

Building an inclusive Chinese financial sector

The Challenge

After over a decade of donor and government experiments in microcredit, access to finance is increasingly recognized as an important tool for development and poverty alleviation in China. But competitive pressures are prompting the big banks to focus on cities, closing 40,000 rural branches in five years and leaving only the often struggling Rural Credit Cooperatives to fill the gap.

The challenge of extending access to finance in rural areas is therefore given the highest priority by the country's leadership. Several initiatives recently launched by government regulators to test out new forms of rural financial service providers constitute good steps forward. But policy development needs better coordination and responsiveness to the needs of practitioners in order to reduce policy contradictions, uncertainty and obstacles.

And while regulatory changes have created new openings for microfinance, providers still seem divided between non-profit NGOs with a poverty focus and commercial ventures targeting larger clients. Neither regulators nor banks or NGOs seem fully convinced that financial services to poor and low-income clients can be profitable—that social and commercial objectives are fully compatible.



The Response

The programme *Building an Inclusive Chinese Financial Sector* aims to build on current political imperatives to help put in place an enabling policy and regulatory environment that fully meets practitioners' needs to create a vibrant rural microfinance sector.

The first objective is to catalyse the creation of new types of rural financial institutions that serve poor and low-income clients by combining commercial objectives with social ones and demonstrate the untapped market potential of the unbanked.

The second objective is to establish a national strategy to make China's financial sector more inclusive, broadly supported by all government and non-governmental stakeholders.

Planned Activities

The first component will bring together partners in a competitive fund to funnel technical assistance, equity investment and relationships with regulators and potential investors to institutions presenting a solid business plan that meets sound requirements in terms of both commercial and social standards.



The fund will be open to new initiatives as well as existing NGOs that wish to transform, commercial banks that wish to downscale and other institutions with a credible engagement in rural finance.

The second component focuses on policy innovation through central and local interaction to promote establishment of Inclusive Finance Sector in China and exploration of commercially viable pro-poor financial instruments to benefit rural low income groups. With existing partnership with the People's Bank of China and the China Development Bank, the project will team up with more partners including provincial and municipal Administration of Financial Affairs, commercial banks who are engaging rural finance, microfinance institutions, famous law firm, Beijing Financial Exchange, business corporation, and NGOs. A broader policy consultation platform will be setup in the project.

At A Glance

Start Date: 2008

End Date: 2014

Executing Agency: China International Centre for Economic & Technical Exchange (CICETE)

Project ID: 00047231

UNDAF: *Outcome 2: The Poorest and most vulnerable increasingly Participate in and benefit more equitably from China's social and economic development.*

CPD Outcome: *Outcome 1: Deepen the reforms that address disparities, promote equitable distribution of public resources, and foster equal access to social services and livelihood support.*

MDG: Eradicate extreme poverty & hunger

Website: www.undp.org.cn/microfinance

Total Budget: US\$ 16,300,000

UNDP: US\$ 1,000,000

Commercial banks

and other cooperation partners: US\$ 2,300,000

CDB: US\$13,000,000

Project location(s): Beijing, Shandong, Inner Mongolia, Jilin, Heilongjiang, and other provinces

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