



Nicholas Loubere

Development on Loan

Microcredit and Marginalisation in Rural China

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For my parents and grandparents

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Loubere, N. (2018). Indebted to Development: Microcredit as (De)marginalisation in Rural China. *Journal of Peasant Studies*, 45(3), 585-609. <https://doi.org/10.1080/03066150.2016.1236025>

Loubere, N., & Shen, Q. (2018). The Policy and Practice of Microcredit in Rural China: Toward a Relational Understanding of Heterogeneous Implementation. *Modern China*, 44(4), 418-452. <https://doi.org/doi.org/10.1177/0097700417753734>

Zhang, H. X., & Loubere, N. (2013). Rural Finance, Development and Livelihoods in China. *Duisburg Working Papers on East Asian Studies*, (94), 1-28.

Note on Language, Currency Units, and Referencing

Translations of commonly used Chinese terms are followed by *pinyin* (without tonal diacritics) in the first instance. In subsequent instances only the italicised *pinyin* or the English translation is used. Proper names of people and places (e.g. Jiangxi Province, Deng Xiaoping, etc.) are not italicised.

Currency amounts are either provided in United States Dollars (USD) or Chinese Yuan (RMB). As of September 2019 USD 1.00 = RMB 7.08.

The book adheres to Harvard referencing style throughout. In-text citations consist of the author's last name followed by the year of publication. For works with more than three authors, all names are listed in the first instance, and the first author's name followed by 'et al.' is provided in subsequent instances. Harvard referencing style is also utilised to cite policy documents and reports issued by government departments and organisations. Since these institutions often have long names, in some cases I have opted to use acronyms in both in-text citations and the bibliography. Below is a list of these acronyms along with the full names of the institutions.

Additionally, this book uses footnotes to reference the primary interviews and conversations that form the basis of this study. Interviews and conversations have been assigned a number and can be found in the References just before the Bibliography.

In order to protect the identities of the people I spoke with I have not used any real names and the three townships where the majority of data collection took place have been given pseudonyms according to the primary means of earning a living in the respective localities: the agricultural township (AT), the migrant work township (MWT), and the diverse economy township (DET).

Unless explicitly stated, all photographs, tables, and diagrams were taken or created by me. Some photographs have been altered to protect the identity of people and places.

Acronyms used for referencing

Acronym	Full Name
DFID	Department for International Development (United Kingdom)
JXPABC	Jiangxi Province Agricultural Bank of China
JXPMoHRSS	Jiangxi Province Ministry of Human Resources and Social Security
JXPMoF	Jiangxi Province Ministry of Finance
JXPMoLSS	Jiangxi Province Ministry of Labour and Social Security
JXPPAO	Jiangxi Province Poverty Alleviation Office
JXPPG	Jiangxi Province People's Government
JXPRCCU	Jiangxi Province Rural Credit Cooperative Union
MoF	Ministry of Finance
MoLSS	Ministry of Labour and Social Security
NCCPBC	Nanchang City People's Bank of China
OECD	Organisation for Economic Co-operation and Development
PAO	Poverty Alleviation Office
PBC	People's Bank of China
SETC	State Economic and Trade Commission

“Marginals,” are not men living outside society. They have always been “inside” – inside the structure which made them “beings for others.”

Paolo Freire – Pedagogy of the Oppressed (1970)

Beautiful credit! The foundation of modern society. Who shall say that this is not the golden age of mutual trust, of unlimited reliance upon human promises?

Mark Twain and Charles Dudley Warner – The Gilded Age: A Tale of Today (1873)

1 Introduction

Abstract

Starting with a vignette from fieldwork, this introductory chapter lays out the ideological underpinnings of microcredit as a development approach and contextualises China's contemporary development landscape. The chapter then outlines the study's key questions and objectives, elaborates on the research methodology, gives the background of the field sites, and presents a brief roadmap for the rest of the book.

Keywords: China, rural development, microfinance, microcredit, financial inclusion, marginalisation

After two hours of driving along half-maintained country roads, many of which were serving as rice-drying surfaces for the autumn harvest, we arrived at the township and immediately began looking for the local rural credit cooperative (RCC). It did not take long to find. The township centre essentially consisted of one road, which was home to the local government, the police station, and a host of other government offices, in addition to the RCC. In this way the township was unremarkable – mostly similar to others I had visited or passed through in northern Jiangxi Province, if perhaps slightly poorer and more dilapidated. On the surface the RCC was also unremarkable. It was housed in a smallish building, and had not yet transformed into a more profit-oriented rural commercial bank like RCCs in more wealthy areas. This local RCC branch was special in one way, however, which was the reason I had been brought to this particular township in a car filled to capacity with Ministry of Human Resources and Social Security (MoHRSS) officials from the county. It was piloting a new method of implementing a nationally-mandated microcredit programme, and officials at the village, township, and county levels all had high hopes that their model would be recognised for its innovative approach and elevated for use across the country. We had come to speak with the director of the RCC and the director of the township-level MoHRSS office to hear about their progress in this endeavour.

I was excited. It was the very beginning of my project on microcredit programmes in rural China, and this was my first chance to talk with people involved in providing microcredit services at the local level. My research had been inspired by reading about the transformative potential of microcredit in other contexts, and a deep fascination with socioeconomic developmental trajectories in rural China – so I was eager to see how the development ideas underpinning the global microfinance movement manifested in Chinese townships and villages through some of the largest public microcredit programmes in the world. As we entered the RCC we were greeted by the director and ushered up to a room on the second floor, where we were furnished with some green tea and snacks. After the introductions were completed I quickly jumped in with my first question: ‘Who are the primary targets of microcredit in the township? Do you focus on agriculture or enterprises?’, I asked. The RCC director responded, saying ‘Local farmers are the main beneficiaries of the microcredit programme because they can develop traditional agriculture through borrowing. Small and medium enterprises can borrow from the county.’¹ He followed this by explaining that they were modelling a new type of agricultural lending by providing microloans to farmers involved in a farming cooperative for joint investment in the construction of modern vegetable greenhouses. I then asked if the loans were going to the poorest farmers in the village, and the director of the township MoHRSS chimed in, saying: ‘Local people borrowing microcredit are mainly bold, intelligent, and hard-working farmers who, in order to live a better life, take more risks and earn more money [...] of course, there are also some complacent and lazy people who want to borrow, but they cannot get loans.’² The RCC director nodded at this, and added that it was unfortunate but necessary, before reciting the (in)famous Deng Xiaoping quote ‘let a few people get rich first’. ‘In that case’, I asked, ‘Do you think that microcredit is helpful for the poorer or more marginal households in the township?’ The director thought about this for a moment before saying ‘Yes, the most important thing is that it has improved their mentality [...] The biggest change has been in the local farmers’ mind-sets. Before they just focussed on saving, now they also think about borrowing.’³

This initial exchange with those in charge of dispersing microcredit in rural China stayed with me. At the time I could not quite put my finger on the significance of this conversation, but I had the sense that their direct responses to my rather naïve questions held some deeper insights into the

1 Interview 05.

2 Conversation 01.

3 Interview 05.

ideology of the microcredit and type of development it purports to facilitate. In the years that followed, as I continued examining government microcredit programmes and their implementation in China – and as I became more familiar with a rapidly emerging critical body of literature challenging the developmental claims of the global microfinance movement, as well as the broader goal of expanding financial inclusion – the implications of what was related to me that day started to come into focus. This discussion of mentalities and mind-sets, of heroic risk-taking and lazy complacency, epitomised many of the key assumptions at the root of microcredit ideology. In particular, it brought to life the idea that underdevelopment and marginalisation are symptoms of: 1) exclusion from the formal financial system and wider economy, 2) a shortage of resources to participate in market activity, and, crucially, 3) the lack of a modern ‘financial consciousness’ necessary to properly engage in loan-taking and entrepreneurial behaviour. In this sense, microcredit programmes are both projects of market expansion – through the integration of previously ‘excluded’ populations – and also civilising missions attempting to reprogramme the psyche of the ‘backward’ rural citizen, transforming them into entrepreneurial subjects, and thus refashioning the structure and organisation of rural life. While always an implicit element of microcredit programmes, and development interventions more generally, in the Chinese context this more fundamental civilisational goal is sometimes made explicit – such as through the practice of publicly identifying households that are considered to be ‘civilised borrowers’, and thus able to access microcredit, as depicted in Figure 1.1 below.

Figure 1.1 Plaque denoting a ‘civilised borrower’ household



1.1 Contested and Paradoxical Rural Development in China

The developmental perspective outlined above – of marginalisation being combatted through integration into open and inclusive markets, the provision of financial capital through expanded access to credit, and an increasingly ‘financially conscious’, ‘economically civilised’ entrepreneurial population able to participate in the market economy – is also mirrored in Chinese popular conceptions of development, progress, and modernity over the past four decades. Dramatic economic growth since the initiation of the reform and opening (*gaige kaifang*) policy at the end of the 1970s has meant that rural household incomes have, on average, grown at over six percent per year (Schak, 2009). At the same time, the country’s rural poverty reduction has been unprecedented, with some estimating that the economic reforms helped pull up to 700 million rural people out of poverty, essentially singlehandedly meeting the United Nation’s Millennium Development Goal for poverty reduction and improving rural living standards dramatically (Wang, 2013; Yao, 2000). This perspective of continual beneficial socioeconomic progression in the Chinese countryside, primarily due to economic liberalisation, was expressed by a majority of the rural people I spoke with during fieldwork in northern Jiangxi Province, with many framing the improvement of rural livelihoods as being the natural (and inevitable) result of wider socioeconomic development that was bound to continue due to the country’s ‘correct’ development trajectory. In the words of one rural resident: ‘In the 1970s life was not very good, in the 1980s it improved a bit, and the 1990s were better than the 1980s. All of society is continually improving, so in the future our lives will continue to improve.’⁴

On the other hand, competing narratives also contest this dominant discourse of beneficial linear progression. Some of the most marginal and vulnerable households in the townships where I did fieldwork pointed out that the shift towards ‘market socialism’ and the inevitable commercialisation of local society had increased competition over limited resources, resulting in exclusion from the benefits of modern development, as well as active marginalisation actually making life worse. In the words of one poor rural resident: ‘If today’s society is so good, then why do people like me have no income but still need to buy medicine; my daughter needs to buy books, how is my living situation any good?’⁵

4 Interview 30.

5 Interview 59.

This issue of decreasing support for marginal households and rapidly increasing socioeconomic inequality within rural areas – particularly after the waves of privatisation in the 1990s – resulting in seemingly intractable poverty for certain segments of the rural population, has also been highlighted in much research on rural China (Sanders, Chen, & Cao, 2007; Schak, 2009; Unger, 2002a). At the same time, China's wider integration into the global capitalist system and the ensuing market-oriented policy reform has systematically marginalised rural China in favour of urban areas that are better linked to the world economy and, therefore, represent more secure and profitable locations for investment (Loubere & Zhang, 2015). This has resulted in rapidly increasing inequality between rural and urban areas, as reflected in the national Gini coefficient, which is estimated by many to be over 0.5 (indicating extreme income inequality), and underlined by the fact that urban incomes are, on average, three times larger than those in rural areas (Chen, Dai, Pu, Hou, & Feng, 2010; Li & Sicular, 2014; Thøgersen, 2011; Yeh, O'Brien, & Ye, 2013). This disparity within rural areas and between rural and urban China has, in recent decades, become a focal point of the central government. In particular, since the beginning of the Hu Jintao-Wen Jiabao administration in the early 2000s, rural development inequalities have been problematised through their depiction as the 'three rural issues' (*sannong wenti*),⁶ and have served as the impetus for the formulation of a number of overarching (and often overlapping) policy frameworks. These include the Construction of a New Socialist Countryside (*shehuizhuyi xinnongcun jianshe*, hereafter XNCJS) and Urban-Rural Integration (*chengxiang yitihua*, hereafter CXYTH), which largely aim to de-marginalise rural areas and people through further integration into the urban-based market system, thus mirroring the integrative goals of microcredit and financial inclusion.

Despite the existence of counter-narratives, the 'script, or "meta-narrative"' of the overarching 'story' of dramatic and rapid rural development in China is, for the most part, agreed on, and situated within a paradigm that sees development as an evolutionary and linear process. However, 'the basic elements of this central story about China are constantly being adapted by any number of interpreters and performers far from Beijing' (Tomba, 2012, p. N/A). These micro-narratives are heavily contested and often inherently contradictory, but they nevertheless all seek to establish

6 The term *sannong wenti* refers to development problems related to a lack of support for agriculture (*nongye*), and increasing marginalisation of rural areas (*nongcun*) and farmers (*nongmin*), particularly in relation to more prosperous urban areas. For more detailed discussions on these issues see (H. X. Zhang, 2009).

their vision of China's rural development trajectory, thereby gaining more influence in guiding the country's direction going forward. Probably due to the unprecedented nature of China's socioeconomic transformation, characterisations of the country's rural development lend themselves to hyperbole and grand statements. Depending on who is providing the interpretation, China is either depicted as destined to become a world class power with dramatically improved rural living standards, or as a country on the brink of social, political, and economic collapse, requiring policy fixes to reorient its development path. In reality, however, China's rural development trajectory is not a coherent or logical progression from point A to point B, which can be tracked, analysed, predicted, or technocratically guided through the formulation and implementation of external interventions (e.g. microcredit). The unprecedented nature of socioeconomic change in rural China means that the country's rural development story is characterised by messiness, rather than coherence. Tradition and modernity, underdevelopment and development, impoverishment and prosperity, all exist side-by-side. Moreover, rather than being separate and clearly delineated stages of socioeconomic progression, these conditions are mutually constituted and co-produced in relation to each other. They are, therefore, two sides of the same coin.

For this reason, external interventions like microcredit ultimately become reconstituted at the local level, and reflect these developmental contradictions, which often results in complex, emergent, unpredictable, and unintended outcomes, rather than the simple, clear, and linear impacts envisioned during their formulation. In this way, China's rural development is both complex and inherently paradoxical, as the very reforms and interventions that have made it an unprecedented example of beneficial socioeconomic transformation have also (re)produced dramatic inequality, intractable poverty, and the dichotomous division of rural and urban areas, leading to the inevitable marginalisation of the countryside and certain segments of the rural population. Rural China is both the epitome of the country's developmental success and, simultaneously, the cause of its continued backwardness.

1.2 The Rise of the Global Microfinance Movement and the Adoption of Microcredit in Rural China

The same fundamental contradictions underpinning China's rural development since the reform and opening are also present in processes of development worldwide and, by extension, the tools (i.e. interventions) utilised to induce

development. The most visible example of this has been the rise of the global microfinance movement. Since its popularisation in the 1970s (basically in parallel with China's economic liberalisation), microfinance has also captured the global developmental imagination with its seductive philosophy of economic openness, liberalisation, and the promotion of entrepreneurship as easy and cost-effective ways of facilitating sustainable development. Ultimately, this has resulted in microfinance becoming the most prominent and well-funded type of development intervention in the world (Bateman, 2014).

Similar to conceptualisations of development and underdevelopment in contemporary China, proponents of microfinance perceive marginalisation as being the result of exclusion from the capitalist system, and see access to formal financial services as a powerful remedy. The primary, and original, goal of the microfinance movement is the provision of microcredit (i.e. small loans) 'to the poor to allow them to establish a range of very simple income-generating activities, thereby supposedly helping facilitate an escape from poverty' (Bateman, 2014, p. 2).⁷ While this idea of providing small-scale credit to the poor to induce development has been utilised in different contexts throughout history, the modern microfinance movement is widely understood to have begun with the establishment of the Grameen Bank in Bangladesh by Muhammad Yunus, a professor of economics, who has subsequently become the leading proponent and face of microfinance worldwide, in part due to his claim that microfinance has the potential to relegate poverty to a museum (Bateman, 2010; Brau & Woller, 2004; Hospes & Lont, 2004; Woolcock, 1999; Yunus & Weber, 2007).

Yunus established the Grameen Bank with financing from international donors after returning to Bangladesh from Ph.D. study in the United States. The original Grameen model saw access to credit as a basic human right. It primarily targeted women with collateral-free loans, and sought to reduce risk by requiring frequent repayments and lending to joint-liability loan groups (usually consisting of around five people), which reduced costs associated with monitoring and exploited existing social dynamics to pressure borrowers to repay, as the group as a whole was excluded from future loans if one member defaulted. Moreover, the original Grameen model utilised

7 Originally, microfinance and microcredit were essentially interchangeable terms. However, with the increasing focus on 'financial inclusion' as an important development goal in its own right, microfinance has come to include other financial services, such as savings, remittances and insurance – although credit is still the primary focus. For the sake of clarity, throughout this book I will use the term microfinance when I am referring to the global microfinance movement or the concept of microfinance more generally, and microcredit when I am referring specifically to microcredit programmes.

progressive lending to encourage repayment, with borrowers being allowed to access increasingly larger sums after the successful repayment of previous loans (Bateman, 2014; Bislev, 2010; Khandker, 1998; Yunus & Jolis, 2001).

Throughout the 1980s microfinance quickly gained popularity globally, resulting in the explosion of microcredit programmes and microfinance institutions (MFIs), often based on the Grameen model (called ‘Grameen clones’).⁸ Microcredit also caught the attention of the World Bank and the International Monetary Fund, where it was included in schemes aimed at mitigating some of the adverse effects of the Structural Adjustment Programmes (i.e. austerity measures) imposed on low-income countries (Weber, 2004). The 1990s saw a debate over the ideological soul of microfinance, with the movement shifting from the ‘poverty lending approach’ – which was characterised by heavily subsidised interest rates and the targeting of the very poorest – to the ‘financial systems approach’, which rejected concessional and subsidised loans (for the most part) in order to build a microfinance industry that was financially sustainable, and even profitable (i.e. imitating the commercial financial sector). In this way, commercialised microcredit was seen as a ‘win-win’ in that it created sustainable institutions and provided profit-making opportunities for investors.

This transition towards commercialisation resulted in the Grameen Bank adopting the ‘Grameen II’ model, which offered a range of different services (other than just credit) and also downplayed the importance of the original Grameen methodology (e.g. targeting women, joint-liability loan groups, etc.) in favour of experimenting with techniques that would allow for financial sustainability and increased ‘financial inclusion’ (Hulme, 2008; Rutherford, 2006). Ultimately, this development signalled the emergence of a diversified global microfinance movement consisting of a huge range of programmes and institutions utilising a variety of different techniques (i.e. departing from the original Grameen methodology) in order to provide financial services in the name of development.

In order to facilitate this move away from the poverty lending approach, microfinance proponents began lobbying for the de-regulation of rural financial sectors around the world in an attempt to allow microcredit programmes and MFIs to operate in a free market like regular banks (Bateman,

8 It is necessary to distinguish between microcredit programmes, which are often run by governments or development organisations, and MFIs, which are usually autonomous organisations dedicated to providing financial services. For the sake of clarity, throughout this book I will only use the term MFI when referring to specific institutions. Otherwise the term microcredit programme will be used.

2010). This ideological shift to an even more explicitly neoliberal mode of organisation was justified on the grounds that financial sustainability through a market-oriented approach would allow for the expansion of microcredit programmes, thereby ‘financially including’ more people, as they would no longer need to rely on charity for their continued operation (Aitken, 2013; Hulme, 2008; Morduch, 2008; Robinson, 2008). The overall adoption of the financial systems approach by the microfinance movement has, unsurprisingly, received strong support from the global commercial financial sector,⁹ and ultimately resulted in the incredibly rapid and unprecedented growth of the microfinance industry worldwide. This can be illustrated by the fact that a World Bank questionnaire aiming to measure microcredit outreach in the early 1990s only received responses from 206 programmes and institutions, representing USD 7 billion in loans to 14 million borrowers (Paxton, 1996), while the Mix Market – a website dedicated to tracking the global microfinance movement (www.mixmarket.org) – currently has information for tens of thousands of programmes representing an outstanding loan balance of over USD 75 billion to over 95 million borrowers.

Microcredit has become the most popular type of development intervention globally and, particularly throughout the first decade of the 2000s, the microfinance movement was perceived as being basically synonymous with beneficial and sustainable development. This resulted in the United Nations declaring 2005 the ‘international year of microcredit’, and Yunus and the Grameen Bank jointly winning the Nobel Peace Prize in 2006. As a global development idea, microfinance has proven extremely resilient. The microfinance movement has weathered serious crises – such as the one in Andhra Pradesh, India in 2010 which resulted in a spate of suicides – and increasing evidence that it does not live up to its goals (Duvendack & Maclean, 2015; Mader, 2013; Taylor, 2012). In recent years the movement has increasingly shifted away from the original claims of poverty alleviation stemming solely from access to credit, and towards the discourse of financial inclusion, with international institutions and large donors such as the Gates Foundation promoting the idea of inclusion into the financial system as beneficial in and of itself (Häring, 2017; Mader, 2016b). The microfinance movement has

9 Citi Bank, MasterCard, Visa, HSBC, and many other global financial players have provided funding and guidance for MFIs and microfinance associations. For instance, the China Association of Microfinance (CAM), which is located in the Chinese Academy of Social Sciences’ Rural Development Institute (CASS-RDI), was established with the support of Citi Bank and other international institutions that are heavily involved in promoting the financial systems approach through the privatisation and financialisation of MFIs, and the deregulation of the rural financial sector (see <http://www.chinamfi.net/>).

also been instrumental in the digital finance and demonetisation push globally, identifying the Internet as a tool capable of dramatically expanding the reach of commercial financial products (Loubere, 2017a; Mader, 2016a).

Considering the rapid ascension of the global microfinance movement and the discourse of financial inclusion outlined above, it is unsurprising that research on the subject has proliferated. This research largely attempts to assess the impact of microcredit on economic development and the wellbeing of local actors. Throughout the 1990s and early 2000s, the majority of studies on microfinance essentially took the normative stance that increased access to credit was implicitly good, and therefore attempted to determine the types of benefit that emerged from expanding access to credit services (Helms, 2006; United Nations, 2006; Yaron & Benjamin, 1997). While there are far too many examples of research finding different positive impacts to comprehensively cover here, many studies have credited microcredit programmes with the ability to empower women by giving them an active economic role in the family and community; facilitate consumption smoothing across seasons for agricultural producers; improve access to education and diversify labour, thereby increasing income, consumption, and overall household net worth; and improve access to nutrition, healthcare, and health-related information. In this way, microcredit has been attributed with the ability to help the rural poor reduce their vulnerability and increase their resilience to shocks, thereby increasing their chances to pull themselves out of poverty (Hashemi, Schuler, & Riley, 1996; Holcombe, 1995; Khandker, 2005; Leatherman & Dunford, 2010; Morduch, 1998; Pitt, 2014; Pitt & Khandker, 1998).

At the same time, however, in recent years there has been a growing body of literature critiquing the normative understanding of financial inclusion as inherently positive. Even some prominent supporters of the microfinance movement have started to shift their positions on the ability of microcredit programmes to affect beneficial change, with recent systematic reviews and impact assessments finding no evidence of net positive impact (Angelucci, Karlan, & Zinman, 2013; Bateman, 2013; Duvendack et al., 2011; Korth, Stewart, Van Rooyen, & De Wet, 2012; Roodman, 2012; Roodman & Morduch, 2014; van Rooyen, Stewart, & de Wet, 2012). More important, however, are the increasing number of studies outlining fundamental flaws in the conceptualisation of microfinance and financial inclusion as facilitators of development more generally. This body of research sees the global microfinance movement as instigating ‘the rise of destructive local neoliberalism’ (Bateman, 2010, p. 1), and details a number negative outcomes that stem from the expansion of microcredit, especially through programmes adopting the financial systems approach.

Detailed research has repeatedly refuted the idea that microcredit automatically results in female empowerment (Goetz & Gupta, 1996; Guérin & Kumar, 2017; Guérin, Kumar, & Agier, 2013; Karim, 2011; Maclean, 2010, 2013; Yeboah, Arhin, Kumi, & Owusu, 2015). Investigations have also convincingly contradicted the claim that credit access improves the lives of those at the bottom of the pyramid, instead showing that programmes tend to reflect inequalities and local power imbalances, and facilitate forms of dispossession (Batliwala, 2007; Elyachar, 2005; Loubere, 2018; Montgomery, 1996; Taylor, 2011). Other research has revealed the ways in which microcredit can create destructive debt cycles, trapping borrowers and creating subprime-type crises, threatening local and even national economies (Bateman, 2017; Guérin, Labie, & Servet, 2015; Mader, 2018). Ultimately, the rapid growth of this critical literature highlights fissures at the core of microcredit developmentalism, demonstrating that the expansion of microentrepreneurial activity is not a panacea and can often be inherently harmful to local social cohesion, economic activity, and livelihoods; that the idea of a ‘win-win’ where the rich make profit off the poor while simultaneously helping them is absurd; that financial inclusion through digital technologies can result in exploitative outcomes; and that the promotion of small and medium enterprises (SMEs) is more conducive to supporting local development, particularly SMEs that are cooperative in nature (Bateman, 2007, 2010, 2012, 2013; Bateman & Chang, 2012; Brigg, 2006; Hsu, 2014; Karnani, 2007; Loubere, 2017b; Montgomery, 1996; Weber, 2004, 2006).

Therefore, much like rural development in China, the global microfinance movement has been heavily contested and defined by a multitude of overlapping but contradictory narratives – with some claiming that microcredit is a ‘magic bullet’ for facilitating ‘sustainable development’, while others deride it as an example of the worst excesses of fundamentalist free-market capitalism, describing it as a ‘zombie idea’ that will not die despite being widely discredited (Bateman, 2012, 2015; Hickel, 2015; Oya, 2012). At the same time, as stated above, both the global microfinance movement and rural development in China are similar in that they have followed an increasingly neoliberal trajectory over the past four decades, depicting marginalisation as essentially the result of disconnection and exclusion from the wider capitalist system. The prescription in both cases is integration into urban markets – firstly through inclusion into the formal financial system; which then, secondly, provides marginalised actors and areas with the necessary capital to foster entrepreneurial activities, thereby enabling their entrance into the modern market system.

Considering these ideological similarities between the ways in which Chinese rural planners and proponents of microcredit conceptualise

development and de-marginalisation, it is unsurprising that microcredit programmes have become increasingly important components in Chinese rural development strategies. Indeed, despite the fact that most people would first think of countries in South Asia, Africa, or Latin America when discussing microfinance, China's microfinance industry is undoubtedly one of the largest in the world (or even the largest outright) in terms of size and scale.¹⁰ It is true that microcredit was relatively late to catch on in China, with only a few international non-governmental organisation (NGO) programmes in the 1980s – and the first domestic NGO and government programmes not really taking off until the 1990s. However, it has since become arguably the most important development intervention (or at least the fastest growing) since the reform of the RCCs in the early 2000s, the liberalisation of the rural financial sector through the introduction of private commercialised village and township banks (VTBs) and microloan companies (MLCs) in 2006, and the rapid expansion of the Internet finance sector since the early 2010s. In this way, China's rural development efforts and rural financial restructuring have undoubtedly been influenced by the global microfinance movement's increasingly commercialised approach, resulting in a stronger emphasis on financial sustainability, profitability, and the creation of winners and losers in the name of development progress. At the same time, as a chief constituent element in China's overarching rural development strategy, Chinese microcredit programmes have come to reflect (and strengthen) the fundamental paradoxes at the core of the country's rural development since the reform and opening outlined above. As such, an examination of China's government-run microcredit programmes has the potential to shed light on development thinking in the country, and also provide a glimpse into the ideological underpinnings of the global microfinance movement more broadly.

10 Of course, the size of a 'microfinance industry' depends on how the terms microfinance and microcredit are defined. Since Chinese government microcredit programmes and new commercial MFIs often do not follow the original Grameen methodology, they have sometimes not been considered to be 'microcredit' in the same way as NGO programmes (often 'Grameen clones'). However, with the worldwide adoption of the financial systems approach and the resulting diversification of the microfinance movement, government programmes and commercial providers have been widely accepted as being part of the Chinese microfinance industry (He, Du, Bai, & Li, 2009). For the purposes of this book, microcredit is simply considered to be the provision of small-scale loans targeting excluded areas and/or actors with the stated aim of inducing bottom-up socioeconomic development through inclusion into the formal financial system.

1.3 Research Questions and Objectives

In many ways, microcredit in rural China is emblematic of the country's unprecedented and paradoxical rural development landscape. At the same time, it provides a fascinating view into the contradictions underpinning the global microfinance movement, which is at the very heart of contemporary conceptualisations of what development means worldwide. It is, therefore, surprising that there has not been more research on microcredit in China – particularly from actor-oriented or locally-focused perspectives which allow for a more direct examination of how these paradoxes play out at the local level and what they mean for the lives of rural people.¹¹ Extending research on Chinese rural finance and microcredit from different approaches – with different foci and at different levels of analysis – is of vital importance for a number of reasons. For one, there can be no doubt that the rural financial system – and especially credit provision – has played a critical role in the transformative and unprecedented development of rural China since the reform and opening. In particular, rural development has depended on the financing of agricultural producers and township and village enterprises (TVEs), as well as the transfer of remittances from migrant workers in urban areas back to their rural origins (Cheng, 2006; Tsai, 2002; Zhou & Takeuchi, 2010), making it important to examine how different financial institutions and services have facilitated different types of development for different areas and actors.

At the same time, there are innumerable examples, in different contexts and throughout history, of financial systems and institutions causing severe crises, often with catastrophic outcomes for local, regional, and national economies. These crises have the potential to destroy the foundations of livelihoods across the spectrum, but are particularly dangerous for the most marginal members of society. With the continued transition toward commercialised approaches to financial operation and organisation in rural China (Loubere & Zhang, 2015), the financial sustainability of local financial institutions and the governments that borrow from them has become a growing concern, requiring careful and vigilant observation and analysis (Ong, 2006, 2012). Finally, and more fundamentally, the organisation, distribution, and utilisation of financial resources reflect the formation and constitution of local society, as well as local understandings of what

11 Of course, this does not mean to say that there has not been some excellent research touching on different aspects of these issues. See Chapter 2 for a comprehensive literature review outlining the key strengths and weaknesses in the research on rural finance and microcredit in China.

development entails. Therefore, by exploring how rural financial services generally – and microcredit in particular – manifest themselves at the local level, it becomes possible to gain important insight into the ways in which rural people conceptualise and (re)produce their existences, thereby allowing for an in-depth examination of the meanings of the paradoxical processes underpinning rural China's contemporary socioeconomic transformation. In this sense, this research draws inspiration from other studies that have sought to critically analyse the 'social life' of microcredit at the grassroots – maintaining a commitment to representing the complexity of local contexts, while also attempting to expose exploitative processes and ideologies underpinning the microfinance movement more generally (Elyachar, 2005; Guérin & Kumar, 2017; Karim, 2011).

This book will attempt to engage with these critically important issues by asking the question: 'What role do microcredit programmes play in local processes of socioeconomic development and the livelihoods of diverse local actors?' This broad overarching research question is addressed through in-depth examination of the three largest government-run microcredit programmes in three rural townships located in Jiangxi Province. These microcredit programmes were formulated at different points in history as key components of separate rural development strategies, and they each attempt to address different aspects of the country's post-reform rural de-marginalisation agenda – e.g. reducing poverty, expanding financial inclusion, or modernising rural employment.

The book looks at how and why the three microcredit programmes have been formulated by policy actors at different levels – i.e. how the programmes fit into overarching development goals and priorities. It then explores the reasons for the heterogeneous implementation of the three programmes in the different townships, thus exposing divergent understandings of what development means, and who development should benefit, at the local level. The detailed depiction and analysis of the heterogeneous formulation and implementation of the microcredit programmes across the three townships contributes to the large (and still growing) body of research on policy implementation in rural China by providing evidence for the need to understand the local (re)production of microcredit and other development interventions as the emergent results of complex, non-linear, and relational processes.

At the same time, by examining variation in outcomes at the local level, the book contributes to our understanding of the divergent and multidimensional 'impacts' that development interventions such as microcredit have on different local actors. This points to the ways in which microcredit in rural China contributes to the production of different patterns

of de-marginalisation, while simultaneously feeding into undercurrents of marginalisation, thus reflecting (and even strengthening) many of the contradictions inherent in China's rural development and the global microfinance movement outlined above. Through this analysis the book provides a means of understanding contemporary development, both in China and globally, as inherently paradoxical, contradictory, and emerging from unequal relationships and mutually constituted patterns of development and underdevelopment.

The research questions and objectives outlined above represent an agenda that departs substantially from the vast majority of research on microcredit and development, both in China and globally. Therefore, it is also important to outline what this book does *not* aim (or claim) to do. For one, unlike most of the research on microcredit and rural finance in China, which is largely from the disciplinary perspectives of finance and/or economics, this study does not seek to systematically investigate the functioning of the rural financial system as a whole or the operation of rural financial institutions in order to make universalist and/or normative claims about how to fix 'problems' or 'irregularities'. While the book does not ignore systemic and institutional issues, it instead observes them through the perspectives of local actors, and therefore values multiple understandings and interpretations, rather than generalisability and universality. At the same time, this book does not uncritically accept the normative foundations of the 'financial inclusion' discourse, which implicitly assumes that more access to financial services (and credit in particular) is positive. I therefore avoid making policy recommendations on this basis. Finally, this research is not interested in addressing the most commonly asked question in research on microcredit – i.e. 'does microcredit work?' – by assessing top-down linear causal impact. Instead, this book understands impact as multifaceted and relational, and, therefore, seeks to explore the *role* that microcredit programmes play in local development and livelihoods. In other words, rather than attempting to identify generalisable trends, best practices, and/or linear causation in order to provide prescriptions for future policy, the research in this book aims to understand the processes underpinning the provision, acquisition, and utilisation of microcredit by diverse actors – all of whom have their own understandings of development and divergent livelihood goals. Simply put, I do not seek to answer 'whether microfinance does or does not "work" but, rather: "What are the workings of microfinance?"' (Taylor, 2012, p. 602). From this perspective, microcredit is a lens through which it is possible to examine the nature of paradoxical and contradictory development in China and elsewhere.

1.4 Research Methodology and Fieldwork Sites

This book is based on data that was collected during four rounds of in-depth fieldwork (approximately eight months in total) in Jiangxi Province between 2012 and 2014.¹² The fieldwork design was based on the principles of grounded theory, particularly with regard to flexibility and openness. Fieldwork was based on an actor-oriented approach, and aimed to draw out locally-produced theories and capture concepts emerging directly from the empirical data (Atkinson & Hammersley, 2007; Charmaz, 2006; Long, 2001). The data set comprises 78 semi-structured interviews and 42 unstructured conversations, conducted with a variety of local actors. The research also draws on systematically recorded participant and contextual observation, and the collection of primary documentary data – e.g. visual data, policy documents, and local socioeconomic records. The fieldwork was carried out using the Systematic and Reflexive Interviewing and Reporting (SRIR) Method, which was developed over the course of the research project by myself in coordination with research assistants and collaborators. The SRIR method is a collaborative approach to undertaking research, which aims to co-produce data and initiate analysis through discursive practice. More specifically, ‘the SRIR method utilises semi-structured and unstructured interviews conducted by two or more researchers. After completing an interview, researchers engage in reflexive dialogue, and jointly write interview and analysis reports’ (Loubere, 2017c, p. 1). Researchers also engage in systematic observation and iterative report writing throughout fieldwork in order to create a holistic portrait of the contexts being researched. This approach allows researchers to begin the coding process while in the field and facilitates discussion as a means of initiating analysis, ‘thus facilitating critical engagement with emergent themes during fieldwork rather than afterwards’ (Loubere, 2017c, p. 1). After fieldwork I categorised all the data and imported it into the NVivo software package for further coding and analysis.

Most data were collected in three different townships, each located in a separate county in northern Jiangxi Province. Jiangxi was chosen because the province was an initial piloting site for two of the microcredit

12 Fieldwork in rural China is challenging and gaining access to the field is not always straightforward. The fieldwork for this study was facilitated through institutional and personal connections, which allowed me to live in the townships/villages for extended periods. During these stays I was able to gather the large dataset upon which this study is based. These data are rich, but come with their own set of issues that need to be thoroughly reflected upon, which I have attempted to do in a number of publications (Loubere, 2014, 2017c).

programmes being studied. Policy modelling and piloting is a crucial element in China's rural development policymaking and implementation, and pilot sites thus provide important insight into how development interventions are conceptualised, as well as realised in practice (see Chapter 3 for more details on the policy modelling process). The townships were selected because they represent distinct socioeconomic contexts, providing the opportunity to examine how government microcredit programmes function under different conditions. Interviews, observation, and documentary data collection was also conducted at the county, municipal, and province levels. I chose Jiangxi Province because it was designated as a nationwide 'model province' for microcredit provision targeting laid off workers, thus allowing for an examination of the policy modelling process at the local level in relation to government microcredit. The township was selected as the unit of analysis because it is the township-level government institutions that are responsible for the actual implementation of microcredit in rural areas. Thus, through a focus on the township it is possible to directly analyse the interpretation and implementation of policy.

I purposefully selected townships in different counties in order to analyse the distinct sets of socio-political relationships and structures of power through which implementation emerged. In addition to representing distinct contexts, the three townships also have differentiated access to formal financial services. The selection of these localities, therefore, allows for an in-depth examination of the different ways that local relationships and negotiations over policy interpretation shape implementation. It also reveals much about how implementation reflects local particularities, while simultaneously paralleling wider development ideologies and trends.

In order to ensure the anonymity of my interviewees, all data was anonymised and encrypted while in the field (adhering to the ethical guidelines of the institutions where I was based during the period of study), and I have given the three townships pseudonyms that reflect their primary economic activities: the agricultural township (AT), the migrant work township (MWT), and the diverse economy township (DET). The AT has a population of over 30,000 people and administers just under 30 villages.¹³ It is located only 60 kilometres away from a large urban centre. However there is no high-speed road connection or train line, and the roads that do exist are narrow and largely in disrepair. For this reason it takes as much as two hours to travel the distance by car, and significantly more

13 The contextual background information of the three townships presented here is based on interviews, observation reports, and documentary data collected during fieldwork.

than two hours by bus. The distance and travel times from the township to the county seat are similar. The centre of the township is small and is surrounded by flat rice-farming agricultural land, and most households are involved in agriculture. Many households also rely on remittances from migrant work, with 30 percent of the adult population working between the township and the city. Local officials estimate that the average yearly income in the township is around RMB 6,000,¹⁴ which would mean it is the second richest of the three townships after the MWT. However, based on observational data, both the township government and residents have significantly fewer resources than in the other two townships (i.e. it is the poorest of the three townships).

The MWT is located approximately 40 kilometres outside of a major urban area in northern Jiangxi, has a population of about 15,000 people, and administers five relatively large villages. The township is connected to the city by a new high-speed road, meaning that it only takes 40 minutes to travel from the township to the city centre by car and about one hour by bus (depending on the traffic). The county seat is actually further away than the city, and therefore takes slightly longer to reach. The centre of the township is substantially larger than that of the AT and the MWT is home a range of small, medium, and large stores and businesses, most of which are related to the construction of new houses and apartments in the township. Township households are highly reliant on family members going out to engage in migrant work, with the floating population fluctuating between 40 to 70 percent of working age adults. For a majority of the households there is least one person working in an urban area, and those without are often poor. Elderly residents frequently continue to farm small plots of land, but there are large tracts of unused and abandoned farmland due to the lack of young farmers. Officials estimated that the yearly per capita income in the township is RMB 7,000, which would make it the richest of the three townships. However, observational data revealed that the MWT government has significantly fewer resources than the DET government, and that most people in the DET have more money than people in the MWT. That being said, the richest residents in the MWT are wealthier than their counterparts in the DET (i.e. the MWT is more unequal).

The DET is located on a well-maintained road that connects two urban centres, both of which are approximately 40 kilometres away. It takes slightly over half an hour to travel to the city or the county by car, and about one hour in either direction by bus, with frequent departures from the

14 The official poverty line is RMB 2,300 per year (Walker & Yang, 2019).

Table 1.1 Key features of the three townships

	Agricultural Township	Migrant Work Township	Diverse Economy Township
Distance to urban area (car)	1.5-2 hours (bad roads)	40 minutes (good roads)	40 minutes (good roads)
Average income per year (official estimates)	RMB 6,000	RMB 7,000	RMB 5,000 (this estimate is contradicted by observational data)
Socioeconomic situation based on observational data	Poorest of the three townships	Poorer than the DET but richer than the AT	Richest of the three townships
Main economic activities	Rice farming Vegetable farming Contracting farmland Migrant work (30% of working adults)	Migrant work (40-70% of working adults) Local construction Industrial park	Local business Textile factories Local construction Farming Tourism Migrant work (40% of working adults)
Financial institutions	RCC	RCC ABC ATM	RCC PSBC ABC

township bus station. The township covers the largest area of the three, has the largest population with over 32,000 residents – including 1,000 migrant workers who have come to work in local factories and tea plantations – and administers 17 villages. The centre of the township is much larger than the centres in the other two townships, and is home to a diverse range of shops, businesses and restaurants of a variety of sizes. Many people in the township still engage in farm work, leaving very little unused agricultural land. Approximately 40 percent of the working age population undertakes migrant work. Officially, the township has a per capita income of only RMB 5,000 per year. However, in reality the DET is (by far) the richest of the three sites, based on observation and conversations with local officials. Table 1.1 below provides a concise summary of the socioeconomic contexts of the AT, MWT, and DET.

1.5 Book Outline

This book consists of seven chapters (including this introduction), which are organised as follows: To begin with, in order to historicise and contextualise

the financial and development landscapes that the three microcredit programmes have been embedded in, Chapter 2 starts by outlining the historical development of rural finance and microcredit in the country since the establishment of the People's Republic of China (PRC) in 1949. This is followed by a systematic review of the literature on rural financial services in China, which allows for the identification of the strengths and weaknesses in our current understanding of the nexus between financial services (and particularly microcredit), local development, and livelihoods in the Chinese countryside.

Chapter 3 begins by providing detailed historical backgrounds of the three microcredit programmes, outlining how they have been formulated at the central and provincial levels as components of overarching rural development strategies and frameworks – thereby largely adhering to the prevailing narratives and discourses defining rural development in China. This is followed by an analysis of key areas where microcredit policy has been left relatively open to interpretation, allowing for local policy experimentation. The rest of the chapter explicitly outlines how the three programmes have been implemented (or not) in each of the townships, setting the stage for an analysis of heterogeneous implementation.

Chapter 4 starts with a brief review of the literature on policy transformation and variation in local implementation, both globally and in rural China, and outlines the key ways in which heterogeneous implementation is conceptualised, particularly with regard to development policy. The chapter then turns to examine the ways in which differentiated financial landscapes – alongside a variety of exogenous and endogenous pressures and incentives – have been internalised and interpreted very differently by implementers across the three townships. This is followed by an analysis of local policy interpretation and implementation from a relational perspective, which illustrates how implementation outcomes are actually formed at the interfaces of interaction between diverse actors at different levels – producing complex and emergent results. The chapter concludes by pointing out that heterogeneous implementation is ultimately a reflection of relational dynamics at different levels, which has serious implications for the role that microcredit (or any external intervention) plays in local development strategies and livelihoods.

The beginning of Chapter 5 is dedicated to outlining the fundamental features of the linear progression development paradigm (i.e. the dominant way of understanding contemporary development), which depicts socioeconomic development as following predetermined stages, and conceptualises underdevelopment as being the result of spatial,

material, and temporal marginalisation and detachment from the 'modern' world. The chapter then goes on to outline how microcredit programmes have been envisioned as facilitating de-marginalisation and local development based on this paradigm, albeit in different ways by different actors in different places. The chapter then analyses ways in which the microcredit programmes have been perceived to deliver on these paradigmatic developmental goals – namely, by facilitating urban to rural transfers of technology, knowledge, and financial capital; creating new socioeconomic and socio-political linkages between rural and urban individuals and groups; and promoting livelihood diversification through new types of employment, local cooperation, and financial inclusion. The chapter concludes by observing that microcredit has undoubtedly had some success in contributing to certain types of de-marginalisation and socioeconomic development for some areas/actors. However, these apparent benefits have not been equally distributed across or within the three localities.

Chapter 6 starts by briefly summarising the 'alternative development' literature, which provides a critique of the dominant linear progression development paradigm and modernisation discourses outlined in Chapter 5. The chapter then goes on to show how China's rural margins and urban centres have been dichotomously mutually constituted – and are, therefore, inherently relational – necessitating the marginalisation of the countryside and certain rural actors. This is followed by an illustration of how microcredit and other development interventions implicitly reproduce (and sometimes strengthen) patterns of marginality – namely, by facilitating the diversion and extraction of resources from marginal rural areas to central urban zones; by exacerbating patterns of socioeconomic exclusion at the local level; and by aggravating already precarious livelihoods through exploitation and risk transfer. The chapter concludes by analysing how the heterogeneous implementation of microcredit (and other development interventions) ultimately reflects, magnifies, and/or transforms unequal relationships of power at different levels, hence facilitating de-marginalisation for some, while simultaneously feeding into undercurrents of marginalisation that disadvantage others.

Chapter 7 concludes the book. It outlines the key findings and provides a summary of the main arguments. The chapter ends by examining areas where future research could build on the approaches and findings in this book to further improve our understanding of microcredit and rural development in China and elsewhere.

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