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People's Republic of China: Market Research for Microfinance in Jiangkou County

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List of Abbreviations

ABC	Agricultural Bank of China
CCB	China Construction Bank
RCC	Rural Credit Cooperative
MFI	Microfinance Institution
PRA	Participatory Rapid Appraisal
FGD	Focus Group Discussion
PBoC	People's Bank of China

Executive Summary

This market research report considers the financial needs of poor people in Jiangkou County. The analysis begins with a review of client needs for financial services, in terms of lifecycle requirements for lump sum amounts and everyday financial pressures. Following the analysis of these needs, the report analyses client attitudes and preferences towards existing formal and informal financial products and services. Below is a summary of the key findings of this research followed by a list of recommendations for financial institutions.

Key Findings

- ***On the whole urban and rural communities experience similar financial pressures.*** However, the financial impact of marriage, for example is vastly different where rural villages continue to attach greater importance to such customs. Similarly, natural disasters and even seasonal weather conditions impact households in rural and urban areas quite differently, the former being subjected to a higher degree of risk.
- ***Education expenses represent the greatest financial pressure*** in both urban and rural communities. Their methods for coping with these costs are similar: most poor people seek loans from either formal financial institutions, but more commonly from friends and relatives. A second income or purchases of small productive assets are a typical solution for some farming households.
- ***Chronic illness creates a major financial problem for poor households.*** For many, accessing funds to pay for regular and prolonged medical treatment is problematic. Financial institutions moneylenders tend not to provide credit for such use and friends and relatives cannot be relied upon for larger and periodic loan instalments.
- ***College and university students rely on loans to fund their tuition fees and maintenance.*** There is insufficient research to indicate an insufficient level of existing credit provision.
- ***Poor people typically seek loans to meet large lifecycle expenses.*** Few make use of savings products to manage these demands. Insurance products are in under supply.
- ***Many clients are unaware of products and services offered by the financial institutions currently servicing their localities.*** Potential customers are neglected as a result of poor promotional activity by formal financial institutions.
- ***Remittance services are essential to the financial well-being of rural households.*** There is a great reliance on remittances coming from within **and** outside of the province. Financial institutions currently provide such services. However many (eg. the RCCs) do not provide a national wide service. Many households are unaware of the national remittance offered by China Post.

- ***Children are an untapped market.*** Children and young adults receive lump sums of money during the Spring Festival and would benefit from savings accounts in which to store this money.
- ***High school students living away from home require remittance services*** to receive funds from the family and savings accounts to keep funds safe.

Key Recommendations

- ***Financial institutions need to improve their product delivery systems.*** More specifically, action needs to be taken to improve the following: loan application and disbursement processes; customer service, human resource management and operational efficiency; technological capacity, especially regarding remittance services; and promotional activities. These processes can be reviewed and modified to better meet the clients' needs by conducting process mapping exercises.
- ***Review and modify financial and operational management systems*** to improve client outreach and institutional sustainability. This may require institutional and operational appraisals, market research and updated financial systems and MIS.
- ***Design new and review existing credit and savings products to meet the needs of the urban poor.*** Loan products for higher education, house building, business start-up and basic consumption requirements should be available to clients. Long term savings products need to be provided to enable households to make future preparations for events like education, marriage and house building.
- ***Design new and review existing loan and savings products to meet the needs of the rural poor.*** Special loans for higher education, marriage, home building and business start-ups should be introduced. Rural households also require long term savings products to assist with education and house building, as well as short term deposit accounts that can help the household to cope with on-going business expenses, festivities, basic consumption in dry months and minor illnesses.
- ***Conduct market research and product development*** to ensure that client needs are being met.
- ***Provision of emergency loans***, easily accessible to clients in times of crisis, i.e. sudden death of family member, emergency medical treatment. Terms and conditions must take into account the context of the loan, i.e. repayment schedules may be longer and instalments smaller, as income of household will inevitably decrease as a result of a death, disability of a household member (especially an active adult) or following the destruction of productive assets due to natural disasters.

- ***Financial institutions should deliver or provide access to insurance products*** to enable households to better cope with unpredictable events like chronic illness, disability, death¹ and natural disasters.
- Financial institutions, specifically those operating in rural areas, are required to ***develop their national networking capacity so as to permit national level remittance services*** to the rural poor. Furthermore, rural financial operators must ensure accessibility of remittance services to remote communities.
- ***Financial institutions should seek to target younger clients***, offering savings and deposit accounts designed to meet school children's needs. Savings and/or deposit accounts must allow for direct payment of remittance monies to enable students living away from home to receive and manage their maintenance in a fast and secure manner. Establishment of an intermediary agent within the school locality to permit direct access to services.
- ***Appropriate loan products should be provided to higher education students***. The design and delivery of these loan products must respect the student's needs and capacity to repay.
- ***Financial institutions must improve linkages between their financial products and services*** so that clients can manage their finances efficiently and without having to use the services of several providers. Savings clients should be able to easily access loan products and remittance services from their existing financial service provider.
- ***Penalties should be applied to staff that violate rules and regulations***, so that fraudulent activity among loan officers and clerks is restricted. ***Benefits and incentives*** should also be introduced to encourage good behaviour among staff. Furthermore, ***customer service training*** may be required to improve customer relations and to promote professionalism.
- ***Develop and maintain a good marketing strategy***. As a promotional tool targeting a younger clientele, account cards or similar token of membership, competitions and small gifts might encourage younger clients to start savings. Financial service providers should engage with this less mature market segment so that relations are established at an early stage of the client's financial life.

Research Methodology

This report investigates the qualitative demand for financial services in Jiangkou County. The market research focuses on the clients' needs for financial services, the existing financial services and the attitudes and preferences of clients relating to these services. A total of 25 focus group discussions (FGDs) and individual interviews were conducted in Jiangkou Township between the 8th and 23rd June 2005. FGDs and PRA exercises were carried out in the following

¹ This refers to cases of unexpected mortality as a result of disease or an accident.

areas: Long Su Village, Wi Gan Village and Township, Ba Pan Dam construction area, Ba Pan Village, Zai Bao Village, Long Mei Village, He Ping Village, Da Yu Village, Chadian Village, Tongren Town Centre and Jiangkou Town Centre.

The research was conducted by two groups, one focusing on financial needs in the urban areas and the other concentrating on rural areas. Seven different market segments were targeted during the research process:

1. Small/Micro Business Owners
2. Medium Business Owners
3. Farmers
4. Salaried Workers/Casual Workers
5. Young Married Couples
6. Higher Education Students
7. High School Students
8. Younger Children

While farmers, salaried workers and business owners are obvious target markets for financial institutions, the authors believe that market research and product development should also be aimed at high school students who represent a potentially large future market for financial institutions. Accordingly, this report has been written with the above categorizations in mind.

The objective of this research is not gender focussed and therefore there is no gender based analysis of the clients' needs for financial services. Although a number of FGDs were carried out with women-only groups, the report does not focus on the gendered implications of the financial needs or attitudes of poor people in Guizhou.

FGDs and PRA tools, including lifecycle profiles, seasonality of income and expenditure calendars and time series of crises, were undertaken during the market research. Section one of this report analyses these findings; information regarding the lifecycle and everyday events of poor people and, by consequence, their needs for financial services.

The second section briefly describes the existing financial services in Jiangkou County. This section adopts a quantitative approach to summarising the key financial product and services, both formal and informal, offered in Jiangkou County. This information provides a background to the existing financial products and services that are discussed by clients in determining attitudes and preferences towards financial services in Jiangkou County.

Section three summarises clients' attitudes and preferences towards the existing financial products and services using analyses of FGDs and selected PRA exercises, such as product ranking, relative preference ranking and wealth ranking analyses.

The report summarises the research findings in order to make a general representation of poor people's perceptions and attitudes towards financial services.

1 Client Needs for Financial services

In order to consider the financial needs of poor people first we take a look at common lifecycle events and recent crises that have impacted upon the lives different socio-economic groups in both urban and rural areas of Jiangkou County. This first section has been divided into sections which examine the lifecycle needs and the everyday needs of: small and medium sized business owners and workers; farmers and small business owners in rural areas; university students; high school students; and finally the needs of young adults. A short paragraph outlining the relevance of these findings and the potential opportunity for improved and/or new financial services is discussed at the end of each section.

1.1 Small business owners and salaried workers in urban areas

This first section takes a look at the lifecycle and everyday needs of small business owners and salaried workers that were interviewed in Jiangkou town. Typically, lifecycle profile results provide important information about the financial impact of life time events and the coping strategies which are utilised to combat these pressures. Discussions emanating from these exercises have also provided valuable information about the everyday needs of small business owners and salaried workers. From these analyses it is possible to identify potential opportunities for improved or new financial services.

1.1.1 Lifecycle Needs

The table below documents the important lifecycle events considered by business owners and salaried workers in urban areas of Jiangkou County.

Table 1 Small business owners'/salaried workers' lifecycle needs analysis

Event	Average financial pressure ²	Current Coping Strategies	Issues of Importance	Opportunities for innovation and expansion
Education	8.5 high	Compulsory Education: Time of payment may be negotiated with schools. Some students are exempt from paying. Loans from friends. Savings in formal financial institutions. Insurance company.	Parents tend to try and find the finances for fees when they are due; there is rarely a savings plan for future education expenses.	Promotion of savings products for education purposes targeting young married couples/families.

² Average financial pressure is scored 1-10. 1 being the weakest relative pressure and 10 being the greatest relative pressure.

		College and University Education: Loans from formal financial institutions and/or friends.	Universities assist students to access loans from banks. This is not the same for college students. Tight deadlines on tuition fee payments incur great pressure.	Savings products encouraging adults to save for the child's further education. Student loans with appropriate terms and conditions.
Building the Home	8.5 high	Loans from formal institutions and/or friends and relatives. Preference among older people to build as savings allow.	A slight degree of flexibility in terms of individual choice of habitation (according to how much they can afford).	Home Loans specifically designed to meet clients' needs, i.e. flexible terms and conditions. Promotion of savings for home building.
Chronic illness	5 moderate	First seek loans from friends and family, then turn to formal institutions.	Note: For minor illness (ranked less significant) friends and relatives are most useful. For larger expenses incurred from chronic illness there is a need to turn to formal banks.	Microinsurance for chronic illness and emergencies. Promotion of savings to assist with minor illness expenses.
Marriage	4.5 moderate	Loans from formal financial institutions and/or friends	Marriage expenses refer to ceremonial costs, gifts and occasionally small household furnishings.	Promotion of savings for marriage expenses targeting young families. Loans for marriage with terms and conditions that enable rapid repayment (funds available from marriage gifts)
Birth	(1) Low (only mentioned by one group)	Home birth. Minimal cost even if hospital treatment is required.	No indication of this being a real pressure for couples.	Emergency loans for problem births.
Death	(1) Low	Receive gifts from friends and family.	Not considered important enough to get into large debt.	Promotion of savings for funeral expenses. Life insurance.

EDUCATION

High school education represents a major financial pressure on households. Interviewees claimed that costs (tuition and subsistence) for high school education could vary from 50 to 500 yuan per term depending on whether the child lives away from home or not. For all participants, **educational fees are considered a great pressure because of payment deadlines** (March and September of every school year). For young married couples, the pressure to meet these expenses is particularly great given that they have had relatively less time to make savings provisions for these expenses. For some very poor families the payment of tuition fees may be negotiated. In some cases students are forced to drop out of school and work for the family or even find work in other towns³. A small business owner from Jiangkou remarked that 'many kids in Jiangkou do not attend school; instead they work for the family' (08/06/05).

³ Various groups have noted this reality: Group 1, Jiangkou town centre, 08/06/05; Group 19, Jiangkou town centre 16/06/05; Group 23, Tongren centre, 18/06/05.

A group from Chadian Village (17/06/05) reported that they were aware of insurance companies operating as a deposit collector. Apparently, some households in urban areas buy **education insurance** whereby the insurance company collects monthly payments which is eventually repaid in full when schooling fees are due.

As well as the pressure to provide for the children's education, some households will face the added stress of raising funds to allow their children to attend university. However, this issue has only been raised by university students themselves and is therefore detailed in section 1.3 below.

BUILDING THE HOME

Generally, the urban poor consider building the home as one of the greatest pressures during the lifecycle. However, unlike educational costs, households have a degree of flexibility when it comes to meeting expenses associated with building the home; the amount of money spent and the timing of expenditures for house construction are flexible. It was noted that while **younger generations are more willing to take out loans for house construction, older generations prefer to pay for materials as and when savings allow**. One group indicated that often parents of young married couples will cover house building expenses rather than the young couple themselves. This may be achieved by a combination of long term savings and borrowing from friends and relatives.

CHRONIC ILLNESS

Interviewees noted an **important difference between the financial impacts of minor health problems and serious, longer term illnesses**. The financial pressure felt by the household as a result of a minor illness is less as it is often easy to access small loans from friends and family. For salaried workers, employers may provide insurance for minor illness (repayment of 50-60% of medical costs). In the case of serious illness, where extended medical attention may be required, most turn to friends and family as a first resort. However, when extra funds are needed borrowers will seek loans from formal financial institutions. Whether the formal institution is aware of the intended use of the loan is another issue and will be discussed in section three. It is usually difficult to obtain a loan from a moneylender as the risk of non-repayment is greater among the sick.

MARRIAGE

Generally, the parents of the wedding couple will pay for marriage costs. The cost of the marriage ceremony can range from 20,000 – 30,000 RMB. In some cases the parents of the groom may also pay a dowry to the bride's family (average of 15,000RMB), but this practice is more common in the rural areas. However, it appears that the expenses associated with marriage festivities in urban areas are higher than those in the rural areas. Thus we see more households in urban areas taking out loans to cover these costs. It should also be noted that much of the expense is returned to the family in the form of wedding gifts, and can be used to make loan repayments.

BIRTH

Most groups interviewed did not identify ‘birth’ as a lifecycle event. One group did however indicate that the financial pressure experienced by expectant parents is relatively low given the fact that most parents give birth at home. The approximate cost of hospitalisation for childbirth is between 2,000-3,000 RMB.

DEATH

Again, the majority of groups identified ‘the death of relatives’ as being a relatively minor financial pressure. One group indicated the reason for this being that burial is preferred to cremation. The group added that quite often the grieving family receives gifts (often money) from friends and relatives. For government employees, cremation is customary and may represent a more important financial pressure to this group.

1.1.2 Everyday Needs

In addition to lifecycle needs, poor households are confronted with everyday decisions that affect their financial well-being. Most commonly the everyday needs of the poor are synonymous with the business needs of the household. Interviewees stated that formal loans are much needed to support on-going business expenses. If the formal loan is unobtainable, it is common practice to receive advance payments from business clients. Small business owners, particularly traders, with cash flow problems will typically purchase goods on credit. This agreement between the buyer and seller is flexible and dependent on the relationship between the two parties.

A quite separate issue was raised with other interviewees who considered traffic accidents to be of significant concern. Consequently, there is a need for vehicle insurance. It was noted that the police are required to intervene (at a fee) if insurance claims are to be made. This is considered as an unnecessary expense for insurance claimants, thus dissuading clients further from seeking insurance cover.

1.1.3 Opportunities for financial services

Most households experience significant pressure meeting expenses related to education, marriage, house building and chronic illness. While most will seek loans to assist with these expenses, it is recommended that financial institutions consider designing **savings products that will enable households to make future preparations for events like education, marriage and house building**. By replicating the example of the ‘education insurance’, discussed by the interviewees, clients could be encouraged to make small savings as and when their income permits. The promotion of special savings schemes should be considered as an alternative to loan provision in certain circumstances.

Nevertheless, **financial institutions should provide suitable loan products and/or access to insurance products for unpredictable events like chronic illness, disability, death⁴ and natural disasters**. Terms and conditions on the loan product should reflect the client’s capacity

⁴ This refers to cases of unexpected mortality as a result of disease or an accident.

to repay given the circumstances under which the loan is sought. Financial institutions might also consider providing **credit mechanisms for traders to meet small business needs**.

Whether the MFI decides to provide insurance products directly or through an intermediary shall depend on the institutional capacity of the MFI. In most cases, MFIs have been known to refer their clients to independent insurers. Furthermore, at the institutional level, financial institutions and insurance companies should seek to address the issue of fees charged by police authorities for insurance claims.

1.2 Farmers and small business owners in rural areas

This section investigates the lifecycle and everyday needs of farmers and small business owners in the rural areas of Jiangkou County. Again, lifecycle profile analyses provide important information about the financial impact of life time events and the coping strategies which are utilised to combat these pressures. Seasonality of income and expenditure calendars and their ensuing discussions are used to provide valuable information about the everyday needs of the interviewees. From these analyses it is possible to identify potential opportunities for improved or new financial services.

1.2.1 Lifecycle Needs

The table below documents the important lifecycle events considered by business owners and salaried workers in rural areas of Jiangkou County.

Table 2 Farmers'/small business owners' lifecycle needs analysis

Event	Average Financial Pressure ⁵	Current Coping Strategies	Issues of Importance	Opportunities for innovation and expansion
Education	(9) high	Will seek RCC loans or find second job during quieter months (winter).	Time of payment of fees may be negotiated with schools to fit in with agricultural income.	Promotion of savings products for education purposes targeting young married couples/families.
Marriage	(5) moderate	Loans are sought from RCC or a moneylender. Savings in the form of expectant wedding gifts.	Poorer villagers are reluctant to seek loans. There is a great reliance on family and friends to assist with this financial pressure	Promotion of savings for marriage expenses targeting young families. Loans for marriage with terms and conditions that enable rapid repayment (funds available from marriage gifts)
Chronic illness	(5) moderate	Loans (500-1000 RMB), taken annually, from RCC. Loans <800 RMB from friends and family. Credit vouchers from doctors for medication.	Clients obtain loans from the RCC based on a false application i.e. applicants apply for a business loan but use it for medical needs. RCC seem to be aware and continue to issue such loans.	Microinsurance for chronic illness and emergencies. Promotion of savings to assist with minor illness expenses.
Building the Home (considered by one group)	(5) moderate	Formal loans		Home Loans specifically designed to meet the needs of clients, i.e. flexible terms and conditions. Promotion of savings for home building.

⁵ Average financial pressure is scored 1-10: 1 being the weakest relative pressure and 10 being the greatest relative pressure.

Starting a business	(3) moderately low	Formal loans and/or advance savings		Special business loans with flexible terms and conditions
Natural Disaster	(3) moderately low	Government subsidized loans through RCC.	Reliance on the government, who have in the past issued grants/subsidies in response to natural disasters	Insurance products. Emergency or specialised loans.
Disability	(1) low	Loans from friends and family. No savings.	Reluctance to use RCC: unlikely that repayment can be made.	Insurance products
Death/Funeral expenses	(1) low	Savings available. Small (2000-4000 RMB) loans from RCC	Reluctance to seek formal loans	Insurance products. Promotion of long term savings

EDUCATION

The **greatest lifetime financial pressure for poor farmers derives from education expenses.** School fees are paid in two instalments every year, in March and September. In March the household is able to pay school fees using crop savings and/or by selling productive assets such as chickens or ducks. While in September many households experience a shortage of savings and therefore face problems meeting these larger expenses. Some households may apply for RCC loans. Typically, remittances are received in March and September to cover schooling fees. However, if loans are inaccessible and remittances and savings are insufficient then family members, usually the women will seek secondary incomes from part-time work in the local town. Household members have more time to engage in part-time work during July and August and, to a lesser extent, in December and January. Interviewees claimed that payment of educational fees can be negotiated with schools, i.e. the payments can be paid when money becomes available, either from secondary incomes or incomes from the October/November harvest.

MARRIAGE

The **financial pressure associated with marriage ceremonies is generally regarded as significant.** Households meet the necessary expenses by borrowing from friends and family. In some cases households apply for small loans (approximately 2000 RMB) from the RCC. However, some households prefer a larger ceremony and therefore there is a need to take out formal loans. Some households obtain RCC loans ranging from 2000-5000 RMB. If RCC loans are inaccessible or insufficient, borrowers will seek the services of a moneylender. Finally, there is an assurance that wedding guests will make contributions towards the costs in the form of wedding gifts. For married couples and future newlyweds this can be considered as a kind of advance savings for marriage.

CHRONIC ILLNESS

Households with at least one person living with chronic illness or a terminal disease face a major financial burden. Typically, such households will obtain loans from the RCC for medication, averaging 500-1000 RMB per year. Additional small loans (<800 RMB) are sought from friends and family. Some interviewees from Wi Gan Village reported that doctors in local towns issue credit vouchers in times of emergency. Although little information is available about this service, it appears that repayment is negotiable between the doctor and the patient.

BUILDING THE HOME

One group considered the construction of the family home was considered as **a moderately intense financial pressure** for households. In most cases it is necessary to take out formal loans. Further research is required as there is relatively little information about these types of loans.

BUSINESS START-UP

Some groups identified **setting up the business as a notable, but relatively low, financial pressure.** The potential business owners either take out loans from formal financial institutions or save in advance. No information is available regarding savings tools.

NATURAL DISASTER

A less significant financial pressure is felt by households which endure natural disasters, such as heavy snow. Households may suffer **income shortages as a result of the effects of detrimental climatic conditions** on agricultural production. In these circumstances it is common for the government to intervene with subsidized loans. There was no indication that farmers seek personal loans in these circumstances.

DISABILITY

While 'disability' is not identified as a lifetime event by all households, for those who have dealt with the disability of a family member regard it as imposing a notable, yet relatively low, financial burden.

DEATH

The **death of a family member does not generally impose a large financial pressure** on the household. While most interviewees agreed that there is no need to seek formal loans, some interviewees claimed to have obtained RCC loans for funeral expenses. These loans can range from 2500-4000 RMB.

1.2.2 Everyday Needs

Many farmers are requested by government to engage in agricultural work that does not earn them sufficient income. Some villages visited during this market research have received subsidized loans from the Poverty Alleviation Office to start up animal husbandry (Zhai Bao

Village) or tobacco planting businesses (Long Mei Village). Even then villagers find it difficult to establish a non-risk, profitable business. Some interviewees have complained of insufficient land to operate profitable agricultural businesses. In addition to this lack of capital assets, farmers are often incapable of raising funds for ongoing costs, for example, fodder for cattle.

It is worth noting briefly that theft is a common problem in the rural areas. Farmers were concerned that there are no insurance products available to cover them against theft. Also, it is difficult to access loans to replace stolen assets.

The table below analyses the everyday needs of farmers using PRA tools, specifically ‘Seasonality Profiles’, in rural areas of Jiangkou County. The exercises and the related discussions provide detailed information on the participants’ income, expenditure, savings and borrowing habits.

Table 3 Farmers’ seasonality of income and expenditure

	High Months	Low Months	Sources	Opportunities for the institution
Income	Mar/Apr, May, June Sept/Oct, Jan.	Other months when expenditure is low	Harvests in Sept/Oct, Nov, May/June/July ⁶ . Income in January and September from remittances	Remittance services. Loan products during low income periods (consumption smoothing).
Expenditure	Mar Dec/Jan	April – June, Sept. No specific expenses in other months other than loan repayments when income allows.	Largest expenditure in March for education, purchase of seed. Large expenditure in January for Spring festival preparation. Relatively smaller expense in September – educational fees and on going expenses April – June for fertilizer/fodder.	Loan products for lump-sum payments. Savings product to assist with smaller expenses.
Savings	Oct/ Nov	May/June/July, Nov.	Harvested crops are stored in the household until need for expenditure. Extra income is converted into chickens, ducks or pigs are also kept as a form of savings. Secondary incomes are loaned out for short periods. Extra savings deposited in the RCC.	Introduction of savings products. Need to assess why only ‘extra savings’ are deposited.
Borrowing	Mar/Apr, Sept	Aug, No credit taken at other times (other than emergencies)	Greatest need to take a loan in March/April for seed, cattle, fertilizer and in September for educational expenses (RCC). Relatively smaller need for loans for own consumption needs around August, usually borrowed from friends. Loans for emergencies from friends/relatives.	Specially designed loan products that schedule repayments to coincide with income periods. Introduction of emergency loans. Consumption loans.

Income, in the form of cash, is received as the need for expenditure arises. Typically, farmers harvest crops and store them in the house as form of a savings. The crops are sold as

⁶ Rice harvested in September, sweet potatoes in October. Some may harvest rapeseed and vegetables in May, potatoes in June, maize in July.

cash is required. Obviously income levels are higher after the harvest, but as the crop store diminishes, so too does the household's income level. Incomes vary with seasonality depending on the product harvested. Rice is harvested in September, sweet potatoes in October, rapeseed and vegetables in May, potatoes in June and maize in July. By July/August many households experience consumption difficulties. Most income is used for consumption needs and loan repayments. Farmers do not receive enough income to qualify as savings.

One of the greatest expenses for farmers appear in **March in the form of capital assets, such as seed, cattle and fertilizer, and education costs**. Another can be attributed to the **festival expenses incurred during the December and January** months, specifically in preparation for the Spring Festival. A marginally less significant expense occurs in April when farmers are required to finance on-going business costs for fertilizer and/or fodder, averaging a minimum of 1000 RMB per year. In some cases farmers are able to negotiate credit advances with fertilizer sellers. This facility very much depends on the relationship between the buyer and seller. For example, if the buyer and seller have a limited relationship higher costs may be charged for goods bought on credit in account of this lack of trust. Other smaller, but essential expenses are incurred around September when further education fees become due.

Consumption needs are met by crop savings. Women interviewees indicated that they tend to take charge of household expenditure, setting aside certain savings in stored crops or productive assets, like chickens for educational fees, seed and fertilizer expenses. By July and August crop savings are exhausted. Subsequently, some households will need to seek RCC loans to buy food and other small goods.

Household savings are, on the whole, insufficient to meet consumption needs or the expenses described above. Subsequently, farmers seek RCC business loans for capital assets and education fees. Business owners will first apply to the RCC for business loans and if unsuccessful they will approach a moneylender. There is a **great reliance on remittances** from other family members working in larger towns or in other provinces. Funds for any luxury items are typically sourced from these remittances. The Spring Festival in January represents a large financial burden for most households. In addition to selling stored crops, households depend on remittance monies to cover the festival expenses. Generally, regular remittances from salaried workers are received approximately every 2-3 months depending on the timing of the salary payment. Most salaried workers receive a bi-monthly income and usually send the majority of that salary back to their family. Some interviewees indicated that advances on salaries are available from employers and in times of emergency workers will request a loan directly from their employer. The loan may then be deducted from their salary. When the loan amount is considerable then workers may require family members to re-remit monies to them.

1.2.3 Opportunities for financial services

As a first resort, farmers seek loans from formal financial institutions to overcome the most significant financial pressures associated with children's education, marriage and building the family home. However, where borrowers have reached their credit limit or are unable to meet collateral requirements (set by the RCC), it is necessary to seek assistance from a moneylender. In any case there appears to be no indication that poor households are able to make savings in preparation for these foreseeable events. While marriage usually only requires a one off

payment, educational expenses and home building costs require periodic pay-outs. Financial institutions might consider designing special **loan products for marriage expenses and savings products for future expenses related to education and building the home.**

Most poor farmers are not in a position to make cash savings. Income from agricultural activities is limited and barely covers basic consumption costs. In addition to loans designed for annual or unexpected events, financial institutions should consider the smaller loan products that are available to assist clients in meeting medical costs, on-going business costs and consumption needs. When designing loan products financial institutions should **consider the seasonality of farmers' incomes** so that repayment schedules comply with the borrowers' capacity to repay.

Undoubtedly, households would benefit from the ability to save small amounts of income to put towards lump sum expenses like education fees, festivities, capital assets, on-going business costs and even basic consumption needs. Instead of storing crops or livestock in the household, where it may not be secure, **access to cash savings in a secure institution would enable households manage their expenditure in a more organised and safe way.** Further investigation into the viability of cash savings opposed to crop savings needs to be carried out by financial institutions in order to achieve an understanding of how best to tackle this issue.

Remittances are clearly a key factor in the financial management of poor rural households. Financial institutions should therefore work to **ensure that the money transfer services they provide are meeting their clients' needs.** With the creation of savings schemes designed to assist clients making lump-sum payments for education, capital assets and festivals, financial institutions may consider a mechanism which would link remittance payments directly to these savings accounts.

1.3 University Students

The cost of university education is an added pressure for families and young graduates. Furthermore, these fees are reportedly increasing every year. The majority of students seek loans organised through the University. The pressure to do so is increased by the fact that graduation certificates are not awarded until students clear all expenses owed the University. Consequently, students take out loans or are forced to drop out of their studies.

From these analyses it is recommended that microfinance institutions consider providing such **loans to university students.** Financial institutions will no doubt agree that it is important to attract young clients who, given their level of education, potentially represent a reliable source of business to the institution in future years.

1.4 High School/College Students

High school students also have a need for financial services, especially **savings products,** which enable them to safely **deposit and manage small sums of money intended for school maintenance expenses.** It is common for students from rural villages to attend secondary schools in the towns and so it is common for students to live away from home. Hence, there is a great need for **remittance services** between the family village and the school town. Security is one of the main justifications for opening an account with a bank. It is considered unsafe to carry

sums of money received by the family when returning from the village to school. Remittance services are, for this reason vital for school children. For those with families living in other towns or villages, the remittance service allows direct transfer of their maintenance into an account which can be accessed during the school term.

Students attending school away from home typically receive maintenance amounting to 50-300 RMB per month, depending on the cost of living and the wealth of the family. Students attending school in larger towns like Tongren will have larger subsistence expenses and tuition fees. Some students receive a poverty allowance (approximately 20 RMB per month). Some students receive a small allowance from their school.

In addition to maintenance monies, school children typically receive cash gifts during the Lunar New Year. These gifts are usually deposited into a savings account. Generally, students like to be in control of their money and prefer to not have to turn to their parents for every purchase they wish to make. Savings and deposit accounts would provide young adults with the chance to manage these monies and fulfil their sense of independence.

Students studying for extending period of time (5 years at college) beyond the legal schooling requirements require access to financial assistance. College students in Tongren commonly require a **loan to cover tuition fees and maintenance** costs. Some schools will provide certification for loan applications so that students can obtain financial assistance from banks. However, this service is not necessarily provided by all schools or colleges. Accessing a loan could be made more obtainable to students if supported by the school or college, just as universities assist students in their loan applications.

These discussions have indicated that the needs of high school students actually provide a wealth of opportunity for financial institutions. The combination of **savings accounts and remittance services** is one such essential consideration. Given the academic potential and employability of university students and college students this market segment represents a reliable source of future income for financial institutions and therefore microfinance institutions should capitalise upon this potential market at an early stage by designing **credit and savings products to satisfy students' needs**.

1.5 Younger Children

Younger children, of primary school age, are also interested in opening savings accounts. Young children long to have access to their own money to spend as they like. Both parents and children consider **savings accounts as a convenient way of depositing money gifts**, averaging 100 – 300 RMB, that are given during the Spring Festival (Lunar New Year). However, some interviewees were averse to the idea of allowing their younger children have independent access to a bank account and would prefer to open a savings account for the child when he/she starts high school.

Young adults are keen to have control over their finances, however small they may be. By providing attractive savings products to young children, financial institutions can once again begin to capture clients from an early age.

2 Existing Financial Services

This section describes the various financial services and products available to the people in the urban areas of Jiangkou County and Tongren. Each formal and informal financial institution is detailed in brief, providing factual information of the products and services available.

2.1 Rural Credit Cooperatives (RCC)

There are 16 Rural Credit Cooperatives (RCC) in Jiangkou County, eleven in rural areas and five in urban areas. The RCC offers various savings accounts to its clients. There are three personal savings accounts designed for individuals: 1) fixed term accounts (single deposit); 2) fixed term account (multiple deposits); 3) current deposit account. There are two other savings accounts, one designed to suit the needs of students and the other targeted at businesses. Both individual and group based loans are available to clients. Another significant distinction between the loan products is the requirement for collateral. Borrowers can access relatively small loans of up to 30,000 RMB without having to provide collateral. Larger loans however require substantial collateral. The details of all of these products are given in further detail in the tables below.

In addition to these traditional financial products. The RCC provides remittance/money transfer services. For special clients (who have relative large savings) the RCC will provide business advice and market information. The branches are open every day of the year from 7:30 AM-6:00 PM in the summer months and from 8:00 AM-5:30PM in the winter.

Table 4 RCC Savings

Minimum Opening Deposit	Current deposit :1 <i>yuan</i> The other saving products:10 <i>yuan</i>
Minimum Balance	Current deposit :1 <i>yuan</i> The other saving products:10 <i>yuan</i>
Maximum Balance	
What are the requirements for opening an account?	
Does it give a chance of getting credit?	No.
What is the Interest on Deposits?	Current deposit interest rate:0.72% 3 months interest rate:1.71% 6 months interest rate: 2.07% 1 year interest rate:2.25% 2 years interest rate:2.70% 3 years interest rate:3.24% 5 years interest rate:3.60%
Are there any taxes paid on the savings?	
What percentage of total client savings are available for immediate withdraw?	The reserve fund of the RCC at county level is 7%. That percentage is higher in rural branches.

Table 5 RCC Loans

Product Attribute	Credit without collateral	Credit with collateral	Group guarantee credit
Products and total loan size	Gold card, max amount 30,000 Silver card, max amount 5,000-10,000 Ordinary card, max amount 5,000 These amounts vary for each branch according to the economic status of the branch area.	The maximum loan amount is 70% of the estimated value of the borrower's real estate.	
Loan application procedure	1. Application for card 2. Investigation of applicant's credit worthiness. 3. Authorisation from the RCC director. 4. Acceptance of application.	1. Application for loan 2. Investigation of applicant's credit worthiness. 3. Authorisation from the RCC director. 4. Acceptance of application.	Minimum of three households.
Application assessment requirements including collateral	1. RCC credit record, including the loan and credit history 2. Credit worthiness or reputation of borrowers according to the local villagers 3. Household annual income 4. Value of household property	1. Valuation of real estate by RCC staff 2. Valuation of real estate by real estate bureau 3. Collateral certification, provided by local party and administrative commissions (guarantee against repayment)	No collateral requirements
Loan application fees	Real estate valuation: 80 <i>yuan</i> to several thousand <i>yuan</i>	Real estate valuation: 80 <i>yuan</i> to several thousand <i>yuan</i>	
Loan disbursement time		Average 5 days.	
Term of loan (Max and Min)		Loan term is dependent on	
Loan extension facility		Application for loan extension is necessary. 1. For loans <1 year term: max. 6 months extension 2. For loans >1 year term: max extension term of 50% of previous loan term.	
Schedule of repayment		Two repayment schedules: Single loan disbursement, multiple repayments Multiple loan disbursements, single loan	

Product Attribute	Credit without collateral	Credit with collateral	Group guarantee credit
		repayment	
Repayment instalment size		Depends on size of loan, loan term, repayment schedule.	
Grace period		2-3days at least.	
Where is loan disbursed?		Most loans are disbursed at the branch offices. On exception, loans are sent to the villages.	
Where are loan repayments made?		60%-70% of the clients go to the branch to repay loans.	
What is the interest rate?		RCC interest rates are calculated based on the basic interest rate set by PBoC plus 50-60% of that rate. These rates are subject to RCC discretion. Interest rates increase in line with the loan term. Special interest rates for education loans and agricultural loans: interest rate is equal to the PBoC.	
What other fees are charged related to this loan product?		Interest tax: 3%	
Access to follow-on loans (immediate or requiring new appraisal?)	Once loan limit on card has been reached, borrowers can apply for new loans but will need to provide collateral.	New application for new loan is necessary.	
Compulsory insurance		Not compulsory, but may be suggested to clients depending on risk related to investment.	
Management of defaulting loans		RCC loan staff will investigate the defaulting loan and invoke government officials, the borrower's employer, and local influential persons to issue a verbal warning to borrower. Upon the discretion of RCC staff, a re-scheduling of the loan repayment is issued and a renewed	

Product Attribute	Credit without collateral	Credit with collateral	Group guarantee credit
		contract is signed by the client, the guarantor and the RCC.	
Mechanisms for securing loans		Loan is monitored and evaluated at loan term. Founded a specific department to audit how the loan is used.	

Table 6 RCC Remittance Services

Costs of Remittance services		
	RCC account holders (RMB)	Without RCC account (RMB)
Less than 10,000 RMB	5	Remittance <5000 RMB: cost is 1% of the remittance amount
10,000-1 million RMB	10	
1-5 million RMB	15	
5-10 million RMB	20	
More than 10 million RMB	0.002% of total remittance no more than 200 RMB	

Note: There is an additional fee of 0.5 RMB to open a new account.

2.2 China Construction Bank (CCB)

The CCB operates in the urban areas only. Naturally, the vast majority of its clients are urban dwellers. The bank offers both foreign currency and RMB deposit accounts. There are two main types of savings accounts, a demand deposit account and a term deposit account. Term deposits vary depending on the frequency of the principal deposit and withdrawal and interest withdrawal, as a lump sum or at intervals.

Currently, CCB offers a variety of personal housing loan products, including loans for new housing; loans for second-hand housing; commercial loans; loans for commercial, parking and office space; loans for commercial housing; loans for economy, reform, and pooled housing; loans for a combination of housing and automobile purchase; and loans for a combination of housing and decoration.

In addition to these traditional financial products, direct payments of salaries and remittances/money transfer services are also offered by CCB. Swift Remit offers the personal electronic remittance bankbook and savings card remittance functions, but it also offers cash remittance, credit card remittance, electronic messaging, and wholesale remittance. VIP services, including financial management advice, are available to clients with savings greater than 100,000 RMB. The CCB also provide telecommunications services and insurance products.

Table 7 CCB Savings Products

	Demand Deposit	Term Deposit
Withdrawals	Any time, any amount.	Various schedules for depositing and withdrawing
Minimum Opening Deposit	1 RMB	5 RMB(varies according to savings schedule)
What are the requirements for opening an account?	Application form Minimum opening deposit	Application form Minimum opening deposit
Does it give a chance of getting credit?		
What is the Interest on Deposits?	Set by the PBoC	
Are there any taxes paid on the savings?		
What percentage of total client savings are available for immediate withdraw?		

Table 8 CCB Loan Products

Product Attribute	Consumption Loan	Housing Loan
Max loan size		80% of total purchase price or valuation
Loan application procedure		1. Application made by client 2. Contract signed 3. Account opened
Application assessment requirements including collateral		1. Identification 2. Income statements 3. property contract 4. Guarantor's commitment and financial statement
Loan application fees		
Loan disbursement time		
Term of loan (Max and Min)		Min < 1 year Max 30 years
Loan extension facility		Application for one loan extension per loan.
Schedule of repayment		Loan term ≤ 1 year, repayment (principle and interest) at loan term. Loan term > 1 year, repayment may be repaid in same-amount payments or progressively.
Repayment instalment size		Varies according to repayment schedule.
Grace period		
Where is loan disbursed?		Branch
Where are loan repayments made?		
What is the interest rate?		Loan term ≤ 5 years = interest rate 4.77% Loan term > 5 years = interest rate 5.04% Rates vary according to basic interest rate.
What other fees are charged related to this loan product?		
Access to follow-on loans (immediate or requiring new appraisal?)	New loan appraisal	New loan appraisal
Compulsory insurance		
Management of defaulting loans		
Mechanisms for securing loans		

Loan product name

Loan term	Interest rate every month (%)	Loan size	Monthly Repayment instalment size
1	0.6045	10,000	866.44
2	0.624	10,000	449.94
3	0.624	10,000	311.01
4	0.63375	10,000	242.28
5	0.63375	10,000	200.88

2.3 Agricultural Bank of China (ABC)

The ABC offers its clients a variety of savings products, loans products and remittance services. The total loan portfolio is estimated at 0.14 billion RMB. The net increase in the value of the loan portfolio was approximately 10 million in 2002, 20 million in 2003, 30 million in 2004, and was expected to reach 40 million by 2005.

The ABC has two branches in Jiangkou County. The majority of the bank's clients live in urban areas given its policy not to lend to individuals in the rural areas. In special cases, the ABC will issue loans in the form of government subsidies to rural villages. For example, the government has supported an animal husbandry project in Zhai Bao Village and the ABC were responsible for issuing the loans.

The ABC is open daily from 7:30 AM-6:00 PM in the summer and from 8:00 AM-5:30PM in the winter. There is an ATM facility.

Table 9 ABC Savings Accounts

Minimum Opening Deposit	Demand deposit account :50 <i>yuan</i> Fixed term account: > 50 <i>yuan</i>
Minimum Balance	0.01 <i>yuan</i>
Does it give a chance of getting Credit	No.
Savings schedules	Demand account Fixed term account (single deposit or multiple deposits, single withdrawal) Education savings account
Interest Rates	Current deposit interest rate:0.72% Fixed term account (single deposit): 3 months interest rate: 1.71%; 6 months interest rate: 2.07%; 1 year = 2.25%; 2 years = 2.7%; 3 year = 3.24%; 5 years = 3.6% Fixed term account (multiple deposits): 1 year = 1.17%; 3 year = 2.07; 5 years = 2.25%. Education savings account: 1 year = 1.71%; 3 years = 2.07 All interest rates are same as the rates set by PBoC.
Tax on savings	20%
What percentage of total client savings are available for immediate withdraw?	6-7%.

Table 10 ABC Loan Products

Product Attribute	Personal loan to farmers	Personal Loan	Business Loan (Companies are categorised into three levels)
Total loan size		200,000 RMB (the amount of the loan cannot exceed 90% of the value of assets, or 50% of the value of the house).	200,000 RMB
Loan application procedure		1. Application made 2. Investigation by ABC loan officer. 3. Authorisation from ABC management.	1. Application made 2. Evaluation of risk (project/investment) 3. Authorisation from ABC management
Application assessment requirements i.e. collateral		Mortgage guarantee so the evaluation	
Loan application fees		House evaluation fee.	
Term of loan (Max and Min)		Min: 6 months Max: 5+ years	Min: 6 months Max: 5+ years
Schedule of repayment			Loan term <1 year, repayment of principle is at loan term. Interest rate payments can be either monthly or quarterly. Loan term >1 year, repayment of principle is in monthly instalments with interest.
Where is loan disbursed?	Branch. ABC may send the account, not the cash, to villages?		Branch
Where are loan repayments made?			Branch
What is the interest rate?	The interest rate of loan to Farmers: 1.the first year: 3% 2.the second year: 5.58% 3.the third year: 5.76%	6 months: 6.29% 1 year:7.25% 1-3years: 7.49% 3-5years: 7.61% >5 years 7.96%	1. Category 1: Rate is decided by ABC and can be lower than the standard rate that PBoC make. If the ABC in Jiangkou County wants to give a lower rate to a company, it needs to get the permission of senior management.

			<p>2. Category 2: the rate is 10%-20% higher than the basic interest rate set by the PBoC.</p> <p>3. Category 3: the rate is at least 30% higher than the basic interest rate set by the PBoC.</p>
Group Guarantee	For the farmers, there is a group guarantee required. The number of the group may be 5 members. If one farmer has not repaid his loan, this will prevent them to get new loans. ABC can choose the one who has not repaid or the other members of the group to repay. ABC will choose the richest one to repay the loan. Requires whole group to repay loan before anyone can get a follow-on loan.	N/A	N/A
Group meetings	Meetings as and when required by members	N/A	N/A
Access to follow-on loans (immediate or requiring new appraisal?)	New loan appraisal		New loan appraisal
Compulsory insurance			The insurance that the clients are required to buy is for the house and themselves. If something bad happens, banks will get benefit from the insurance company.
Management of defaulting loans			Investigation into defaulting client. ABC can decrease the interest rate
Mechanisms for securing loans			ABC will liquidate mortgage guarantee.

The individual business loan

- Max loan: 200,000 yuan

Interest term	The interest rate every month(%)
6 months(the 6 th month included)	0.5655
12 months(the 12 th month included)	0.6045
1-3years(the 3 rd year included)	0.624
3-5years(the 5 th year included)	0.63375
More than 5 years	0.663

Individual loan for house construction

- Max loan: 150,000 yuan

Interest term	The interest rate every month(%)
1-3years(the 3 rd year included)	0.48
3-5years(the 5 th year included)	0.4875
More than 5 years	0.51

Individual home reconstruction loan

- Max loan: 50,000 yuan

Interest term	The interest rate every month(%)
6 months(the 6 th month included)	0.5655
12 months(the 12 th month included)	0.6045
1-3years(the 3 rd year included)	0.624
3-5years(the 5 th year included)	0.63375
More than 5 years	0.663

Individual loan for house purchase

- Max loan: 200,000 yuan
- An identification of your paying for 50% of the value of the house already

Interest term	The interest rate every month(%)
6 months(the 6 th month included)	0.5655
12 months(the 12 th month included)	0.6045
1-3years(the 3 rd year included)	0.624
3-5years(the 5 th year included)	0.63375
More than 5 years	0.663

The maximum loan sizes for the above loans, with the exception of the individual loan for house purchase, are calculated accordingly: 90% of the borrower's savings (not current savings), 80% of personal insurance cover, 60% of others assets.

2.4 Moneylenders

Money lending is illegal in China. However, moneylenders continue to provide loans at a relatively high rate of interest. Typically, in times of emergency poor people turn to moneylenders for a loan. The moneylender will determine the terms and conditions for a particular loan based upon his assessment of the borrower. Moneylenders commonly assess the borrower's capacity to repay a loan based on the borrower's capital assets before agreeing the loan size and the interest rate. According to one group (Tongren, 18/06/05), an 'IOU' is given to the borrower as a receipt for the loan. The interest rate will not be noted.

Interest rates set by moneylenders are typically higher than those issued by formal banks. One interviewee (Jiangkou Town Centre, 16/06/05) indicated that he had paid 20% interest on the loan he obtained from a moneylender. The repayment periods are relatively short. Some sources indicate 5 -10 days, others specify 6 months. The repayment schedule is determined during the lender's assessment of the borrower. Typically, the interest rate doubles when repayment is overdue. The contract between the moneylender and the borrower is relatively flexible and concessions can be made on repayments. In some cases, the loan term may be extended and interest payments may be sufficient until the principle can be repaid. A number of interviewees indicated that in certain circumstances physical force is used to ensure loan repayment and assets are taken if the borrower fails to repay the loan by a certain time deemed appropriate by the lender (Jiangkou Town Centre, 10/06/05).

2.5 Village Committee Funds

Many groups indicated that, in the past informal financial mechanisms such as village committee funds were established in most villages. Typically, the village committee fund was managed by the local government office. Each household would be obliged to contribute a minimum of 15 RMB (there is no indication of members' ability or willingness to pay more). The interest rate on the fund was relatively low. The maximum possible loan was 300 RMB. Participants considered this to be an insufficient level of credit.

There appears to be no such fund in use today. According to our interviewees, the fund went bankrupt because clients failed to repay loans. This was attributed to the fact that clients began to suspect government officials in charge of the fund of siphoning off the funds for their own personal uses. Consequently, villagers became distrustful of the fund managers, loan defaults increased and the fund eventually collapsed.

2.6 ROSCA

There has been mention of ROSCAs operating in rural areas of Jiangkou County. Interviewees identified a comrade ROSCA as one such type of association. A small business owner from Jiangkou revealed that he had been invited to join a ROSCA designed specifically for local businessmen (10/06/05).

Although interviewees failed to provide full details of the ROSCAs identified in these areas, it has been suggested that members are traditionally women who form a group of around ten households. The ROSCA is normally managed by a group leader who is nominated by the group members. Each group member is required to make fixed monthly payments and the total savings

fund is distributed to each group member in turn. Names may be drawn from a hat to decide the order of loan distribution. According to the interviewees, interest is not calculated on the loan.

ROSCAs are less common than they were previously. According to interviewees, ROSCAs have experienced fraudulent activity and group leaders have been reluctant to continue managing relatively large sums of money face security risks.

2.7 Friends and Relatives

Friends and relatives are an integral feature of the financial services landscape in Jiangkou County. Participants indicated that **friends and relatives are common sources of loans**. There was no indication that friends and/or relatives offer a means for savings, such as a deposit collector.

It was claimed that friends and relatives usually only provide relatively small loans, which may be spent on school fees, minor medical expenses, consumption needs for example. For large business investments or large medical expenses, borrowers tend to seek other sources, formal or informal.

As one might imagine loan terms and conditions unofficially set by friends and relatives are particularly flexible. Naturally, loan term, loan size, repayment methods, interest and methods for recapturing loans are determined according to the personal relationship between the borrower and the lender. In some cases an interest rate may be negotiated between friends. This rate may be higher or lower than formal banks. Even though interest rates may not be a feature of the loan, some friends/relatives may expect the borrower to unofficially return the favour. This may take the form of a future loan, dinner invitation or special gift. This obligation may continue until the loan is fully repaid and in some cases this can continue for many years. Some interviewees interpreted this cost as a condition upon the loan or a kind of interest rate fee, which can inflict significant emotional and financial pressure (Fanjing Market, 16/06/05; Jiangkou Town Centre and De Wang Township, 13/06/05).

3 Client Attitudes and Preferences

This chapter examines clients' attitudes and preferences towards financial services available in Jiangkou County. The analysis has been conducted according to the market segments discussed in Section 1: Business Owners and Salaried Workers in urban areas; Farmers and Small Business Owners in rural areas; and High School Students in urban areas. Analyses of product attribute ranking, relative preference ranking and wealth ranking, present clients attitudes towards financial services in such a way that the attributes of financial products, services and the operating environment of the financial provider are listed in order of importance (the first being the most important). It should be noted that each product and service attribute noted in this report was identified by the interviewees themselves. These analyses and the resulting recommendations will allow financial services to review and to modify and/or introduce their products and services.

3.1 Business Owners and Salaried Workers

Here the report considers the loan and savings products utilized by business owners and salaried workers in urban areas. Using the 'eight Ps' of marketing this analysis focuses on the design, price, process (procedures for delivery), place and physical evidence related to the products and services. It is also important to consider the operating environment in which these products are delivered and this is evaluated through a discussion of financial providers in terms of their staff, their positioning in the mind of the client and the promotion of their services and products.

3.1.1 Loan Products

1. Application Process

The loan application process was discussed by all participants and rated as the loan product's most significant attribute. All the interviewees agreed that *the application process for loans is too long and too complicated*. This is emphasised by the fact that the process must be *repeated for every new loan application*. For some borrowers the loan application forms are confusing and require information that is difficult to provide, a factor that we shall return to in point 2 of this section. For this reason, therefore many people turn to family and friends for a loan.

While applying to the ABC and CCB, a hotel owner in Jiangkou claimed that he had spent three months filling out application forms and collecting information only to be told that the bank did not have the authorisation to grant the loan (the loan size was beyond the branch's limit) (Jiangkou Town Centre, 14/06/05).

Interviewees claimed that in comparison with the ABC and CCB, the application forms distributed by the RCC are the simplest. Furthermore, the process for accessing larger loans is not necessarily as long as those of the ABC and CCB, whose clients are required to obtain authorisation from senior branches in either Tongren or Guiyang. Some interviewees stated that they preferred to use a moneylender, and were thus willing to pay higher daily interest rates, because they could access the loan faster than if they had applied for it at the

bank.

2. Collateral

'Collateral' is also considered a significant barrier to getting a loan. Formal banks have different requirements for different loan products. The RCC is claimed to have the fewest requirements for collateral. Participants complain that not only is it difficult to provide sufficient capital assets, finding a willing guarantor is a considerable problem.

A small shop owner from Jiangkou described a situation whereby he had found it impossible to find a guarantor for his second loan application to the RCC. Despite having a good credit history with the RCC, he was consequently unable to secure a second loan (which was smaller than the first). Eventually, he gave up on the RCC and took out the loan with the ABC, thanks to the help he received from a friend who worked there. (Jiangkou Town Centre, 13/06/05)

Quite often borrowers are unable to provide sufficient collateral for larger business loans. Participants often complained that for this reason it is often impossible to access loans large enough to develop the business. Given this barrier to accessing loans large enough for significant business development, borrowers find themselves struggling to make repayments on existing loans. This is a direct result of the business's inability to capitalise on the benefits of the original loan input, which may have been

too small for the business to start making profits.

3. Interest Rate

The interest rate is regarded as the third most important attribute of the loan product. It is generally considered that the *interest rate on loans is too high*. While comparing formal financial institutions, interviewees identified the CCB as having the lowest interest rate, followed by the ABC and finally the RCC. Moneylenders were identified as charging the highest rates. It was stated that in addition to the heavy financial cost incurred by taking a loan from a moneylender, clients also experienced emotional problems. Rather, interviewees consider friends and relatives to be the best option for borrowing because they do not charge an interest rate (although in some circumstances where the relationship is less intimate or the loan is particularly large then this may not be true). While borrowers consider this to be the most cost-effective way of taking a loan, it is also important to bear in mind **the 'hidden costs' of borrowing from a friend**. Given these 'hidden costs', many interviewees indicate that they would prefer to obtain a loan from formal banks. As one market trader put it, "after all, human relationships are too complicated to repay" (Fanjing Market, 16/06/05). Importantly though, borrowers do not mind paying a higher interest rate on their credit if the process for accessing the loan is considered acceptable.

4. Loan Disbursement Time

Some identified the loan disbursement time as a fundamental product attribute. The time it takes for the loan to be disbursed is *particularly important for business owners*. The RCC is regarded as the most efficient service provider in this respect, while it is generally believed that the ABC and CCB take longer to disburse loans.

5. Accessibility

'Accessibility' is a moderately important consideration for borrowers. It is without question that most borrowers turn to friends and family for small loans before considering a formal loan provider because the *friends and relatives are usually the most accessible source of credit.* However, medium sized business owners wanting to secure relatively large loans are less concerned by the accessibility of the financial institution if other features of the service such as the loan size and the loan disbursement time are deemed acceptable.

6. Loan Size

A moderately insignificant attribute of a loan product is its size. Friends and relatives are considered the most reliable source of small loans. For larger loans (usually business loans) borrowers seek credit from formal institutions. Participants indicated that the RCC are relatively flexible with the size of their loans as long as collateral requirements are met. Medium-sized business owners claimed that the RCC did not provide loans of significant size and so there is a preference among them to use the ABC or the CCB.

7. Benefits & Incentives

Benefits to long-standing clients are non-existent. Research suggests that RCC clients do not receive benefits or incentives for continuing their custom with the financial providers. There appears to be no recognition of good client performance, i.e. a client who makes prompt loan repayments and/or has considerable savings. Only clients with personal contacts within the institution are able to access any kind of preferential treatment. It is unknown whether the other formal institutions are equally lacking in such benefits and incentives to clients.

8. Customer Service

Some interviewees indicated that 'customer service' is a relatively unimportant attribute of the loan product. The CCB is regarded as having the most efficient and helpful service, while the other formal financial institutions rate equally in terms of customer service.

9. Compulsory Savings

A compulsory requirement for share investments was considered as a less significant attribute of the loan product. While RCC clients are entitled to reclaim their initial compulsory share investment when they have repaid the loan in full, it is considered by most borrowers as inappropriate practice, given the RCC's 'assistance' in the borrower's time of need. There was no direct mention of a security deposit on loans, although various groups identified charges related to the loan. It is unclear if the interviewees have sufficient knowledge of the charges they are paying. In this case, the RCC should consider better and clearer promotion of their products terms and conditions.

3.1.2 Savings Product

1. Accessibility

For savings clients, 'accessibility' is the major feature of financial services. The CCB, PBoC, ABC and the RCC are all relatively accessible to poor people in urban areas. Interviewees emphasised that most favoured financial institutions are located close to the home or the workplace. One group pointed out that it is difficult for workers to access banks during business

hours. It was suggested that banks remain open later in the evenings so that workers could do their banking at the end of their working day.

2. Access to other services

The majority of interviewees indicated that their decision to set up savings accounts with any particular the institution can be attributed to the *need to access services such as direct payment of salary into account and money transfers/remittances*. Clients are increasingly demanding savings or deposit accounts that provide access to these other services. The market research suggests that savings products cannot therefore be assessed in exclusivity. Access to remittance services was mentioned by a small minority of interviewees in the urban areas. Nevertheless, it was noted that, based on the fees charged, the CCB offered a better money transfer service than the Post Office.

In addition to remittance services and direct salary payments, *the possibility of accessing a loan is another important reason for opening a savings account*. While interviewees failed to identify access to loan products as an attribute of the savings product, clients tend to take this feature for granted. Participants with savings accounts commonly take out loans with the same financial institution, but do not necessarily recognise this facility as a specific savings product attribute.

3. Customer Service/Efficiency

Customer service and efficiency are ranked the third most important savings product attribute. However, interviewees have not been able to reach a reasonable consensus regarding their views towards the efficiency of financial institutions. Some indicated that the CCB offered the fastest service, while another group preferred the service provided the ABC who has a greater number of service counters. While participants indicate that the RCC and the Post Office equally provide less efficient services, the RCC is considered as having better customer service relations.

4. ATM facility

The *ATM services offered by large banks were identified as a moderately important feature* of financial services. According to interviewees, the ATM services provided by the CCB and the ICBC are equally reliable, whereas the service provided by the ABC is inadequate; interviewees claimed that the ABC ATMs tend to run out of money more frequently than the CCB ATM (Jiangkou Town Centre, 09/06/05).

5. Security

A less important feature of savings products is security. Interviewees noted only that formal institutions provide secure places for depositing savings. This was claimed to be safer than storing money in the home. Interviewees did not refer to the security offered by the financial institutions.

6. Interest on savings

Interest on savings is considered too low as to be deemed negligible and therefore interviewees did not consider the interest rate for savings products to be an important attribute. The interest rate does not by itself encourage potential clients to open savings accounts. Financial institutions might consider revising interest rates for savings products in order to attract more clients.

3.1.3 General attitudes towards financial institutions

1. Staff at Financial Institutions

It is most common for individuals to seek financial assistance from institutions with which they have a personal contact. This research has supported the claim that *having a personal acquaintance working in a financial institution is considered the single most valuable factor determining a client's decision to choose a particular* financial provider. RCC clients noted that the staff members award preferential treatment at their discretion. Such preferential treatment might take the form of shorter disbursement time for loans; ease of access to loans based on fewer collateral requirements; and a shorter application process and assistance in filling out forms. Conversely, clients are sometimes pressured into opening savings accounts in institutions where the individual is known to a staff member. There is a certain degree of obligation to help out an acquaintance working in a financial institution who will be rewarded based on performance levels.

It is not uncommon for staff to accept bribes from prospective borrowers. Furthermore, this is considered by interviewees as normal practice among bank staff.

2. Image of Financial Institutions

The RCC is commonly perceived as a financial institution providing a service to farmers. That is not to say that urban dwellers do not use the RCC. Quite simply, the RCC has a greater reputation for being a bank for farmers.

Some financial institutions are regarded as charitable organisations. Earlier it was indicated that RCC clients do not always recuperate their share investment after terminating their relationship with the institution. This is usually due to the fact that borrowers regard the RCC as a form of assistance or charity rather than a financial service for which they are paying. This act of allegiance or loyalty is not uncommon among clients who may also feel obliged to open savings accounts with the same institution that has provided them with a loan.

The reliability of a financial provider is sometimes considered to be of prime importance. Regarding savings products, some interviewees noted that the Post Office had been particularly unreliable in allowing clients to access their savings. It was suggested that the Post Office would, on occasion, have insufficient stores of cash on the premises (this being due to the fact that the Post Office place the clients' savings in the RCC).

3. Promotion of Financial Services

Some interviewees were unable to identify products or services offered by their financial provider other than the ones they were actually using. Not only are non-clients unaware of the available products and services provided by the largest financial institutions in Jiangkou, but also, and perhaps of more concern, the banks' existing clients are unconscious to these services. It is imperative that formal banks improve promotional activities to make people (clients and non-clients) aware of available services and products.

A young married couple from Jiangkou described how they had been using a savings account at the RCC to receive the husband's salary. When questioned about her plans for the future, the interviewee indicated that she would like to start up a small business, but that she had no idea about getting a loan (14/06/05). A restaurant owner from Jiangkou, who had savings accounts with three separate institutions, had no idea of the interest rate he was obtaining on his deposits (10/06/05). A small business owner in Jiangkou who had banked with the ABC for 3 years claimed that his bank did not offer remittance services (10/06/05). In reality the bank does provide such a service. A salaried worker from Jiangkou was adamant that his bank, CCB, did not provide individual consumption loans (18/06/05). A clothes store owner from Jiangkou seemed to be totally unaware of the special education savings account offered by the ABC, which has their branch only 50m away from the his shop (10/06/05).

3.1.4 Opportunities for financial services

In terms of the product design, financial providers should give considerable thought to loan application procedures. It is evident that clients are dissatisfied with existing systems, particularly the loan application form. Financial service providers must **review and make changes to the loan application process**, shortening the time clients have to spend making an application and ensuring that the forms are user friendly. This can be achieved by completing a simple process-mapping exercise⁷. Similarly, it is recommended that financial providers **review loan disbursement times**, which are regarded by business owners in particular as unsatisfactory.

Research shows that savings account holders are attracted to particular financial services which provide access to associated financial services like loans, remittance services and direct debit services. Financial institutions should not only continue to **improve linkages between their financial products and services**, but they should also draw attention to these services in their promotional activities.

Other loan product features may require examination. These analyses demonstrate dissatisfaction with interest rates and loan sizes in particular. Financial institutions are therefore advised to **conduct market research in order to modify existing products** to suit the needs and capacities of their clients.

Many clients indicate that the location and the opening times of financial institutions are the main factors contributing towards the decision on where to seek financial services. It was suggested that **banks should stay open later** so that workers can access these services at the end of their working day.

Encouraging unethical behaviour, like taking bribes from or offering preferential treatment to clients, among staff does not promote a healthy image. Senior management and board members

⁷ Process mapping allows an organisation to improve and streamline its processes, thus enabling a more efficient and competitive service. A Process Mapping toolkit has been developed by Graham Wright of MicroSave.

of financial institutions should be alert to the fact that staff defy rules and regulations. **Penalties** should be applied to staff who violate rules and regulations and **benefits and incentives** should be introduced to encourage good behaviour among staff and customer service training may be required.

Financial providers should **improve financial and operational systems** to ensure that they are always prepared to meet their clients' needs. This may require institutional and operational appraisals, market research and updated financial systems and MIS. In addition, financial institutions should **develop and maintain a good marketing strategy**. As the research indicates financial institutions are losing custom due to a lack of promotional activity.

3.2 Farmers' Attitudes and Preferences

This section considers the attitudes and preferences of farmers and small business owners in rural areas. The analysis discusses various loan products, savings products, remittance/money transfer services that are of common use in rural areas, and then looks at attitudes towards the financial providers as institutions. It should be noted that most comments are directed at the RCC due to the limited availability of other formal financial organisations in the rural areas.

The analysis of the products and services focuses on features related to structure/design, price, process (procedures of delivery), place and physical evidence. It is also important to consider the operating environment in which these products are delivered. The final section discusses staff behaviour, the positioning of financial institutions in the clients' minds and the promotion of their services and products. From these analyses it is possible to extract a number of opportunities for financial services to introduce modified or new products and/or services.

3.2.1 Loan Product

1. Collateral

Farmers consider **collateral requirements as the greatest barrier to accessing a loan**. These requirements are of particular concern for start-up businesses. For most farmers, and even business owners seeking larger loans, *it is particularly difficult to find a guarantor*.

2. Application Process

The process for getting a loan from the RCC is too complicated and time-consuming, requiring too many application forms, certified documents from government and guarantors for collateral and savings or a security deposit. Clients are equally frustrated when applying for a loan extension, which requires repeating the entire process.

3. Security Deposit

The security deposit feature of a loan product was considered a significant barrier to getting a loan from the RCC. Some indicated, however, that this is of lesser concern, as friends and relatives can help out with the deposit and then be repaid once the borrower has received the loan.

4. Loan Size

Loans that are subsidized by the government for specific agricultural projects like animal husbandry are considered too small. Farmers from Wi Gan and Zai Bao villages indicated that government loans (claimed to be a maximum of 20,000RMB) are insufficient because they do not cover on-going business costs, i.e. fodder, fertilizer. This makes paying the interest on the loan difficult. However, villagers who have developed a 'special relationship' with RCC staff (accessing concessionary services) indicated that they were happy with the loan size; the maximum for these 'special' clients is reported to be greater than 100,000 RMB.

Generally, the maximum loan size offered by the ABC is considered to be too small. Equally, friends and relatives are only deemed useful for small loans (typically <500 RMB). Loans distributed via village committee funds are also considered to be too small (maximum of 300 RMB). In the event that a large loan (for marriage or business) cannot be accessed at the RCC, farmers will turn to a moneylender. For access to larger loans the moneylender is rated the most preferred source of credit.

5. Interest Rate

An equally important attribute of the loan product is the interest rate. Most participants consider the **RCC interest rate for loans to be reasonable**⁸. However some claimed that **the increase in the interest rate for borrowers who do not meet interest payments** (an increase of 20% at the RCC) **is excessive**.

Conversely, the interest rate set on the village committee fund was considered to be low. The interest rate charged by moneylenders is considered acceptable for short term loans given the other benefits of this service. This would indicate that **borrowers are willing to pay high interest rates** if the service they are able to access a product/service that meets their needs.

6. Loan extension

Loan extension is regarded as a moderately important product attribute. The possibility of extending the loan at the RCC is liked, particularly without an interest rate increase.

7. Loan Term

Some clients noted that the **loan term is too inflexible** and does not take the seasonality of farmers' incomes into account.

8. Loan repayment schedule

The flexibility of the loan repayment schedule offered at the RCC is liked as it enables borrowers to make early repayments. However, some claimed that there is no flexibility of interest payments (according to farmers in Long Mei Village (15/06/05) interest on loans is paid in a lump-sum at the end of the lunar year irrespective of the loan term).

⁸ One group, from Zai Bao Village, interviewed on the 14/06/05, indicated that the interest rate on RCC loans was too high; a factor which dissuaded them from seeking loans from this institution.

9. Accessibility

The location of the institution providing loans is a moderately important consideration for potential borrowers in rural areas. The RCC is rated the most accessible with branches at village and township level. Friends and relatives may live far away and are therefore given second preference. The ABC is least preferred given that it does not have branches in the rural areas.

10. Customer service

Some groups identified customer service as an important attribute of a financial product. It was stated by the majority of farmers interviewed that the RCC staff do not, generally, have good relationships with their clients.

11. Disbursement Time

Clients claim to be satisfied with the time of loan disbursement, indicating that **2-3 days is acceptable**. This timing is however considered **unacceptable in times of emergency**. Although the disbursement time is not generally considered as an important attribute of loans, one particular group (Ba Pan Village, 13/06/05) confirmed that in times of emergency it is critical that loans are distributed with the minimum of delay.

12. Use of loan

There is a **preference for there to be as few restrictions on the use of RCC loan as possible**. In many cases borrowers will be economical with the truth on their application forms with regard to the loan use. Several groups claim that they apply for RCC business loans with the intention of using the money for other expenses such as marriage ceremonies or medical bills.

13. Hidden Costs

The hidden costs of accessing a loan, for example, paying bribes to loan staff, are an insignificant feature of the loan product. Borrowers consider themselves to be in a position of power in relation to RCC staff, given the fact that the latter risk losing their job and are therefore in a vulnerable position.

14. Penalties

Penalties are not an important concern. Borrowers recognise that **the RCC is justified in taking assets** if the borrower has gotten so far into debt that it exceeds their assets' value.

3.2.2 Savings Products

1. Accessibility

Accessibility is the primary concern for savings clients in the rural areas. The **location of the financial institution in relation to households receiving remittances** is a particular concern. The Post Office is the preferred financial service provider in rural areas; it is claimed to have the greatest number of branches, at both village and township level. To a lesser extent, the RCC provides an accessible service to farmers.

2. Access to other products

The second most important aspect of savings products is **access to other products, particularly remittance services and loan products**. Regarding access to remittance services, the Post Office is rated as the most convenient savings institution. However, there is a preference among most farmers for depositing savings at the RCC because of possible access to loan products. Some RCC clients indicated that this was their main incentive for choosing to bank at this financial institution.

3. Security

Generally, the ABC and the CCB are regarded as the most secure financial institutions given the size of their premises and their employment of security guards. The RCC and friends and relatives are regarded as moderately secure places for depositing savings; the RCC branch is typically small and appears less secure, however its location near government buildings is reassuring for some clients. The Post Office is considered the least secure financial institution given that it does not have security guards and is not necessarily located in safe areas of the town/village.

4. ATM facility

Some clients identified the ATM and electronic card facility offered by some financial institutions as an important attribute. The **ABC and CCB are the most popular institutions offering these services**. The Post Office is rated as second most preferred financial institution offering this facility, while there was no mention of the RCC providing ATM cards.

5. Fast Service

The ABC and the CCB are considered the most efficient financial institutions with several counters available, thus reducing waiting times. The RCC and the Post Office are equally rated the least preferred institution based on the fact that there are fewer counters and subsequently long queuing times.

6. Customer Service

The ABC, CCB and RCC are identified as the most popular financial institutions in terms of their customer service. Using friends and relatives for financial services can be emotionally stressful. This kind of pressure is not a factor of relations between clients and bank staff where the relationship usually remains professional. The Post Office was accused of having the worse customer service and of being dishonest⁹.

7. Interest Rate and Other Costs

One of the least important savings product attribute is the interest rate. There is no preference between the RCC and the Post Office in terms of price; the interest rates on savings are considered to be the same. Interviewees noted that the interest rates offered by the ABC and

⁹ One group from Zai Bao Village, 14/06/05, indicated that the Post Office had stolen some of the remittance monies sent to clients in the village.

CCB are the same as the RCC and the Post Office. For most, these **rates are considered to be too low**.

The minimum savings deposit and the fee for opening the savings account are of relative unimportance to farmers, that is to say that both **costs are considered acceptable** by clients.

8. Opening Times

Few interviewees mentioned that opening hours were a significant feature of any savings institution. While the ABC and CCB are considered the most accessible in terms of regular opening hours, the RCC is least preferred due to the fact it often closes without warning.

3.2.3 Remittances/Money Transfer Service

1. National networking technology

Undoubtedly the most important attribute of this service is the technological networking capacity of the institution. Interviewees point out that *it is essential that the financial institution has the capacity to transfer money nationwide* because for many households' remittances are sent from other provinces. Due to this apparent lack of national networking technology in financial institutions in rural areas, clients stated that the only alternative process for remitting money, using larger formal banks like the ABC or the CCB in the urban areas, is too time consuming given the need to transfer monies between banks and make the journey to towns to access these larger financial institutions. Some interviewees were convinced that there are currently no services for remitting monies nationally available at the RCC or the Post Office. It would seem that these institutions need to improve their promotional activities.

‘A businesswoman transporting wild organic vegetables from her village, Wi Gan in Jiangkou County, to Hubei Province recounted how managed transferring money. She would send her goods to the buyers who would then transfer payment via the ABC. The businesswoman would withdraw money from the ABC deposit it directly in the RCC where she could then access it in her own village.’ (Wi Gan Township, 10/06/05)

2. Accessibility

Many workers sending money back to their villages noted that the **accessibility of the financial institution to households receiving remittances is of particular concern**. The Post Office is the preferred service in the rural areas; it is claimed to have the greatest number of branches, at both village and township level. The RCC is the second choice of finance provider for rural communities.

3. ATM Facility

Interviewees noted that the **ATM card is a particularly useful feature of remittance services**. The Post Office is rated as providing the most convenient and efficient service for money transfers within the province; the issuance of both a savings book and an electronic card enables

both the household and the person remitting the money to have access to the account. As discussed above, this facility becomes useless if clients wish to make inter-provincial money transfers as the Post Office lacks national networking technology. Villagers complained that where there is no access to an ATM facility, the whole remittance process becomes very slow.

4. Charges

Charges set on remittance services are **an insignificant feature**. While the Post Office and the RCC charge the same rate for remittance services, the Post Office is considered by some interviewees as being the more expensive of the two providers. This may be attributed to the fact that in villages where the Post Office does not have a branch an extra fee is charged to cover costs of sending a post office agent to deliver remittances. In these instances there is a preference for using the RCC.

The ABC and the CCB are believed to charge too high a rate for their money transfer service; there are additional charges for opening an account and for having an electronic card. Indeed, these extra **features of the remittance service are considered as unnecessary and excessive**.

3.2.4 General attitudes towards financial institutions

1. Staff at Financial Institutions

It is quite *common for RCC staff to accept bribes* from clients who seek a faster, easier way of accessing a loan. Interviewees complain of the fact that it is necessary to have a personal contact working at the financial institution if they want to apply for a loan. Even if the applicant is able to satisfy collateral requirements, it may be necessary to offer bribes to loan staff. Furthermore, if clients want to access additional information or advice related to their business needs then it is essential that a good relationship is developed with the staff. Farmers in Wi Gan Village, (10/06/05) claimed that “there is no trust between the poor clients and the RCC staff”.

Differences in opinions regarding attitudes towards financial service providers are to be anticipated when it is apparent that some clients receive preferential treatment from their financial institution. Interviewees discussed the importance of having a good personal relationship with the loan officer at length. These findings suggest that financial institutions should pay close attention to human resource management if they expect to retain loyal and happy customers.

Elsewhere, interviewees indicated that the village committee funds had been fraudulently managed by the local government. This produced a severe lack of trust between the villagers and the government persons in charge of the fund.

With regard to friends and relatives, borrowers claimed to experience considerable emotional pressure; a non-existent factor of borrowing from formal financial institutions, unless the client has a ‘special’ relationship with bank staff. Such emotional pressure is often considered to be of greater significance than the financial pressure experienced when borrowing from any other financial provider. Therefore, borrowers are willing to accept less attractive features of formal loans so that they can avoid bad relations with family or friends.

2. Image of Financial Institutions

There was limited response from participants regarding the positioning of financial institutions. Some reckoned that the ABC should provide services in the rural communities because the name implies that it has “a greater connection with farmers”. Regarding loans distributed by the local Agricultural Bureau, many villagers consider this assistance as a subsidy rather than a loan. Consequently, borrowers have got into the habit of non-repayment. It is unclear whether this confusion is a result of poor publicity/communication on the part of the government, or whether it can be attributed to the fact that villagers have become accustomed to receiving subsidies from the government for some time.

3. Promotion of Financial Services

Some RCC and Post Office **clients interviewed appeared to be unsure about the details of the products** they were using. Furthermore, they were **unaware of other products and services** offered by their financial institution. Some RCC loan clients were unsure why they were paying an ‘insurance’ on their loan, which in fact turned out to be a security deposit. Several groups were unaware that the RCC offered loan terms other than 1 year. Some groups indicated that the RCC did not promote their loan extension facility to borrowers, when in fact this has proved to be an attractive feature of the product. Many villagers in remote areas that were interviewed were unaware of the money transfer service provided by the RCC. Interviewees from Wi Gan Village, (10/06/05) were unaware that the Post office offered a savings product to its clients.

3.2.5 Opportunities for financial services

For farmers, the greatest barrier to getting a loan can be associated to collateral requirements. Providing a guarantor is a particularly difficult task for poor farmers and business owners seeking larger amounts of credit. Financial institutions should investigate the ways in which poor farmers can access loans by providing **alternative forms of collateral**. A strong business plan from an existing client and collateral on his/her current assets should permit business owners to access the credit they require to develop their activities.

With regards to loan product design and delivery, financial institutions must **review the application procedures and all processes linked to loan disbursement**. As noted in Section 3.1.4 it is essential that action is taken to shorten the time clients have to spend making an application and to ensure that application forms are user friendly. Likewise, the time it takes to disburse the loan, especially in times of emergency, should be improved. Once again these changes can be achieved by doing a simple process-mapping exercise. A similar exercise may also be implemented to improve staff efficiency and customer service delivery at the branch.

Research suggests that rural communities regard remittances as the most important financial service. Therefore, it is **imperative that financial institutions upgrade their technological capacities to provide satisfactory remittance services**. First and foremost, national level money transfers must be made available to clients. For poor people in rural areas, access to financial services is limited. In terms of product delivery, financial institutions should **ensure that both sender and receiver have easy access to remittance services**. Existing operators such as the RCC and the Post Office should ensure that branches are established in populated areas or, where there are few clients an third party agent may be established.

Access to multiple financial products through a single provider is a major financial need of poor people, or in fact any person. Financial institutions should provide a variety of products and services and linkage between those products should be created to assist the client in his/her financial management.

In addition, product design features such as interest rate, loan size, loan term, and security deposit may require re-examination. Market research would enable financial institutions to discover ways in which they can **modify product design and/or introduce new products**. For example, while interviewees claim to be satisfied with interest rates on loan products, they may also be willing to pay higher rates if it ensured them access to better, more efficient services. We strongly advise organisations to carry out market research activities on a regular basis in order to guarantee appropriate service delivery and customer satisfaction.

As noted in Section 3.1.4, financial institutions suffer greatly due to the fraudulent behaviour of staff. **Penalties** should be applied to staff who violate rules and regulations and **benefits and incentives** should be introduced to encourage good behaviour among staff and customer service training may be required.

3.3 High School Students' Attitudes and Preferences

While most young adults do not have first hand experience of financial institutions, formal nor informal, some high school students have made interesting comments regarding savings products and remittance services. This section considers high school students' attitudes and preferences towards savings products, remittance services and their general impressions of the local financial institutions.

3.3.1 Savings Product

1. Accessibility

For students at Jiangkou Secondary School with families in rural areas, the Post Office and the RCC are the preferred institutions for savings and remittances. This preference can be attributed to the fact that both institutions operate in towns and villages thus enabling easy access for both student and the family to access funds and make money transfers. For students not requiring remittance services, both the RCC and the ABC are equally preferable savings institutions as both are accessible in Jiangkou Town.

For students from townships other than Jiangkou the RCC and the Post Office are regarded as the most preferred financial institutions given the fact that the ABC and the CCB are inaccessible in these townships. Students from Heba Township suggested that the RCC and/or the Post Office should consider opening a branch closer to the school.

2. Access to remittance services

Remittance services linked to a savings account is essential for students from the rural villages attending school in larger towns like Jiangkou. The RCC was identified as the preferred financial service provider.

3. ATM service

The ATM service provided by the ABC and the CCB is a popular feature of financial services for school children. Some students indicate that there is no significant distinction between the ATM services provided by the ABC and CCB, but others claim that of the ABC to be the better option. This is not surprising given that the cost of the ABC ATM card is half that of the CCB. High school students are particularly attracted to financial products and services that provide them with their own personal account card. Technological gimmicks are particularly liked.

4. Interest Rate

High school students consider the **interest rate as an important attribute of savings products** as it offers them the possibility of earning small sums of money on top of their deposits, which are primarily used to pay for tuition fees and subsistence costs. Some students enjoyed the idea of earning a little extra which they suggested could be used for buying items like soft drinks. It appears that students are attracted by the idea of receiving a bonus from the financial institution.

5. Security

Security is an issue which is raised among many of the young interviewees. High school students in particular mention that safety is an important concern and therefore the security offered by formal financial institutions is an attractive attribute. There are too many risks of money being stolen or lost while it is kept on the student.

3.3.2 General attitudes towards financial institutions

1. Positioning

High school students regard the RCC as a financial institution whereas their impression of the Post Office relates more so to its mail service. “After all, [RCC] focuses on money while the Post Office focuses on mailing”, commented a student from Taiping High School (16/06/05). It is important that financial institutions realise that young adults represent potential clients and that their experiences of these institutions, through their families’ experiences, develop from an early age.

3.3.3 Opportunities for financial services

Financial institutions must be mindful of the accessibility of financial services to high school and college students. If the branch is not located near a school, then there must be an **alternative way for the students to gain access to their accounts**. The author suggests that the RCC and/or the Post Office consider providing a special service to students using the **school/college as an intermediary office**.

In addition to savings products, a large majority of students require access to remittance services. It is imperative that financial institutions **provide efficient and accessible services for transferring money**. By making use of current technology, financial service providers should improve links between accounts (the sender’s and the receiver’s separate accounts) and develop more advanced solutions using electronic cards and mobile phone.

As a marketing tool, financial institutions might think about issuing account cards to their younger clients as a **token of their membership**. In addition, **competitions and small gifts** might be considered as a way of attracting new younger clients.

ANNEX 1 List of Focus Group Discussions

Date	Place (where interviewees currently reside)	Market Segment
08/06/05	Jiangkou Town Centre	Urban, Small Business
09/06/05	Jiangkou Town Centre	Urban, Small Business
09/06/05	Long Su Village	Rural, Farmers
09/06/05	Village near Jiangkou Town	Rural, Small Business
10/06/05	Wi Gan Village	Rural, Farmers
10/06/05	Wi Gan Township	Rural, Small Business
10/06/05	Jiangkou Town Centre	Urban, Small Business
10/06/05	Jiangkou Town Centre	Urban, Small Business
10/06/05	Jiangkou Town Centre	Urban, Medium Business
10/06/05	Jiangkou Town Centre	Urban, Small Business
13/06/05	Jiangkou Town Centre	Urban/Rural, Salaried Workers
13/06/05	Jiangkou Town Centre	Urban, Small Business
13/06/05	Jiangkou Town Centre	Urban, Small Business
13/06/05	Ba Pan Construction Site	Rural, Salaried Workers
13/06/05	Ba Pan Village	Rural, Farmers/Small Business
14/06/05	Zai Bao Village	Rural, Farmers/Small Business
14/06/05	Village near Ba Pan	Rural, Farmers
14/06/05	Jiangkou Town Centre	Urban, Young Married Couple
14/06/05	Jiangkou Town Centre	Urban, Medium Business
14/06/05	Jiangkou Town Centre	Urban, Young Married Couples/Salaried Workers
14/06/05	Jiangkou Town Centre	Urban, High School Students
16/06/05	Jiangkou Town Centre	Urban, Medium Business
16/06/05	Taiping Township	Rural, High School Students
16/06/05	Heba Township	Rural, High School Students
16/06/05	Fanjing Market	Rural, Salaried Workers
16/06/05	Fanjing Market	Rural, Salaried Workers/Young Children
16/06/05	Ba Pan Village	Rural, High School Students
17/06/05	Jiangkou Town Centre	Urban, Small Business
17/06/05	Jiangkou Town Centre	Urban, Small Business
18/06/05	Tongren Town Centre	Urban, Higher Education Students
18/06/05	Tongren Town Centre	Urban, Younger Children
18/06/05	Tongren Town Centre	Urban, Salaried Workers
18/06/05	Tongren Town Centre	Urban, Salaried Workers
18/06/05	Tongren Town Centre	Urban, Small Business
15/06/05	Long Mei Village	Rural, Farmers
15/06/05	Long Mei Village	Rural, Farmers
20/06/05	He Ping Village	Rural, Farmers
16/06/05	Da Yu Village	Rural, Farmers
18/06/05	Chadian Village	Rural, Farmers

ANNEX 2 Urban Small Business Owners & Salaried Workers, Loan Product Attribute and Relative Preference Ranking

Product Attribute	Rank	RCC	ABC	CBC	Money Lender	Friends and Relatives	Comments
Application procedure	1	Most preferred. Procedure is simplest, requiring only certificates proving collateral requirements. RCC does not require as much authorisation from above, so procedure is faster.	More complicated and longer than RCC. Longer application process for larger loans authorisation	More complicated than RCC and ABC. Longer application process for larger loans authorisation		For large loans banks need to get authority from senior branches for larger loans. This lengthens the application process time.	
Collateral Requirements	2	Less collateral required.					
Interest Rate	3	Is more flexible than banks due to preferential rates from PBoC. Higher than formal banks. Interest rate becomes more of an issue when the loan is large.	Perceived higher than CBC but not as high as RCC. Better option than RCC for larger loans	Perceived as lowest interest rate. Better option for large loans	Highest interest rate	No interest rate, but this can depend on the friendship. Other charges and obligations can be substituted for the interest fee i.e. buying gifts etc.	In many cases borrowers are willing to accept the higher interest rate if the service provider is more convenient to them (this attribute is of least importance for borrowers).
Disbursement Time	4	Only 1 day	Two days	Two days			

Accessibility	5						
Customer Service	6		Second preference	Most preferred. Staff have better computer skills and are more efficient.			
Loan Size	7	Hard to get small loans			Most preferred for large loans	Most preferred for small loans	The ABC, CCB
Benefits to longstanding clients	8						
Loan extension	9	Most preferred					
Other charges	10						
Waiting period for follow on loans	11						

ANNEX 3 Urban Small Business Owners & Salaried Workers, Savings Product Attribute & Relative Preference Ranking

Savings Product Attribute	Rank	Post Office	RCC	ABC	CCB	ICBC	Comments	Opportunities for innovation and change
Accessibility	1			Most preferred. Most branches. No difference between ABC and CBC for people living in Jiangkou or Tongren.	Fewer branches than ABC. No difference between ABC and CCB for people living in Jiangkou.	Equally accessible as ABC and CBC in large urban areas.		
Direct salary payment	2		Allows salary to be transferred into account	Allows salary to be transferred into account.		Allows salary to be transferred into account		

Customer Service (Fast Service, Opening times)	3	Least preferred. Few service counters and staff are sometimes unfriendly	Third preference. Few service counters, but good customer service	Most preferred. More service desks than CBC (6)	Second preference. Considered to have most efficient staff (20)		Banks are only open during business hours and so it is difficult for business people to find time and leave their work to go to the bank (20).	Group 20 suggest that banks closer later so that business people can use the service when they have finished work.	
ATM service	4	Least preferred. No ATM service.		Second preference. Runs out of money (2) Transaction fee is higher than CBC (2).	Most preferred. More reliable than ABC (2)	Equal preference as CBC (25)			
Access to remittance services (and associated costs)	5			Most expensive remittance service.	Lower costs for remittance service than ABC				
Security	6	No preference. More secure than saving in the home.							
Interest Rate	7	No preference. Interest rate too low to be of concern.							
Access to loans	8	Least preferred. No loans	No preference. All provide access to loans						

ANNEX 4 Rural, Farmers, Loan Product Attribute and Relative Preference Ranking

Product Attribute	Group mentioned/Rank	Rank (original 1-32 group)	RCC loan product (with input of newco mer group 32)	RCC	ABC	Friends & Relatives	Other comments
Loan Term	32, 33	7		Least preferred (33). Most flexible loan terms.	Second preference – longer terms are liked (33).	Most preferred (33)	
Loan extension	32, 33			Like being able to extend loan term without interest rate increase (32, 33).			Dislike the procedure for doing this (filling out all the same forms again (32).
Loan flexibility (used for anything)	27, 33			Liked most. But no loan designed specifically for marriage/illness (35).			
Interest Rate	27, 32, 33	5 Moderately important attribute	6	Acceptable (27). Don't like increase in interest rate at end of loan term (27, 32). Interest rate considered too high. Often they need to borrow from friends to repay interest (32).	Second preference (rate is lower than RCC)	Most preferred as no interest rate is charged (33).	
Loan Size	32, 33, 38		8	Loan size is considered too small by businesses. Borrowers are unable to ensure business success/sustainability with smaller loans and thus have problems	Maximum loan size is too small (33).	Only convenient for small loans.	

				repaying interest. Likes different loan sizes that are available - preferential treatment (33). Only useful for small loans (<1000RMB) (35). Only useful for larger loans (>1000+RMB) (38).			
Repayment schedule	32, 35			Clients also like flexibility of loan repayment schedule which allows for early repayments. Group 35 dislike the interest repayment schedule.			
Time from application acceptance to disbursement			10 (most important)	Indicated by newcomer (apparent agreement by group – reliability?) that disbursement time is too slow in times of emergency.			
Collateral	34, 38	10	5	Considered more important to those without business plan and to first time borrowers. The risk to the household is greatest as the household is directly threatened. In times of emergency collateral requirements are too difficult to obtain.			
Guarantee People	38	9	9	Hard to finding willing people with financial capacity, especially for larger loans.			

Security Deposit	32, 27, 30, 34	8, 8	4	Least preferred. If you have no savings account, you need to put down a security deposit to get a loan (27, 30). Considered a barrier to getting emergency loans. But others indicate that it is less important because friends/relatives can be repaid with part of loan (32).	Most preferred – no security deposit requirement.	Most preferred – no security deposit requirement.	
Application process	33 (Preferential treatment) 38	4		Second preference (only need to sign contract) (33). Too complicated (38)	Least preferred – too many forms and certificates required.	Most preferred – there are no forms to fill out!	
Accessibility	33	6		Most preferred. Several branches across the Province (33).	Least preferred as it only operates at township level (33).	In some cases, friends and family may live far away (33).	
Customer Service	33	9		RCC staff do not have good relationships with clients. No interest in the client (33)			
Penalties			1	Borrowers recognise that it is fair that RCC take assets if the borrower has gotten so far into debt that it exceeds their assets' value.			
Extra cost of getting loan (buying gifts for RCC staff to create positive			2	This is not such an important issue for borrowers as they maintain some power over RCC staff; RCC			

relations between staff and borrower)				staff face loosing their job.			
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ANNEX 5 Rural, Farmers, Savings Attribute and Relative Preference Ranking

Product Attribute	Groups Mentioned/Rank	ROSCA (39)	Friends & Relatives	RCC	Post Office	ABC	CCB
Accessibility	1 (33) 1 (37) 1 (39)		Middle preference. They may live far away?	Most preferred. Equal preference. Both located in villages.			Least preferred Equal preference. Only have branches at township level.
Security	2 3	Risk of theft.	Middle preference. Not all friends and/or family are totally trustworthy.	Moderately preferred. Appearance and size indicate security is less than ABC and CCB, but is located near government offices.	Least preferred. No security guards.		Most preferred. Premises size and location in towns and guards indicates increased level of security.
ATM facility	1 (37) 0			Least preferred. No ATM facility available.	Second preference		Most preferred.
Interest rate	6 7			No preference – all interest rates considered equal.			
Various Accounts	4 (37)			Least preferred. Only one type of savings account available.	Most preferred. Offer different types of savings account.		
Opening Times	3 0			Least preferred. RCC occasionally close the office early without warning.	No comment		Most preferred. Regular hours.
Access to other products				Most preferred. Access to remittance services (37, 39)			
Customer Service	5 6	Risk of fraud.	Middle preference. Emotional pressure can lead to stressed relationships.	Most preferred (equal preference with ABC and CCB)	Least preferred. Examples of dishonesty (33).	Most preferred (equal preference with RCC and CCB)	Most preferred (equal preference with ABC and RCC)
Fast service	4 5		Middle preference.	Least preferred Few counters – long queues.		Most preferred. Greatest number of counters – waiting time is not so long.	

ANNEX 6 Rural, Farmers, Remittance Services Attribute & Relative Preference Ranking

Product Attribute	Rank	RCC	ABC	CCB	Post Office
National Networking	1	Unavailable.	Equal preference National networking technology available.		
Accessibility	2	Most preferred (equal preference with Post Office). Branches at village and township level.	Least preferred. No branch at village level.		Most preferred (equal preference with Post Office). Branches at village and township level.
Electronic card/savings book	3	Least preferred. Savings book available only.	Not mentioned	Not mentioned	Most Preferred. Provides savings book and electronic card facility makes remittance/money transfer process faster.
Charges	4	Most preferred.	Least preferred. Highest rates for remittance services: cost of opening account and for electronic card facility.		Second preference. Some extra charges for villages that require a post office agent to deliver remittance.

ANNEX 7 High School Students, Savings Product Attribute & Relative Preference Ranking

Product Attribute	Rank	POST OFFICE	RCC	CBC	ABC	Suggestions for innovation & change
Accessibility	1	Preferred by school children from the rural areas attending school in the towns (15). Considered equally	Preferred by school children from the rural areas attending school in the towns (15). Considered equally		Close to school, so equal preference to RCC for those not needing to make remittances (13)	Group 16 indicate that there is no financial institution accessible to them in their township (Heba). It is suggested that the RCC or Post Office consider having a branch closer to the school. The author suggests that the RCC or the Post Office consider providing a special service to school children using the school as an intermediary office.

		accessible as RCC (13).	accessible as the Post Office (13).			
Access to remittance services	2		Preferred (13)			
ATM service	3			ATM card is more expensive (16). No different from ABC (13)	Most preferred as ATM card is cheapest (16). No different from CBC (13).	
Interest Rate	4					
Security	5					