able to identify and grab this
opportunity to promote microfinance not because they were able to foresee it but because they had been diligently circulating the concept of microfinance and made a strategic alliance with top-level leaders at the central level. As Harman (2008, p.373) puts it, “we are all the prey of chance, since we all have capacities not unleashed in our current situation, but which may become crucial when certain random events occur.” This is could be frustrating for planners who wish to follow existing script of action. However, to accept an understanding that implies that “what happened could only have happened in this way” constricts possibilities and hobbles planners’ quest for purposive change and a better world (Beauregard and Lieto, 2016; Beauregard and Lieto, 2017, p.162).

8.4 Limitations

While the assemblage approach I employed is useful in revealing the heterogeneous, relational, contradictory and contingent nature of political and social formations, it has its limitations in assigning responsibility and detailing the historical processes.

8.4.1 Responsibility

There is a tension between the notion of distributed agency and responsibility, as Bennett (2005, p.463) puts it: “in a world where assemblage is distributed, a hesitant attitude towards assigning blame becomes a virtue.” For example, for the rural credit cooperative (RCC) microfinance program (assemblage) or the commercial microfinance program (assemblage) that did not work as intended, it is difficult to hold someone or some institution fully responsible for the failure. Nonetheless, this does not mean abandoning the project of identifying the “sources” of failure (Arendt, 1953). To the contrary, the notion of distributed agency invites one to look at “long-
term strings of events”: to look at how RCCs were forced to absorb bad debts from the state-owned banks and the rural credit foundations; to look at the internal party committee setting which made RCCs vulnerable to interference from the local government; but also look at daily practices of RCCs which conform to requirements from the central level only on paper. In this sense, the notion of distributive agency does not invoke the “project of blaming” which could be important for policymakers evaluating a failed program, but the “guidelines to action appropriate to a world of vital, crosscutting forces” (Bennett, 2005, p.463).

8.4.2 History

In his book *Intensive science and virtual philosophy*, DeLanda stated that elements within assemblages are not defined by their essential traits, but “rather by the morphogenetic processes that give rise to [them]” (2002, 0.9-10). Here, processes not only mean the interactions between the elements but also the previous historical trajectory of each element. However, if one accepts the notion of nonlinear and indeterminate causality, one has to admit that the information in an element’s history is not entirely preserved: far from it. Indeed, elements such as a microfinance institution or a discourse of poverty alleviation are observable and traceable because they are the “crystallizations of a longer process” in which uncharted turbulences often get lost (Harman, 2008, p.373). Anderson et al. (2012, p.182) made a similar argument:

> In a nonlinear causality system, small disturbances can have massive effects, meaning that the agency of small components is often only revealed retrospectively in specific traces or as the assemblage is later stabilized, and indeed may remain hidden altogether.

While Chapter 4 of this dissertation provided a historical background of the elements, it nonetheless undertook the risk of missing the small but important details. Although it is almost impossible to overcome this risk, it is important for researchers employing assemblage approach
not to take what is visible – the everyday certainty as granted -- but engage in an exercise of unpacking the process that leads to it, which is not only made up of self-evident relationships but also full tensions and contradictions, clashes and displacement (Allen, 2011).

8.5 Directions for Future Research on Microfinance

While microfinance research is still dominated by quantitative studies, this dissertation seeks to shed light on a new understanding of how microfinance is contingently adopted and adapted in China. Besides the focus on details and complexities of what actually happens on the ground which is inevitably underestimated by quantitative studies, this dissertation also points out three new directions for future research on microfinance. First, in contrast to most of the microfinance studies which have focused on the central state’s capacity to obstruct, the assemblage thinking employed in this dissertation provides an alternative way of approaching the central state. Without denying the more dominant position of the central state by virtue of the financial resources and decision-making powers at its disposal, the assemblage approach focuses on how the central state interacts with other elements, not by the imposition of power “from above” but through the “tangled and cross-cutting political” relationships to mobilize and secure their goals and interests (Allen, 2011, p.155). In this sense, the power of the central state could be understood as dense, complex and most of the time difficult-to-break-off relationships with other elements. However, as the central state’s maneuvers and negotiations are nonetheless entangled with other elements, it is through such relationships that the constraints of the central state and the possibility to act are revealed. This way of approaching the central state positions the otherwise hegemonic system “as contingent assemblages, constituted by a range of forces and
interests that may not be as internally coherent and unassailable as they often seem” (McCann, 2011, p.146).

Secondly, while the central state has strategically contained neoliberal donor interference and aligned it with a socialist orientation to market development, approaching institutions as practices of assemblage reveals continuities and similarities between so-called state-led and market-led development, both of which require ongoing work of producing knowledge, forging alliances and crafting desired subjectivities (Li, 2007). Therefore, the assemblage thinking challenges the ideological frames in which state and market customarily reside but directs future microfinance studies to foreground how cultural-political and political-economic milieu expose the limits of practices of assemblage – “precluding elements that can either facilitate or hinder microenterprise, but which cannot be assembled to the political rationalities of microfinance” (Rankin, 2008, p.1970).

Lastly, although Yi County provides a good place to trace the microfinance assemblages as it is where the first microfinance institution was set up and important elements left their traces, there are other sites in China with microfinance assemblages that are worth thorough investigations. For example, compared to Yi County, Jiangsu Province has presences of much more stabilized rural credit cooperative microfinance assemblage and commercial microfinance assemblage. A detailed account of how these assemblages were formed and maintained – the interactions, dealings, and negotiations between the elements would provide useful insights into the capacities and practices not revealed in this dissertation, especially the capacities and practices of the local states which could differ in many ways because of the widely differing levels of development in
China. Although such an account will not directly tell microfinance program designers and practitioners what to do as they are always faced with different contexts, it will broaden their range of possible capacities and practices and therefore the places for them act.

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91 Scholarship on the role of local government in development in China has reached conflicting conclusions, largely depending on the location of field studies and the subject under investigation. Tony Saich (2001) describes these efforts as “a few blind men and the elephant” – what we “see” is often a direct result of where we stand.
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Appendices

Appendix One: Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Description</th>
<th>Chinese Equivalent</th>
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<tbody>
<tr>
<td>ABC</td>
<td>Agricultural Bank of China</td>
<td>中国农业银行</td>
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<td>ADBC</td>
<td>Agricultural Development Bank of China</td>
<td>中国农业发展银行</td>
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<td>AusAID</td>
<td>Australian Agency for International Development</td>
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<td>CASS</td>
<td>Chinese Academy of Social Science</td>
<td>中国社会科学院</td>
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<td>CBRC</td>
<td>China Banking Regulatory Commission</td>
<td>中国银行业监督管理委员会</td>
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<td>CCP</td>
<td>Chinese Communist Party</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<td>FPC</td>
<td>Funding the Poor Cooperative</td>
<td>扶贫社</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>NGO</td>
<td>Non-governmental Organization</td>
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<td>MSC</td>
<td>Microcredit Summit Campaign</td>
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<td>MFI</td>
<td>Microfinance Institution</td>
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<td>MIX</td>
<td>Microfinance Information Exchange</td>
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<tr>
<td>PBoC</td>
<td>People’s Bank of China</td>
<td>中国人民银行</td>
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<td>RCC</td>
<td>Rural Credit Cooperatives</td>
<td>农村信用合作社</td>
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<td>RCF</td>
<td>Rural Credit Foundation</td>
<td>农村合作基金会</td>
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<td>RCT</td>
<td>Random Control Trial</td>
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<td>RDI</td>
<td>Rural Development Institute</td>
<td>农村发展研究所</td>
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<td>SAP</td>
<td>Structural Adjustment Program</td>
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<td>TVE</td>
<td>township and village enterprises</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>VAT</td>
<td>value-added tax</td>
<td>增值税</td>
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Appendix Two: Interview Schedules

Interview schedule with members of Rural Development Institute of Chinese Academy of Social Sciences:

Introduction
My name is Linying He and I am a Ph.D. student majoring in urban planning at Columbia University in New York, USA. I am currently doing research for my dissertation on how microfinance was adopted and adapted in China and in doing so I am conducting interviews with organizations and individuals involved in microfinance activities in China.

Background
1. Could you please tell me how long you have been working here and how long you have been working with FPC in particular?
2. What is your position and what are your responsibilities?

Actors
I understand that currently three microfinance programs in China, including NGO, Agricultural Bank of China (ABC) and Rural Credit Cooperative (RCC) programs.

1. How would you describe the relationship of the three microfinance programs in China?
2. What do you think are their strengths and weaknesses?
3. For each of these programs, who are the key organizations and individuals that affect their performance?
4. What background factors (for example, local culture and interest rates) affect these programs?
5. Let me ask about some specific factors that might be important:
   5a. What influence do NGO regulations have on these microfinance programs?
   5b. What influence do interest rates have?
   5c. What roles does the State Council play?
   5d. What roles does the People’s Bank of China play?
   5e. What roles do the Hebei provincial government and Yi County government play?
   5f. What roles does the Agricultural Bank of China play?
   5g. What roles does the Rural Credit Cooperatives play?
6. What are the most important relationships between these factors?

Policies
I would like to ask some questions about 3 policies, including the 8-7 Poverty Alleviation Plan, the Measures for the Implementation of the Administration of Subsidized Loans for Poverty Alleviation, and the Guiding Opinion for the Management of RCC’s Micro-loan Program, that seem to have been influential on microfinance activities in China.

1. What was the background when each of the three policies was issued?
2. Who were the actors involved in making each of these policies?
3. How did each of these policies influence the poverty alleviation and microfinance development in China?
4. Are there other policies that you can think of that might have been influential?

**Bangladesh Trip**
In the reports and discussion of microfinance activities in China, I have read a good deal about a trip to Bangladesh that took place in 1993.
1. Do you have any knowledge of this trip?
2. Were you part of the trip? Who were the key organizations and individuals involved?
3. What do you think the importance of this trip was?

**Ending**
This has been very useful. Thank you very much for your time. Could you recommend anyone else to whom I should speak? If I have additional questions, do you mind if I contact you?

**Interview schedule with FPC Clients**

**Introduction**
My name is Lining He and I am a Ph.D. student majoring in urban planning at Columbia University in New York, USA. I am currently doing research for my dissertation on how microfinance was adopted and adapted in China and in doing so I am conducting interviews with organizations and individuals involved in microfinance activities in China.

I would like to ask you a few questions about your microfinance experience:
1. When did you obtain your first microfinance loan?
2. What motivated you to ask for the loan?
3. What was the requirement to obtain the loan?
4. How was the loan used?
5. Has the loan been helpful to you?
6. How did you hear about the different microfinance programs?
7. What differences do you see between these programs?
8. How do you think each of these programs could be improved?

**Ending**
This has been very useful. Thank you very much for your time. Could you recommend anyone else to whom I should speak?