

## **TO solve the problem of shortage of the reconstruction funds in 5.12 earthquake-stricken areas:**

The enlightenment comes from the successful experience of the micro-credit in Bangladesh rural areas.

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**Abstract:** In this paper, through the introduction of micro-credit model of abroad and the current development in China, combined with the successful experience of microcredit in Bangladesh, analysis the feasibility that implement the micro-credit model in the disaster areas in Sichuan Province, suggested that the state should launch a preferential policy for microfinance in disaster areas to encourage the coexistence of diverse micro-credit model, in order to promote economic rapidly recovery in the affected areas.

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**Key words:** micro-credit; Sichuan disaster areas; post-disaster reconstruction

### **1. BACKGROUND**

#### **1.1 The situation of earthquake disaster and economic recovery in rural areas**

8.0 magnitude earthquake happened in Wenchuan, Sichuan Province at 14:28 on May 12, 2008. Which affected more than 10 provinces in China, and 19 cities (states) of 21 cities(state) in Sichuan province. The damage degrees is so hard that led to the hardest hit area more than 100,000 square km, which involving 6 cities(state)、88 counties、1,204 townships, and the directly affected population reach to 27.92 million. Furthermore, serious damage to housing caused by the earthquake reached 5,932,500, collapsed houses reached 5,461,900. Many villages were razed to the ground in rural areas, infrastructure and agricultural production facilities were seriously damaged. Therefore, Wenchuan earthquake lead to the agricultural productivity declining, the normal life and productive activities of the people is serious affected, the extent of poverty further deepening and the task of post-disaster reconstruction become more difficult. Table 1 shows us the damage to the rural areas of Sichuan province.

At present, the earthquake has happened more than 1 year, and the post-disaster reconstruction work has already developed orderly and quickly. However, the ability of the post-disaster reconstruction in poverty stricken areas remains very low. Therefore, how to make the economic returns to the pre-disaster level in rural areas? How to make disaster victims continue to living under the condition that property had serious damage or no property? How to mobilize the rebuild enthusiasm of people in the disaster areas, and how to transfer the situation that supported “blood” by the state into haemogenesis by themselves? Those urgent questions should consider and resolve immediately. We through introduction of micro-credit model at home and abroad, analysis the feasibility that implement the micro-credit model in the disaster areas in Sichuan Province, and suggest that the state should launch the microfinance preferential policy in disaster areas to encourage the coexistence of diverse micro-credit model, so that the economic in the affected areas should rapidly recovery.

**Table 1 the damage of the rural areas in Sichuan province**

Damaged items	Damaged degree	Damaged items	Damaged degree
Internal village roads	22,000 kilometers	Production of greenhouse	28,682,600 square meters
Bridge	68200×10 <sup>4</sup> Block	Household biogas digesters	421400×10 <sup>4</sup>
Rural water supply facilities	411400×10 <sup>4</sup>	The collapse of livestock and poultry house	29,628,800 square meters
Drainage pipes in villages	1.27 million meters	Damage to fish ponds	6,900 hectares
Damage of the agricultural machine or apparatus	94200 ×10 <sup>4</sup> sets	Need to repair the damaged farmland	93,000 hectares

**Source:** (1) Agriculture department in Sichuan province. Aba agricultural disaster reports about “5.12”WenChuan earthquake. Sichuan agricultural information network. 2008-05-21

(2) .Qiu Baoxing. Compilation of reconstruction plans. China Building Industry Press, 2009. P<sub>98-112</sub>.

**1.2 Micro-credit at home and abroad**

Micro-credit originated in the late century of 20<sup>th</sup>, and the beginning is an experiment which proceed by Muhammad Yunus Professor in Bangladesh. Microcredit refers to a special credit service, which provide loan capital and comprehensive technical service to low-income and vulnerable groups through credit institutions <sup>[1]</sup>. Usually, main characteristic of micro-credit including the small amount、 short deadlines 、 payments and without collateral, etc<sup>[2]</sup>.

August 1976, Yunus, who is the Economics professor at the Chittagong University in Bangladesh, used his own property as guarantee, loaned to the poor as the same interest rate as the local banks, and achieved a good result. In 1983, Yunus successfully persuaded the Finance Minister to convene a conference for governor of the bank, suggested that to set up a Grameen Bank by the central bank and

government funding agencies together. This successful model of micro-credit in rural is a system innovation of financial services, which successfully resolved the long-standing credit problem for the poor that does not solve by the formal financial institutions. Therefore, this microfinance model of Bangladesh becomes very popular around the world, especially widely emulated and learned by Asia, Africa, Latin America and other developing countries. In the development of micro-lending process, these developing countries accorded to their actual situation, explored a model of credit that suited to their national conditions, and achieved remarkable results. The most successful model among them is the Rural Credit Department of Indonesia; BancoSo1 of Bolivia; Agriculture and Rural Cooperative Banks of Thailand; International Community Foundation, etc. Table 2 and Table 3 show us the success microfinance institutions and patterns.

**Table 2 micro-credit model and its classification at home and abroad**

Classification (by operation of institutions)	Some state and Pattern
Non-governmental organizations	Dominican Republic (ADOPEM), Kenya (K-REP), Bangladesh (ASA)
Formal financial institutions	Indonesia(BRI), Mexico(CFN), Agricultural Cooperative Bank of Thailand (BAAC)
Credit Union	World Council of Credit Union (WOCCU) 、Asian Federation of credit unions (ACCU)
Organization or a branch of the member countries	Caribbean( ACCION), Latin America and Africa(FINCA)

Source: (1)Du XiaoShan,Liu Wenpu ,etc. Principles and operation of microfinance [M].Shanghai: Shanghai Finance Press, 2001(01).

(2) Ou Yongsheng,Bangladesh micro-credit to China[J]. Northern economy, 2007(03).

**Table 3 the success of foreign micro-credit model**

State	Bangladesh	Indonesia	Bolivia
<b>Well-known model</b>	Grameen Bank (GB)	BRI	BancoSol
<b>Established time</b>	1983	1895	1922
<b>Service groups</b>	The poorest farmers (mainly lending to women)	Low-income people who have ability to repay, in the rural areas	Provide small or medium-sized companies with business credit or investments service
<b>Funding resources</b>	Government low - interest loans; international loans; international donors	Savings	donors; commercial loans; commercial deposits
<b>Operating characteristics</b>	repayment in 50 weeks; Center system; group system; Sub - Fund guidance; membership	Collateral	Shared responsibility together
<b>Interest rates</b>	Higher than normal interest rates on bank loans	Determined by savings amount or commercial rates	Commercial rates
<b>Repayment rate</b>	99%	96%	98%

Source: (1) Du XiaoShan,Liu Wenpu ,etc. Principles and operation of microfinance [M].Shanghai: Shanghai Finance Press, 2001(01).

Form above tables, we can see that these countries choose the different micro-credit model of Bangladesh to address poverty issues in accordance with their own national conditions and the characteristic of service group. These flexibility and innovation model continue to explore improvements in practice and on a path of sustainable development in the end. This reminded us that we can not copy the model of micro-credit in Bangladesh if we implement micro-credit in Sichuan rural areas. we should be

under the guidance of micro-credit and associated with the actual situation of the rural areas to implement the corresponding model and policy loans.

From 1993 when Chinese firstly introduce the microcredit model to now, it has already 31 provinces (autonomous regions and municipalities) used of microfinance, about 105 new type rural financial institutions allowed to open, get initial results that introduce the capital of city to rural areas and remain the rural funds

in the rural, finally the financial markets of rural be activated.

In accordance with the actual situation and the regional financial market development in China, every province continual to innovate the variety of credit models. But from the overall point of view, there are about four categories micro-credit models in China: □micro-credit model which carry out by the Government such as Poverty Alleviation Funds; □ micro-credit model which organized by international donors such as the non-governmental organizations; □micro-credit which provided found by rural credit cooperatives and other formal financial institutions; □micro-credit which set up by the private company. From the support point of view, it has set up the poverty alleviation loans、laid-off workers secured loans, student loans and other forms of micro-credit. However, there hasn't the micro-credit model which specifically for the affected areas in China. Therefore, how to combination the disaster alleviation funds with the micro-credit in rural areas? How to improve the utilization of disaster alleviation funds? How to help the poor people in the disaster areas to mobilize the enthusiasm of post-disaster reconstruction and maximize the effect of helping the poor as well become the new development tasks of the financial market in disaster rural areas, Sichuan province.

All kinds of micro-credit model in China is good for the disaster rural areas, and provided the value experience to these place, in where we can raise funds by implemented the varies micro-credit models when the post-disaster reconstruction and achieve the development of the western rural areas.

## **2. THE FEASIBILITY OF IMPLEMENTING THE MICRO CREDIT IN CHINA**

### **2.1 The house of microfinance in Sichuan disaster area.**

From the target beneficiaries of micro-credit, their homes and property has been lost, if they loan through the regular bank, those banks would refused them because of the problem of credit guarantees and bank profits. Furthermore, the type of government's assistant would not only increase government's financial burden, but also lead to people's psychological dependence on the government. Therefore, if we use the micro-credit experience of Bangladesh--without mortgage interest rates but higher than the regular way for reference, which not only can be accepted by victims, but also can increase their enthusiasm of rebuild homes, strength the strength of post-disaster reconstruction, improve the utilization ratio of disaster relief money, so that the rural financial market would much stronger as the progress of reconstruction.

### **2.2 Sichuan disaster area has micro credit experience.**

The micro credit model was introduced in China, Sichuan, Shaanxi, Guizhou were designated as the first microfinance pilot project. United Nations Development Program implement the micro-credit project in YiLong and 6 counties in Sichuan northwest (Maoxian, Blackwater, Songpan, DaoCheng, XiangCheng and Batang) in 1996; Sichuan Province began to pursue small credit on farmers in 1999; April 2006, " QuanLi loans Company " officially launched in Guangyuan City in Sichuan Province, which followed Ji Yuan Tai in Shanxi province, Rui Sheng Long in Shanxi province, become the third small business lending company.

As we can see, it has already established the maturity experience of micro-credit in Sichuan disaster areas, especially in the northwest part of Sichuan, for example Maoxian, Heishui County, Songpan County, Pingwu County, Hanyuan County and so on. Therefore, micro-credit will be easily accepted by the local people, and needn't spend a lot of manpower and money to propagate. In addition, in the light of past

experience, it can be avoided much repeated failures.

### **2.3 There are many talents are good for putting micro credit into practice in the Sichuan disaster areas.**

It will increase many jobs if we implement micro-credit in Sichuan disaster areas, and the state can encourage the college graduates especially graduates students in Sichuan province to go down to the grass-roots units in China western. Because the Sichuan disaster areas need to introduce a considerable number of talented people when the state implement the policy of micro-credit. The reason why Bangladesh's microfinance will be very successful is that the perpetrators is Yunus Professor and his talented students, and the reason that many countries and regions were failed to implement the micro-loans is shortage of talents. If the state associates the micro-credit with the employment of university students, it not only can solve the problem of employment, but also can make use of the wisdom of the graduate students and promote them to innovate the micro-credit model.

### **2.4 The support of government policy.**

2008 was a troubled year, following the Wenchuan earthquake, the world financial crisis engulfed the entire capitalist world, the post-disaster reconstruction, business failures, a large number of the unemployed, and these problems have greatly increased the burden of finance. Therefore, How to maximize use of the limited funds to give full play to the human potential? How to mobilize the enthusiasm of people in the post-disaster reconstruction is to be the most concern of the government. It is said that "delegate to the fish, it is better to delegate to fish". Actually, micro-credit is the best way that taught people how to fish, how to develop and how to product, so that Government's welfare relief change into the development relief.

## **3 SOME SPECIFIC SUGGESTIONS**

China has carried out various forms of micro-credit, but it's the first time that in accordance with the existing situation of post-disaster reconstruction. So how to avoid the failure of small loans, how to make such a new thing (micro-credit) growth rapidly in the affected areas and achieve sustained development is our common concern. The following is my some suggestions.

By and large, it should be adhere to two principles: "three expansion" and "three stages" when we implement the policy of micro-credit. "three expansion" is "expand the contents, expand the support degree and expand the scope of the implementation", that so called "three stages" is "the pilot and extension phase, restructuring phase and the coexistence of diverse stage". Specifically, it can be done from the following aspects:

### **3.1 The pilot and extension phase**

Micro-credit as a way to help the poor is a system innovation, if we want to achieve such a system-induced change, we can't without government's support, or it will fail, especially in the initial stage. But it isn't said that this government's support is the public welfare relief, it should be more concerned about the capacity of self-relief or self-help of people in the disaster areas. Therefore, this stage is also known as mixed that associate the Government guidance and support with development.

Judging from the successful experience at home and abroad, we can see that whichever new system will go through form the small-scale trials to the large-scale promotion. Not only need to choose the different disaster-stricken areas as pilots, but also need to sum up and accumulate the experience when implement the micro-credit, we can consider largely from the following aspects.

- (i). target group: the people in rural areas without collateral.
- (ii).funding sources: earthquake has caused the property lost in many places, so it can not be

collect funds from the local deposits, that need the government invest funds as primitive capital. When the business opened, the micro-lending institutions can raise funds through the way that attract the international anti-poverty projects, loans to other banks, accept international donors and so on. However, at this stage it is not good for conducting to encourage the credit institutions to deposits. There are two reasons: one reason is that micro-credit institutions do not belong to formal financial institutions, so they do not have the right to deposits in the initial stage, the other reason is that it is possible to create certain chance for institutions or individuals to take advantage of micro-credit, because of the unperfected places of micro-credit in the first stage.

(iii) interest rates: micro-credit is a interest loan which is the most fundamental point that different from the unpaid help ways. Therefore, the state should implement the interest rate policy in the affected areas, and the interest rates must be higher than the normal lending rate. Because from the perspective of economic, benefits is bound to risk, high returns come from high-risk. Furthermore, most affected areas are in remote mountainous areas and people lived scattered, the credit number is small but the management and transaction costs very high, if the interest rates is low or zero, it will discourage the enthusiasm of operations and micro-credit will disappear very soon. In addition, as affected by traditional, the majority of people think that the national micro-credit loans are actually a form of reimbursement and need not to pay interest. The phenomena that only loan but not return in disaster areas if he interest rates is zero or very low at beginning. Certainly, the state can gave support through the way that reduce the sales tax and the other various tax.

(iv) the admissibility of business: housing construction loans, production loans (such as breeding, cultivation), schooling loans, skills

training loans, Start-up loans.

(iv) risk prevention: □ group mutual supervision system. In light of Bangladesh microfinance model to provision 8-10 unrelated lenders voluntary to form a group and the group members mutual supervision. □ charge with insurance money when give out loans. □ payment by installments. □ establish the credit information systems, Which including the repayment record, economic status, repayment ability, etc. □ the state establish the micro-credit insurance fund from the annual post-disaster reconstruction found, in order to reduce the micro-credit risk.

In addition, credit institutions need to streamline the transaction process and transaction process, because in rural areas, many people are limited by the level of education, the simplification of trade procedures will save transaction time and cost, easily accept by customs.

### 3.2 Restructuring phase

When the microfinance industry developed to a certain extent that need to reform, government should bow out of the credit market, give full respect and autonomy of the operations to credit institutions. So that micro-credit lending institutions can determine their custom object, amount, duration, amount by them. This stage, micro-credit institutions need to introduce market mechanisms and modern corporate governance structure and management model, in order to achieve sustainable development.

(i) expand the target groups. Micro-credit institutions should not be limited only to productive loans, they can expand the type and area of credit in accordance with the consumer model, such as increasing employment and re-employment loans, agricultural loans, start-up loans.

(ii) collateral. At this stage, people in disaster areas have house and part of property, so micro-credit institutions can allow collateral to increase the loan amount.

(iii) expand the scope of business. Credit institutions that good for operators and high credit rating may authorize the right of deposits. there are two reasons, on the one hand, credit institutions can expand sources of funding; on the other hand, it can help people who in the disaster areas understand that savings is one of the means of capital accumulation and thus establish people 's concept of financial management.

(iv) adjust the interest rate. Government no longer support and interference in the development of micro-credit after introduction the market mechanisms, therefore microfinance institutions need to order the interest rate that can make up for operating costs and inflation, in order to achieve profitability and long-term development.

(iv) risk prevention. In addition to establishing the credit system and risk reserves, credit institutions need to start from the following areas to reduce risk: □encourage people in the disaster areas to savings and loans interest rates based on their deposits, so that the scope of collection would expand and the ability to resist risks could enhance. □micro-finance + insurance. That is cooperation with local insurance companies and imposition of a certain percentage of premiums for every lender. This way can reduce the security pressure of guarantor, at the same time reinforce the repayment. □establish the borrower information network with other financial institutions, so that the effective tracking system can detect non-performing loans timely when the phenomenon that loaners borrow only but do not back happens.

(vi) adjust the period of repayment reasonably. Due to the growth characteristic of crops, the growth cycle of economic crop is generally between 1-3 years, the earnings period of aquaculture is 1-3 years after. If microfinance institutions fix the repayment period mandatory that will lead to many people in the disaster

areas loss of many opportunities to get rich due to lack of funds. Therefore, micro-credit institutions can adjust the period of repayment according to different situation.

### 3.3 The coexistence of diverse stage

When the development of rural financial markets mature, a variety of credit institutions will coexist and participate in competition freely, so that all kinds of finance institutions can play their respective advantages and settle the problem of shortage of funds together in the process of post-disaster reconstruction, in order to the rural market more prosperous.

If the micro-credit institutions which established and supported by government want to successfully share the market with commercial credit companies, they need to provide customers with good financial services and relevant technical or information services, achieve the goal of supporting credit services. At the same time, micro-credit institutions also need to create some new innovative models, such as " company+ industrialization of agriculture+ credit institutions " which means credit institutions loan money to the company, the company responsible for technical guidance to farmers and marketing, and farmers responsible for planting and breeding, then the company regularly repayment. In addition, credit institutions can guide people in the disaster areas to invest and establish their financial management.

In short, to implement micro-credit policies in rural areas in Sichuan can mobilize the affected people's enthusiasm of rebuild their homes, increase their ability of self-development and stimulate their inherent power and potential, so that they can from the object of the relief become the main body and improve the efficiency of reconstruction funds continuously.

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