

Project Summary

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 will establish a high-level committee with a broad representation of stakeholders that play a role in the financial and microfinance sector. Chaired by the central bank, the process will let banks, NGOs, donors and regulators all identify the main challenges to inclusiveness and jointly formulate solutions and responsibilities for an independent but coordinated response.

In-depth research will be done on topics identified by the committee and feed back into the discussions, resulting in a draft national strategy for financial inclusiveness submitted to the State Council.

联合国开发计划署
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At A Glance

Start Date: 2008
End Date: 2011
Executing Agency: China International Centre for Economic & Technical Exchange (CICETE)
Project ID: 00047231

UNDAF: Social and economic policies are developed and improved
MDG: Eradicate extreme poverty & hunger
Website: www.undp.org.cn/microfinance

Total Budget:	US\$	14,400,000
UNDP:	US\$	1,000,000
PBC (in-kind):	US\$	400,000
CDB:	US\$	13,000,000

Project location(s): Beijing, several provinces

To contribute to this initiative, or to find out more about the programme, please visit our website or contact Mr. Yu Hua, Programme Manager at (86-10) 8532 0751 or hua.yu@undp.org

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