



PLANET FINANCE

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The Microfinance Platform

Can RCF work in China?

**Summary of Feasibility Study
Analysis and Findings
May 2005**



RCF in China

- Beginning in November of 2004, the PlaNet Finance China team has conducted a 5-phase feasibility study to research
 - What is the RCF (how does it operate worldwide)?
 - What is the market demand for RCF in China?
 - Is it possible to roll-out RCF in China in 2005



5 Phases of Preliminary RCF Feasibility Study in China have included:

- Adaptation
- Marketing
- Application Collection
- Due Diligence
- Market Evaluation



Adaptation

- Collection of RCF Documents from Paris
 - Institutional Presentation
- Translation from FR to EN to CN
- Learning: Paris & Beijing
 - Introduction of China MF Context
- Communications: Bessam BEN-ALI, Ed DUNN, GOU Changwen
 - Series of Paris-Beijing Skype Calls



Marketing

- Chinese MFIs: Outreach by GOU Changwen and ZHANG Han
 - Over 60 MFIs Contacted
- Faxed Information Sheets
 - CN language Copies of PlaNet Finance Introductory Form, RCF Promotions Packet, Loan Request Form



Marketing

- E-mail & Phone Call Follow-ups
- Many MFIs asked questions
 - Such a small Loan Amount?
We clarified this point
 - Why such a High Interest Rate?
We provided Explanation
 - Fund Mechanics: How would it work?
We explained Loan Terms,
RCF Committee Selection Process,
Disbursement, Repayment



Application Collection

- Received applications in Chinese
- Translation of Materials: CN to EN
 - MFI Information Sheet
 - Contacts, References, Responsible Parties
 - Operational Data
 - Clients & Services
 - Outreach & Impact
 - Financial Information



Application Collection

- We only got 4 Applicants in the end
 - Tongwei (Gansu)
 - Dingxi (Guangxi)
 - Tongren (Qinghai)
 - Wushenqi (Inner Mongolia)



Application Collection

- Tongwei (Gansu)
 - Targets Women, Group Guarantee
 - One Year Loan Term, No Savings Collection
 - Average Loan Amount 1868 CNY
 - 607 Active Clients, 1.13 Million CNY in Loans
 - 96.78 % Repayment Rate
 - Majority of Clients Engaged in Agriculture
 - Rural Development NGO



Application Collection

- Dingxi (Gansu)
 - 25% Women Clients, Mostly Group Guarantee
 - Average Loan Amount 2299 CNY
 - 1108 Active Clients, 2.48 Million CNY in Loans
 - 99.77% Repayment Rate
 - Majority of Clients Engaged in Agriculture
 - Development Association NGO



Application Collection

- Tongren (Qinghai)
 - 52% Women Clients, Group Guarantee
 - Average Loan Size 3000 CNY
 - 521 Active Clients, 1.31 Million CNY in Loans
 - 93.6% Repayment Rate
 - Majority of Clients Engaged in Agro-Business
 - Rural Development Association NGO



Application Collection

- Wushenqi (Inner Mongolia)
 - All Women, Group Solidarity
 - Average Loan Size 2500 CNY
 - 996 Active Clients, 2.44 Million CNY in Loans
 - 100% Repayment Rate
 - Social Program for Poor Areas (SPPA) NGO
 - Mandatory Savings Component



Due Diligence on the best candidate

- Field Investigation: GOU Changwen onsite in Wushenqi (Inner Mongolia)
- Focus Points: MFI Financials, Operational vs. Financial Costs/Sustainability, Institutional Creditworthiness
- Findings: non-standardized accounting, high-level of government interference, low loan turnover, Mostaq AHMMED recommended not lending to this group (his assessment: unlikely that loan would be repaid in full, with interest, on time)



Market Evaluation

- MF Sector *is* Under-financed; there is a need for loan capital
- ...but Legal Registration does not permit easy investment into microfinance organisations
- High Local Government Involvement
- Foreign Currency/Interest Payment Trap
- MFI Repayment Capacity is low
- Most Chinese MFIs are doing agricultural loans / rural microfinance



Conclusions

- Legal: Foreign Currency Remittance Problems China Market Not Ready for RCF – Impossible to repay loan principle to Paris in EUR
- Legal: Impossible to design legally-binding contracts for loan repayment between RCF and any non-governmental MFI in China
- Legal: possible to get special permission from the Central Bank to lend, but not possible to get legal stature for repayment enforcement
- Legal: May be possible to set up a stand-alone fund, but registration processes are very cumbersome and require political support



Conclusions

- Inappropriate Product Design (for China): no market for this type of 1-year RCF Loan Term
- Low Repayment Capacity: MFIs in China Unable to Meet Principal & Interest Rate Repayments
- Next steps: Consider lowering the interest rate for the Chinese Market? Seek Legal Consultation about setting up a fund: Baker MacKenzie Law Firm. Continue offering technical support to strengthen capacity of MFIs
- Last resort: Await Further Financial Sector Reform in China: WTO Ascension Requirements