

**Microcredit in Rural China**  
**Implementation, Development and Livelihoods**

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The candidate confirms that the work submitted is his/her own, except where work which has formed part of jointly-authored publications has been included. The contribution of the candidate and the other authors to this work has been explicitly indicated below. The candidate confirms that appropriate credit has been given within the thesis where reference has been made to the work of others.

The work in Chapter 2, and some sections of Chapter 1 and Chapter 3 has drawn substantially on the historical background, review of the literature and conceptual approaches that have appeared in publication as follows:

- Zhang, H. X., & Loubere, N. (2013). Rural Finance, Development and Livelihoods in China. *Duisburg Working Papers on East Asian Studies*, (94), 1–28.
- Zhang, H. X., & Loubere, N. (2015). Rural Finance and Development in China: The State of the Art and Ways Forward. In H. X. Zhang (Ed.), *Rural Livelihoods in China: Political Economy in Transition* (pp. 151–174). London and New York: Routledge.
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I was responsible for conducting the historical reviews, reviews of the literature and preliminary analyses, and I also wrote the first drafts of all three outputs listed above. The drafts were then revised by Heather Xiaoquan Zhang (the co-author/supervisor), before being jointly finalised.

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Any errors are, of course, mine and mine alone.

## Abstract

Since the initiation of economic reforms in the late 1970s, China has undergone a radical socioeconomic transition, characterised by unprecedented economic growth and poverty reduction, but also rapidly increasing inequality – particularly between rural and urban areas. In recent years this uneven development has been increasingly perceived as a threat to ‘harmonious’ development, and the central government has prioritised the de-marginalisation of the countryside. Key to this development agenda is the incorporation of rural areas into the urban-based market-oriented financial system. For this reason, Chinese development planners have turned to microcredit – i.e. the provision of small-scale loans to ‘financially excluded’ rural households – as a means of increasing ‘financial consciousness’ and facilitating rural de-marginalisation. Drawing on a large original qualitative data set collected during in-depth ethnographic fieldwork in rural Jiangxi Province, this Ph.D. dissertation employs an actor-oriented livelihoods approach to address the question: What role do microcredit programmes play in local processes of socioeconomic development and the livelihoods of diverse local actors? By examining this overarching research question, this study makes a number of original contributions to current understandings of, and debates over, the nexus between microcredit, development and livelihoods in rural China and beyond. First, the research outlines how the heterogeneously implemented microcredit programmes must be understood as emerging from locally (re)produced processes, rather than the inevitable result of top-down causality. Second, the dissertation details how microcredit facilitates de-marginalisation for some, while simultaneously exacerbating the marginalisation of others – thereby contributing to our understanding of the multifaceted, non-linear and relational nature of external ‘impact’. Finally, this study exposes the ways in which external interventions (such as microcredit) reflect the contradictions and paradoxes implicit in rural China’s contemporary development landscape, thereby contributing to wider debates over the nature of rural development in China and other ‘developmental’ contexts.

**Keywords:** China; Rural Development; Microfinance; Microcredit; Financial Inclusion; Marginalisation; Neoliberalism; Actor-oriented Approach; Relational Approach; Livelihoods

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## Acronyms

<b>Acronym</b>	<b>Full Term</b>	<b>Chinese</b>	<b>Pinyin</b>
ABC	Agricultural Bank of China	中国农业银行	<i>Zhongguo nongye yinhang</i>
ADBC	Agricultural Development Bank of China	中国农业发展银行	<i>Zhongguo nongye fazhan yinhang</i>
ARDY	Association for Rural Development of Yilong	仪陇县乡村发展协会	<i>Yilongxian xiangcun fazhan xiehui</i>
AT	Agricultural Township	N/A	N/A
BoC	Bank of China	中国银行	<i>Zhongguo yinhang</i>
CAM	China Association of Microfinance	中国小额信贷联盟	<i>Zhongguo xiao'e xindai lianmeng</i>
CASS-RDI	Chinese Academy of Social Sciences – Rural Development Institute	中国社会科学院 – 农村发展研究所	<i>Zhongguo shehui kexueyuan – nongcun fazhan yanjiusuo</i>
CBRC	China Banking Regulatory Commission	中国银行业监督管理委员会	<i>Zhongguo yinhangye jiandu guanli weiyuanhui</i>
CCB	China Construction Bank	中国建设银行	<i>Zhongguo jianshe yinhang</i>

CCP	Chinese Communist Party	中国共产党	<i>Zhongguo gongchandang</i>
CFPA	China Foundation for Poverty Alleviation	中国扶贫基金会	<i>Zhongguo fupin jijinhui</i>
CXYTH	Urban-Rural Integration	城乡一体化	<i>chengxiang yitihua</i>
DET	Diverse Economy Township	N/A	<i>N/A</i>
EMP	Employment Microcredit Programme	下岗失业再就业小额担保贷款	<i>xiagang shiye zaijiu ye xiao'e danbao daikuan</i>
FC	Farmer Cooperative	农民专业合作社	<i>nongmin zhuan ye hezuoshe</i>
FPC	Funding the Poor Cooperative	北京市农发扶贫基金会	<i>Beijingshi nongfa fupin jijinhui</i>
ICBC	Industrial and Commercial Bank of China	中国工商银行	<i>Zhongguo gongshang yinhang</i>
MCA	Ministry of Civil Affairs	民政部	<i>minzhengbu</i>
MFI	Microfinance Institution	小额信贷机构	<i>xiao'e xindai jigou</i>
MLC	Microloan Company	小额贷款公司	<i>xiao'e daikuan gongsi</i>
MoA	Ministry of Agriculture	农业部	<i>nongyebu</i>
MoF	Ministry of Finance	财政部	<i>caizhengbu</i>

MoFCOM	Ministry of Commerce	商务部	<i>shangwubu</i>
MoHRSS	Ministry of Human Resources and Social Security	人力资源和社会保障部	<i>renli ziyuan he shehui baozhangbu</i>
MoLSS	Ministry of Labour and Social Security	劳动和社会保障部	<i>laodong he shehui baozhangbu</i>
MWT	Migrant Work Township	N/A	<i>N/A</i>
NGO	Non-Governmental Organisation	非政府组织	<i>fei zhengfu zuzhi</i>
NPO	Non-Profit Organisation	非营利组织	<i>fei yingli zuzhi</i>
PAMP	Poverty Alleviation Microcredit Programme	国家扶贫贴息贷款	<i>guojia fupin tiexi daikuan</i>
PAO	Poverty Alleviation Office	扶贫办公室	<i>fupin bangongshi</i>
PBC	People's Bank of China	中国人民银行	<i>Zhongguo renmin yinhang</i>
PRC	People's Republic of China	中华人民共和国	<i>Zhongguo renmin gongheguo</i>
PSBC	Postal Savings Bank of China	中国邮政储蓄银行	<i>Zhongguo youzheng chuxu yinhang</i>

PSRB	Postal Savings and Remittance Bureau	邮政储汇局	<i>youzheng chuhuiju</i>
RCC	Rural Credit Cooperative	农村信用社	<i>nongcun xinyongshe</i>
RCCMP	Rural Credit Cooperative Microcredit Programme	农户小额信用贷款	<i>nonghu xiao'e xinyong daikuan</i>
RCF	Rural Cooperative Foundation	农村合作基金会	<i>nongcun hezuo jijinhui</i>
RCT	Randomised Control Trial	随机对照试验	<i>suiji duizhao shiyan</i>
RMCC	Rural Mutual Credit Cooperative	村镇资金互助社	<i>cunzhen zijin huzhushe</i>
ROSCA	Rotating Savings and Credit Association	互助会 / 标会 / 做会 / 呈会	<i>huzhuhui/biaohui/zuohui/chenghui</i>
RRA	Rapid Rural Appraisal	N/A	<i>N/A</i>
SETC	State Economic and Trade Commission	国家经济贸易委员会	<i>guojia jingji maoyi weiyuanhui</i>
SME	Small and Medium Enterprise	中小型企业	<i>zhongxiaoxing qiye</i>
SOE	State-owned Enterprise	国有企业	<i>gouyou qiye</i>

TVE	Township and Village Enterprise	乡镇企业	<i>xiangzhen qiye</i>
VTB	Village and Township Bank	村镇银行	<i>cunzhen yinhang</i>
XNCJS	Construction of a New Socialist Countryside	社会主义新农村建设	<i>shehuizhuyi xinnongcun jianshe</i>



### Glossary of Chinese Terms

<b>Pinyin</b>	<b>Chinese</b>	<b>English</b>
<i>bainian guochi</i>	百年国耻	Century of humiliation
<i>bao</i>	报	Reciprocity
<i>chai xi qiang, bu dong qiang</i>	拆西墙，补东墙	Destroying the west wall to build the east wall
<i>chaxu geju</i>	差序格局	The differential mode of association
<i>chengshi shouxin</i>	诚实守信	Honest and trustworthy
<i>chengzhongcun</i>	城中村	Urban village
<i>cun</i>	村	Village
<i>da yuejin</i>	大跃进	Great Leap Forward
<i>danbaoren</i>	担保人	Guarantor
<i>danwei</i>	单位	Work unit
<i>daxuesheng cungan</i>	大学生村官	Student cadre
<i>Deng Xiaoping lilun</i>	邓小平理论	Deng Xiaoping theory
<i>dianxing jingyan</i>	典型经验	Model experience
<i>dibao</i>	低保	Minimum living standard guarantee
<i>diya</i>	抵押	Collateral
<i>fali</i>	法理	Law and reason
<i>fanxiang nongmingong</i>	返乡农民工	Returning migrant workers
<i>fuchi pinkun cun</i>	扶持贫困村	Poverty-stricken village
<i>gaige kaifang</i>	改革开放	Reform and opening
<i>ganbu zeren zhidu</i>	干部责任制	Cadre Responsibility System

<i>ganjue</i>	感觉	Feeling
<i>ganqing</i>	感情	Human feeling
<i>genju shiji qingkuang</i>	根据实际情况	Based on actual/local conditions
<i>gongxiao hezuoshe</i>	供销合作社	Supply and marketing cooperatives
<i>gua paizi danwei</i>	挂牌子单位	Hanging sign work unit
<i>guanxi</i>	关系	Social connection
<i>guanxi wang</i>	关系网	Social networks
<i>guojia baqi fupin gongjian jihua</i>	国家八七扶贫攻坚计划	8-7 national poverty reduction programme
<i>guojia fagaiwei</i>	国家发改委	National Development and Reform Commission
<i>guoqing jueding</i>	国情决定	National conditions
<i>guoyou qiye gaige</i>	国有企业改革	Reform and privatisation of SOEs (mainly in the late 1990s)
<i>hexie shehui</i>	和谐社会	Harmonious society
<i>Huizhou</i>	徽州	Huizhou region straddling southern Anhui Province and northern Jiangxi Province
<i>Huizu</i>	回族	Hui ethnicity
<i>hukou ben</i>	户口本	Household registration documents
<i>jia he wanshi xing</i>	家和万事兴	Harmonious familial relations
<i>jiao</i>	角	RMB 0.1
<i>jiating lianchan chengbao zerenzhi</i>	家庭联产承包责任制	Household Responsibility System
<i>jin</i>	斤	0.5 kilograms

<i>kexue fazhan guan</i>	科学发展观	Scientific development concept
<i>laobaixing</i>	老百姓	Regular people
<i>liangguan suo</i>	粮管所	Grain management office
<i>lishang wanglai</i>	礼尚往来	Reciprocity
<i>lisu</i>	礼俗	Rituals and customs
<i>mamu</i>	麻木	Numbness
<i>meiyou wenhua</i>	没有文化	Uncultured/backward
<i>mu</i>	亩	Land measurement (1/15 of a hectare)
<i>nengli</i>	能力	Ability
<i>nengren</i>	能人	Capable person
<i>nongcun</i>	农村	Rural areas
<i>nongmin</i>	农民	Farmers
<i>nongye</i>	农业	Agriculture
<i>nongye jishu zhan</i>	农业技术站	Agricultural technology extension station
<i>putonghua</i>	普通话	Mandarin Chinese
<i>rang yibufen ren xian fu qilai</i>	让一部分人先富起来	Let some people get rich first
<i>rende xiandaihua</i>	人的现代化	Humanistic modernisation
<i>renmin gongshe</i>	人民公社	People's commune
<i>sange daibiao</i>	三个代表	The three represents
<i>sannong wenti</i>	三农问题	Three rural issues
<i>shan gao huangdi yuan</i>	山高皇帝远	The mountains are high and the emperor is far away
<i>shangfang</i>	上访	Petition a higher level of government

<i>shang you zhengce, xia you duice</i>	上有政策、下有对策	The centre has policies, local areas have counter policies
<i>shehui zhuyi shichang jingji</i>	社会主义市场经济	Socialist market economy
<i>shengchan dadui</i>	生产大队	Production brigade
<i>shengchan dui</i>	生产队	Production team
<i>sige xiandaihua</i>	四个现代化	The four modernisations
<i>suzhi</i>	素质	Quality
<i>tianrang zhibie</i>	天壤之别	The difference between the earth and the sky (worlds apart)
<i>wenhua dageming</i>	文化大革命	Cultural revolution
<i>xian guan buru xian guan</i>	县官不如现管	The governor of the county has less power than one's direct supervisor
<i>xianpin aifu</i>	嫌贫爱富	Suspicious of the poor but loves the rich
<i>xiaokang shehui</i>	小康社会	Well-off society
<i>xibu dakaifa</i>	西部大开发	The campaign to open up the west
<i>xinli</i>	心理	Mentality
<i>xinxing nongcun hezuo yiliao</i>	新型农村合作医疗	New cooperative medical system
<i>yindi zhiyi</i>	因地制宜	In accordance with local conditions
<i>yishi</i>	意识	Consciousness
<i>youdian daomian</i>	由点到面	Proceeding from point to surface (policy modelling)
<i>zhangshu</i>	樟树	Camphor tree

<i>zhen/xiang</i>	镇 / 乡	Township/town
<i>Zhongguo</i>	中国	China
<i>zhonghua xiangyan</i>	中华香烟	Zhonghua cigarettes
<i>zhongyang yihao wenjian</i>	中央一号文件	Number one central document
<i>zirancun</i>	自然村	Natural village
<i>zutang</i>	祖堂	Ancestral hall

## Note on Language, Currency Units and Referencing

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

Currency amounts are either provided in United States Dollars (USD) or Chinese Yuan (RMB). As of July 2015 USD 1.00 = RMB 6.21.

The dissertation 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 dissertation uses footnotes to reference the primary interviews, conversations and observational data that form the basis of this ethnographic study. Interviews and conversations have been assigned a number and can be found in the References (just before the Bibliography), along with a list of the different types of observational data collected during fieldwork.

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

## Chapter 1 Introduction

I turned onto the road and was greeted by two rows of identical newly-built three-story buildings facing each other. This was the most recent housing development in the township – a tract of dusty inhabitation reclaimed from the green of the rice paddies that still dominated the landscape, extending as far as the lush hills in the distance where agricultural instead manifested itself as a hodgepodge of gnarled tea and fruit trees. My research assistant and I were attempting to systematically chart the socioeconomic distribution of households in the township centre in order to select research participants from different strata of society, and we both breathed a sigh of relief when we saw that this final ‘neighbourhood’ was essentially homogeneous, making our mapping exercise significantly easier than it had been up until that point. Aside from a few of the more ostentatiously large mansions owned by the very richest residents in the other parts of the township, these were the nicest houses, and this new development was obviously the most desirable place to live in town. All the buildings had been constructed within the last seven years in the ‘traditional’ style of the Huizhou region (*Huizhou* 徽州) as mandated by the county government in order to attract tourists, and they looked airy, clean and tidy. They all had a place for a business on the ground floor and a spacious two-story living area above. Almost all the households were engaged in entrepreneurial activity, primarily selling ‘high-value’ products from urban areas – such as jewellery, musical instruments, or fashionable clothes and shoes – in well-presented shops. This, I thought, was a potentially effective way to preserve tradition in the face of rapid economic growth, out-migration and *in situ* urbanisation, which had resulted in the widespread adoption of ‘modern’ modes of existence in rural China.

However, as we continued our walk down the newest street in town, there was, quite suddenly, a break in the uniform row of buildings to our left. Standing in this void was an ancient camphor tree (*zhangshu* 樟树) at the centre of a newly-built stone plaza. I asked my research assistant why this tree had not been removed during the construction of the new houses, and was told that every village has a camphor tree (sometimes hundreds of years old) that serves as a protective spirit for the village residents,



especially the children. Therefore, it would have been bad luck to cut down the tree. As I contemplated this display of ‘real’ tradition side-by-side with the ‘reproduced’ tradition appropriated by the modern Huizhou constructions, I noticed a small dirt track running behind the tree and leading to a disorganised grouping of smaller houses in the shadow of the new neighbourhood and obscured from view. These houses, while possessing many of the same Huizhou stylistic features as their newer counterparts, were much older, in varying states of disrepair and far from homogeneous. Some of the houses were constructed of mud bricks and seemed to date back to the 1960s and 1970s. Others were very old traditional houses built during the early 20<sup>th</sup> century, and still others were concrete houses built during the 1980s and 1990s. My research assistant looked at me with an expression of resignation and acceptance. It was only early afternoon, but we were already exhausted from hours of walking around under the mid-summer sun in temperatures nearing 40 degrees Celsius. However, with a whole new neighbourhood consisting of the full range of different types of household to map, and probably even some household types we had not encountered in other parts of the township, there would be no early finish that day. “Come on” I said smiling as I wiped the sweat from my forehead and took out my phone to take a picture, “you didn’t really think it was going to be that easy did you?”

**Figure 1.1:** View of the New Huizhou-style Housing Development from a Rice Paddy



## 1.1 Contested and Paradoxical Rural Development in China

At this point, most readers are probably quite rightly asking themselves why I have decided to open a Ph.D. dissertation on microcredit in rural China by recounting the difficulties of socioeconomic mapping in a single township. While this short anecdote is, admittedly, not specifically related to the topic of microcredit, it does provide a brief glimpse into the complex, contradictory and paradoxical 'story' of socioeconomic transformation in contemporary rural China. The processes underpinning these patterns of development and change – which are, in actuality, the central concern of this study – are difficult to 'pin down', as they consist of a multitude of competing narratives and interpretations. At first glance, these developmental processes often appear deceptively homogenous, leading many to believe that they can clearly identify generalisable patterns, trends, variables and determinants, and, in so doing, track linear causation and make universalist statements about the nature of China's rural development. However, in reality, just under the surface there often exist countertrends, contradictions and unforeseen/unintended transformations and consequences, all of which lead to unavoidable paradoxes, which are then reflected and reproduced by external development interventions, such as microcredit.

Of course, this same observation could be made in relation to the vast majority of research on any social process in any context at any point in history. However, the extraordinarily rapid rate of socioeconomic development and change in rural China over the past three and a half decades has, undoubtedly, magnified these developmental contradictions, thus making them both more visible and also more difficult to accurately depict. Indeed, while there is some sort of consensus with regard to the enormity of change in rural China – with most everyone agreeing that “compared with the 1970s, the current situation is like the difference between the earth and the sky (*tianrang zhibie* 天壤之别).”<sup>1</sup> This transformation is understood and portrayed in dramatically different ways by different people and groups. For many, rural China – particularly the rural China characterised by the uniform rows of modern/traditional houses described above – is a shining example of the type of beneficial progression that can be achieved through economic liberalisation and the devolution of

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<sup>1</sup> Interview 56.

responsibility to rural households (K. X. Zhou, 1996). This view sees rural development and modernisation as the result of socioeconomic demarginalisation, brought about by integrating rural people and places into 'modern' China's market-oriented economic system and, more broadly, the global capitalist economy through inclusive and participatory practices.

After all, China's unrivalled economic growth since the introduction of the Reform and Opening policies (*gaige kaifang* 改革开放) at the end of the 1970s has meant that rural household incomes have, on average, grown at over six per cent 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 (S. Wang, 2013; Yao, 2000; Yeh, O'Brien, & Ye, 2013). 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."<sup>2</sup>

On the other hand, competing narratives also proliferate – espoused by those experiencing life in rural China, as well as in research and public discourse. Indeed, some of the most marginal and vulnerable households in the townships where I did fieldwork – such as those living in the mud brick houses mentioned above – pointed out that the shift towards 'market socialism' and the inevitable commercialisation (or neoliberalisation) 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

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<sup>2</sup> Interview 30.

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?”<sup>3</sup>

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 (Bislev, 2010; Sanders, Chen, & Cao, 2007; Schak, 2009; Unger, 2002b). 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). Unsurprisingly, this has resulted in rapidly increasing inequality between rural and urban areas, as reflected in the national Gini coefficient, which is frequently estimated to be over 0.5 (indicating extreme income inequality), and highlighted by the fact that average urban incomes are now three times larger than those in rural areas (J. Chen, Dai, Pu, Hou, & Feng, 2010; S. Li & Sicular, 2014; Thøgersen, 2011; Yeh et al., 2013). This disparity within rural areas and between rural and urban China has, unsurprisingly, caught the attention 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* 三农问题),<sup>4</sup> which have served as the impetus for the formulation of a number of overarching (and often overlapping) policy frameworks, such as the Construction of a New Socialist Countryside (*shehuizhuyi xinnongcun jianshe* 社会主义新农村建设, hereafter XNCJS) and Urban-Rural Integration (*chengxiang yitihua* 城乡一体化, hereafter CXYTH), which (paradoxically) largely aim to de-marginalise rural areas and people through further integration into the urban-based

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<sup>3</sup> Interview 59.

<sup>4</sup> The term *sannong wenti* refers to development problems related to a lack of support for agriculture (*nongye* 农业), and increasing marginalisation of rural areas (*nongcun* 农村) and farmers (*nongmin* 农民), particularly in relation to more prosperous urban areas. For more detailed discussions on these issues see (Christiansen & Zhang, 2009; H. X. Zhang, 2009b).

market system that resulted in their more extreme marginalisation in the first place.

In this way, 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, nevertheless, each seek to claim hegemony as dominant depictions of China’s rural development trajectory, thereby gaining more influence in guiding the country’s direction going forward. Indeed, 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 ‘first world’ power with dramatically improved rural living standards, or 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, rather than consisting of a clear storyline, the country’s rural development story is, in actuality, characterised by messiness. 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, and 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, therefore, 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**

Of course, this paradoxical simultaneous co-production (and mutual constitution) of development and underdevelopment is not unique to China, and critical theorists have pointed out that it is a necessary feature of the contemporary development paradigm, particularly with the rise of a more ideologically neoliberal understanding of how development should proceed over the past few decades – both in China and globally (see Chapter 6 and Chapter 7) (Escobar, 1995). Therefore, the same fundamental contradictions underpinning China's rural development since the reform and opening outlined above 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. Indeed, since its popularisation in the 1970s (i.e. 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 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).<sup>5</sup> 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 being 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 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’).<sup>6</sup> Microcredit also caught the attention of the World Bank and the

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<sup>5</sup> 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 dissertation 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.

<sup>6</sup> 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

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) in 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' (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, 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

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services. For the sake of clarity, throughout this dissertation I will only use the term MFI when referring to specific institutions. Otherwise the term microcredit programme will be used.



of the financial systems approach by the microfinance movement has, unsurprisingly, received strong support from the global commercial financial sector,<sup>7</sup> 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](http://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. In this way, 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, resulting 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.

Considering the rapid ascension of the global microfinance movement 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 well being of local actors (see Chapter 5). 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 ‘financial inclusion’ (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

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<sup>7</sup> 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/>).

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 was 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 position 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 concepts 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 range of negative impacts associated with microcredit programmes, especially those adhering to the financial systems approach. In particular, investigations have refuted the notion that microcredit empowers women, and have contradicted claims that access to credit improves the lives of marginalised individuals and groups, instead showing that programmes reflect local power imbalances. Other research has shown how microcredit can trap borrowers in destructive debt cycles and even create subprime-type crises that can threaten local and national economies. Ultimately, these critical studies highlight the fact that facilitating the expansion of microentrepreneurial activity can often be inherently harmful to local social cohesion, economic activity and livelihoods; that it is ridiculous to believe that the rich can make profit off the poor while simultaneously helping them; and that local development would be better

served by promoting small and medium enterprises (SMEs), particularly those that are cooperative in nature (Bateman, 2007, 2010, 2012, 2013; Bateman & Chang, 2012; Brigg, 2006; Goetz & Gupta, 1996; Hickel, 2015; Karnani, 2007; Maclean, 2010; R. Montgomery, 1996; Taylor, 2011, 2012; 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 three and a half decades, depicting marginalisation as essentially the result of disconnection and exclusion from the wider capitalist system. The prescription in both cases, therefore, 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 other markets.

Considering these ideological similarities between the ways in which Chinese rural development 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.<sup>8</sup> While it is true that microcredit was relatively late to catch on in

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<sup>8</sup> 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

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, it has become arguably the most important development intervention (or at least the fastest growing) since the reform of the rural credit cooperatives (RCCs) in the early 2000s, and the liberalisation of the rural financial sector through the introduction of private commercialised village and township banks (VTBs) and microloan companies (MLCs) in 2006 (see Chapter 2 for a detailed overview of the historical development of rural China's microfinance industry). In this way, China's rural development efforts and rural financial restructuring have undoubtedly been influenced by the global microfinance movement's increasingly neoliberal 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.

### **1.3 Research Questions, Objectives and Original Contributions**

Based on the above, it is clear that microcredit in rural China is, in many ways, the embodiment of the country's unprecedented and paradoxical rural development landscape and, at the same time, 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

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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 dissertation, 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.

examination of how these paradoxes play out at the local level and what they mean for the lives of rural people.<sup>9</sup> Indeed, continued 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 (Y. Cheng, 2006; Tsai, 2002; L. Zhou & Takeuchi, 2010), making it important to examine how different financial institutions and services have facilitated beneficial development for certain 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.<sup>10</sup> 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 (L. Ong, 2006, 2012). Finally, and more fundamentally, the organisation, distribution and utilisation of financial resources reflect the formation and constitution of local society, and local understandings of what development entails. Therefore, by exploring the ways in which rural financial services generally, and microcredit in particular, manifest themselves at the local

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<sup>9</sup> 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 our knowledge of rural finance and microcredit in China.

<sup>10</sup> Obviously, the most recent example of this is the ongoing fallout from the 2008 global financial crisis; however, microcredit has also recently been implicated in local crises in South Africa and India (Bateman, 2015; Taylor, 2012).

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 paradoxical processes underpinning rural China's contemporary socioeconomic transformation.

This Ph.D. dissertation, therefore, 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 different rural development strategies, but, nevertheless, 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 three townships where the vast majority of data collection took place are all located in relatively close proximity to each other in the north of Jiangxi. However, they nevertheless each represent strikingly different socioeconomic contexts (see Chapter 3 and Chapter 4 for more details). In order to examine the overarching research question from the perspectives of the local actors involved in (and/or affected by) microcredit, this research project adopted an actor-oriented livelihoods approach, necessitating in-depth ethnographic fieldwork to collect a majority of the data. This fieldwork was conducted based on the principles of grounded theory, which requires the researcher to remain open and allow themes to emerge organically rather than imposing external concepts and theories on the field or the data (Charmaz, 2006). For this reason, I began the research project by broadly focusing on the nexus between microcredit, development and livelihoods at the local level (i.e. the research question above) and avoided formulating specific hypotheses requiring testing or verification – i.e. positivistic approaches based on methods used in the natural sciences. Instead, I identified important emergent themes before, during and after the collection/analysis of empirical data and engagement with the literature, which allowed me to shift my research direction and flexibly follow-up on leads while formulating secondary research questions and objectives (see Chapter 3) (Chambers & Loubere, 2016).

This open, iterative and reflexive approach allowed me to identify a number of issues of fundamental importance to the local manifestation of microcredit in the context of rural China that warranted in-depth investigation in order to address the overarching research question outlined above. Therefore, the examination of each of these issues in turn (described as follows) became the secondary research objectives that shaped the lines of inquiry I took during data collection and analysis, and ultimately structured the dissertation itself. To begin with, the dissertation 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. Finally, the dissertation scrutinises the ways in which this variation in implementation has caused the programmes to play very different roles in the (re)production of local processes of development and livelihood strategies – facilitating various types of de-marginalisation for some, while continuing and exacerbating the marginalisation of others. In this way, by examining a broad research question and allowing the research objectives, and associated themes and concepts, to emerge organically from the ground up, this Ph.D. dissertation seeks to construct micro/meso level grounded theories that improve our understanding of the role that microcredit plays in development and livelihoods at the local level, and also allow for the extrapolation and interrogation of the fundamental principles and theories underpinning the microfinance movement and rural development more generally.

This grounded approach to theory development permits this Ph.D. dissertation to make a number of original contributions to our understanding of the policy, practice and outcomes of microcredit programmes and processes of development in rural China and beyond. For one, while there are a few examples of excellent locally-focused research on rural finance and microcredit at the township and village levels (Bislev, 2010, 2012; L. Ong, 2006, 2012; Tsai, 2004; Tsien, 2002; Y. Zhao, 2011), the research in this Ph.D. dissertation is grounded in a rich set of original empirical data collected on programmes (and in localities) that have not previously been the subject of ethnographic examination and are, in general, severely under-researched considering their size and importance to Chinese rural

development strategies. Specifically, this dissertation draws on over 100 interviews and conversations with policy-makers, implementers, borrowers and non-borrowers; systematic participant and contextual observation; and primary documentary data, the vast majority of which has not been examined in previous studies. Therefore, this research represents an important original empirical contribution to the field of Chinese rural development generally, and the study of rural finance/microcredit in particular.

In order to access and analyse this large original data set, this research also makes original contributions through the development of conceptual and methodological approaches in an effort to more effectively study local areas and actors in rural China. In particular, by combining Ane Bislev's use of social capital in the study of Chinese microcredit (Bislev, 2010) with approaches in the conceptual and methodological literature in the field of global development (Chambers & Conway, 1992; Long, 1999, 2001), this research developed an actor-oriented livelihoods approach that has not previously been applied to research on rural finance or microcredit in the context of rural China. This novel conceptual approach provides the means to understand microcredit from the perspective of a range of actors at different levels. It also necessitated the development of new research tools – referred to in this dissertation as 'systematic interview reports' and 'reflexive dialoguing' – which represent a significant methodological contribution to the field of development studies in China and elsewhere (see Chapter 3 for more details on these empirical, conceptual and methodological contributions).

Based on these original data and innovative conceptual/methodological approaches, this research is able to provide valuable insights into the ways in which microcredit programmes manifest themselves at the township and village levels, and what this means for different types of rural actor, thereby contributing significantly to our understanding of microcredit and processes of socioeconomic development in China and elsewhere. Specifically, this dissertation provides a richly detailed depiction and analysis of the heterogeneous formulation and implementation of the microcredit programmes across the three townships, which 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 dissertation contributes to our understanding of the divergent and multidimensional 'impacts' that development interventions such as microcredit have on different local actors. Ultimately, therefore, this research outlines 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. In this way, this dissertation provides a means of understanding contemporary development, both in China and globally, as inherently paradoxical, and emerging from unequal relationships and mutually constituted patterns of development and underdevelopment (see Chapters 4 through 8).

Of course, the research questions, objectives and contributions 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 dissertation 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 dissertation 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 dissertation 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, and, therefore, I avoid making policy recommendations on this basis. Finally, this Ph.D. 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 dissertation 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 Ph.D. dissertation 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) – and, in this way, use microcredit as a lens to examine the nature of paradoxical and contradictory development in China and elsewhere.

## **1.4 Dissertation Outline**

This dissertation consists of eight 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. The chapter concludes by pointing to the need to develop a new set of conceptual and methodological approaches to address the gaps diagnosed in the literature review.

Chapter 3 represents an 'audit trail' for the dissertation by providing a detailed and reflexive account of how the research has been conceptualised and undertaken. Section 1 begins by outlining the need to shift the mode of inquiry from a top-down structuralist approach to an 'actor-oriented perspective' focusing analytically on actor interfaces, livelihoods and financial landscapes, in order to accurately represent multiple (and often contradictory) perceptions and experiences of microcredit and development at the local level. Section 2 details the grounded and ethnographic principles that underpinned the empirical fieldwork and data collection, which necessitated openness and flexibility in order to allow themes and concepts

to emerge naturally. It then gives a reflexive account of the fieldwork that was undertaken, a detailed overview of the specific methods utilised to collect data, and a description of how data was analysed – both in the field and in the office. The final section of the chapter presents contextual socioeconomic backgrounds of the three townships and their constituent villages where the vast majority of the data were collected.

Chapter 4 begins by providing detailed historical backgrounds for 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 in Chapter 5.

Chapter 5 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 6 is dedicated to outlining the fundamental features of the linear progression development paradigm (i.e. the dominant means of understanding contemporary development), which depicts 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 – for instance, 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 7 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 6. 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 (in relation to urban areas) 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 – for instance, 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 transference. 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 8 concludes the Ph.D. It summarises, in detail, the content of the dissertation, provides an overview of the original contributions and outlines the key findings. The chapter ends by examining areas where future research could build on the approaches and findings in this dissertation to further improve our understanding of microcredit and rural development in China and elsewhere.

## **Chapter 2**

### **Rural Financial Services in China: Historical Background and a Review of the Literature**

There is a growing fascination with the mechanics of microfinance, with the vehicle. There is less and less concern about the passengers and their destination.

- Aminur Rahman

As 'external interventions' that aim to positively transform socioeconomic development landscapes and improve the livelihoods of 'financially excluded' actors through the provision of loans, microcredit programmes are often viewed in relative isolation from the pre-existing local financial landscapes (which are perceived as being 'underdeveloped'). At the same time, microcredit 'impact' is assessed in a more or less linear fashion, in an attempt to determine how the intervention changes (or correlates with changes in) specific measurable indicators. This perspective, however, obscures the fact that microcredit programmes necessarily enter into, and become reconstituted within, complex and often highly differentiated regimes of resource acquisition, accumulation and utilisation at the local level. As Stuart Rutherford points out in his book *The Poor and their Money*, all financial instruments (including savings, loans, insurance, etc.) are really just different methods of helping people gather together "usefully large lump sums of money" (Rutherford, 2000, p. 9), and are thus simply modern manifestations of the fundamental human need to accumulate resources in order to affect beneficial change in living situations. Therefore, 'external' microcredit programmes cannot be divorced from the existing financial and developmental terrains, as all local actors – even the 'financially excluded' – have their own methods of gathering together 'usefully large lump sums' of financial capital and/or other resources, and thus perceive, access and utilise microcredit programmes in very different ways, thereby changing what microcredit actually means in different contexts.

For this reason, before it is possible to undertake an in-depth analysis of how and why microcredit programmes manifest themselves in rural China,

and what this means for various aspects of socioeconomic development and the livelihoods of diverse rural actors, it is first essential to establish the historical, political and socioeconomic development contexts, as well as the nature of the financial landscapes within which these programmes come to be located. At the same time, it is also necessary to critically review the literature on rural financial service provision more generally, in order to assess the current state of the art, and identify key strengths and weaknesses in our understanding of the topic. Therefore, this chapter attempts to 'set the scene' by providing this necessary background knowledge. The rest of the chapter is organised as follows. The next section comprehensively outlines the historical trajectory of rural financial service provision in China from the founding of the PRC to the present day. The chapter then turns to systematically review the research on contemporary rural financial services in China, and identifies key strengths in the current scholarship, as well as areas where our knowledge is relatively less developed. The chapter concludes by highlighting the need to develop a conceptual and methodological approach that has the ability address a number of lacunae in the current literature in order to improve our understanding of the nexus between microcredit, development and livelihoods in rural China.

## **2.1 The Trajectories and Contours of the Rural Financial Landscape since 1949**

Since the first half of the twentieth century, China's rural financial and developmental landscapes have been characterised by continuous and rapid dynamism. We first turn to look at the period starting just before the establishment of the PRC in 1949 to the beginning of the reform period at the end of the 1970s.

### **The pre-reform period**

The Chinese Communist Party (CCP) began restructuring the rural financial system through the introduction of RCCs in CCP-controlled areas before 1949. As cooperative institutions, RCCs were initially owned by rural households (as members) and provided both savings and loans for small-scale agricultural producers. Politically and ideologically, RCCs were established to protect peasants from the usurious money-lending practices

that were commonplace in rural areas at that time, and therefore can be considered an initial social policy intervention aimed at improving rural welfare and achieving greater levels of equality, rather than just another financial institution (Y. Cheng, 2006; Herrmann-Pillath, 2009b). After coming to power, the CCP continued to restructure the rural financial system and in the 1950s the Agricultural Bank of China (ABC) was established to finance agricultural production. At the same time the RCC network was expanded nationwide to become the main financial service provider in rural areas, and by the mid-1950s there were over 103,000 RCC branches across the country with more than 100 million member households (Y. Cheng, 2006, p. 26). However, with the push towards agricultural collectivisation after the mid-1950s, control over RCCs quickly shifted from the member households to the people's communes (*renmin gongshe* 人民公社),<sup>11</sup> which incorporated the RCCs along with the supply and marketing cooperatives (*gongxiao hezuoshe* 供销合作社) into a single system (Y. Zhao, 2011). Following the Great Leap Forward (*da yuejin* 大跃进) from 1958 to 1961, economic readjustment policies handed the management of some of the RCCs to the smaller production brigades until the Cultural Revolution (*wenhua dageming* 文化大革命) of the 1970s when the People's Bank of China (PBC) took over full administration of the RCC network. The ABC, on the other hand, was merged with the PBC in the 1950s and only re-established after the initiation of the reform and opening policies of the late 1970s (Herrmann-Pillath, 2009b).

Under the system of collectivised agriculture, the Chinese rural economy was less diverse and rural people were paid largely in kind (e.g. grain), which meant that, for the most part, households were short of cash (Oi, 1989; Riskin, 2009). At the same time, private entrepreneurship and local collective efforts to diversify economies and livelihoods were largely discouraged due to ideological rigidity, and the overarching policy frameworks put forth by the central government favoured urban heavy

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<sup>11</sup> From the late 1950s to the early 1980s rural China was organised into a three-tiered administrative system consisting of the people's communes, the production brigades (*shengchan dadui* 生产大队) and the production teams (*shengchan dui* 生产队), which have since been converted into townships/towns (*zhen/xiang* 镇/乡), villages (*cun* 村) and natural villages (*zirancun* 自然村), respectively.



industry over agriculture and the rural sector. Within this context, RCCs became one of the institutional mechanisms that facilitated the transfer of rural resources (including rural household deposits) to urban areas and industries – particularly through policies mandating that RCCs place their local deposits in the more central branches of the PBC (Loubere & Zhang, 2015). At the same time, however, RCCs also provided limited financial support (e.g. the necessary start-up and operational capital) for an emerging sector of rural enterprises, which generated extra cash income for both the collectives and rural households, especially in relatively better-off areas with stronger collective entities. While these enterprises did not receive as much support as larger, often urban-based, state-owned enterprises (SOEs), they did manage to acquire some loans from local RCCs, laying the foundation for their transformation into the dynamic TVE sector in the post-reform period (Y. Cheng, 2006; Herrmann-Pillath, 2009b; Tam, 1988).

Informal finance for the purpose of investment was also constrained during this period because of the restrictions mentioned above on almost all forms of private economic and financial activities, as well as the predominance of subsistence agriculture as opposed to entrepreneurial livelihood strategies. Nevertheless, in some areas rural people still continued to utilise informal methods of accumulation, such as rotating savings and credit associations (ROSCAs), in order to provide mutual help (often interest-free) to households for consumption purposes – e.g. to cover costs during times of crisis or for ceremonial events – rather than for entrepreneurial or commercial ventures. These informal modes of financial organisation often had long traditions, sometimes dating back to before the establishment of the Qing Dynasty over 350 years ago (Hu, 2003; Tsai, 2004).

### **The early post-reform period**

Since the initiation of the reform and opening policies in the late 1970s leading to agricultural de-collectivisation through the introduction of the household responsibility system (*jiating lianchan chengbao zerenzhi* 家庭联产承包责任制), China's rural financial system has changed dramatically. In 1979, the central government made the PBC the country's central bank responsible for setting national monetary policy and regulating the financial sector. The ABC was demerged out and restructured to become one of the 'big four' state-owned banks under the administration of the PBC, along with

the Bank of China (BoC), the Industrial and Commercial Bank of China (ICBC) and China Construction Bank (CCB). The ABC was redefined as both a policy and commercial bank, and it also took over the governance of the RCCs from the PBC (He, 2014). These reforms were also meant to re-establish the cooperative nature of RCCs to meet the increasing credit needs of farmers, which went hand in hand with rapidly diversifying rural livelihoods and increasing incomes in the first half of the 1980s (see Chapter 1). However, this attempt to redirect RCCs back towards their rural members largely failed, and RCCs continued to use local savings to support local governments (e.g. to cover budget shortages, fund local initiatives and projects, etc.) and TVEs, but were, in general, reluctant to lend to private individuals and households for initiating small business ventures, which resulted in a perceived shortage of formal credit in many rural areas (L. Ong, 2011; Tsai, 2004). At the same time, the RCCs continued to facilitate the transfer of rural resources to urban areas, and while rural savings deposited in the RCCs increased rapidly from RMB 16.6 billion in 1978 to RMB 214.5 billion in 1990 (Y. Cheng, 2006, p. 27), RCCs were required to deposit 30 per cent of these savings in the ABC – most of which were located at the county level or higher – at low interest rates. In the 1980s these deposits from the RCCs were the largest source of funds for the ABC, accounting for some 50 per cent of the bank's total deposits (Tam, 1988; Watson, 2003). Drained of their resources, the RCCs were only able to lend 50 per cent of their total savings to local (i.e. township and village) areas (Y. Cheng, 2006, p. 27), most of which went to the TVEs within a wider policy environment that encouraged rural industrialisation and *in situ* urbanisation.

The ABC and RCCs were also required to provide loans at below market interest rates to support this rural industrialisation strategy. This was evidenced by the fact that between 1985 and 1990, even though the RCCs expanded their loan provision tremendously from RMB 4.5 billion to RMB 141.3 billion, and the ABC registered rapid growth in loans from RMB 168.8 billion to RMB 377.4 billion, both institutions were loss-making (Y. Cheng, 2006; Tam, 1988). Considering the leading role that TVEs played in driving China's miraculous economic growth throughout the 1980s and 1990s – this strong government support for the TVE sector can be considered a success story of state-led rural industrialisation (Bateman, 2010; Loubere & Zhang, 2015). However, the strategy also contributed to widening inequalities across the country, since the eastern coastal region was home to larger and

more successful TVEs, better infrastructure and better access to export markets, and therefore received the bulk of government support in the form of subsidised loans, which reduced the amount of lending capital available to small-scale private entrepreneurs in less prosperous regions (L. Ong, 2011).

In the second half of the 1980s two important structural changes to the rural financial system occurred resulting in further increases to rural-urban capital outflow. First, the ABC was allowed to pursue profitable commercial lending opportunities, most of which were in urban areas, by using rural deposits (Tam, 1988). This pursuit of profits resulted in the rapidly declining presence of the ABC in rural areas. Second, in 1986 the Postal Savings and Remittance Bureau (PSRB) was established offering savings and remittance services through the China Post network. Since the PSRB was not a bank at that time, it reached a special agreement with the PBC whereby the PSRB could store funds in the central bank at preferential interest rates. This enabled the PSRB to provide its customers with higher interest rates for their savings, resulting in the rapid growth of PSRB deposits from RMB 128.8 billion in 1996 to RMB 442.1 billion in 2002. While most PSRB funds were deposited by rural households, the PBC opted to allocate most of the funds for lending in non-rural areas (Bislev, 2010; Y. Cheng, 2006, p. 33; Feng, He, & Ljungwall, 2013; L. Ong, 2009c, p. 53). This capital flow from rural to urban areas through the RCCs, the ABC and the PSRB occurred despite the government's intention to provide increasing numbers of migrant workers in Chinese cities with improved services to remit money back to their rural origins. As such, the newly established financial institutions continued the pre-reform policy of channelling rural financial resources to feed into urban development and industrialisation.

Meanwhile, semi-formal and informal financial intermediaries and services expanded rapidly to meet the needs of rural actors operating within the diversifying rural economy. In the early 1980s, the Ministry of Agriculture (MoA) introduced another network of financial service providers known as rural cooperative foundations (RCFs) to ease the shortage of lending capital in the countryside (Nyberg & Rozelle, 1999). RCFs became an immediate success – attracting deposits of RMB 10 billion by the end of the decade (Y. Cheng, 2006; Tsai, 2004; Wen, 2009). However, because RCFs were sanctioned by the MoA, a government ministry rather than a state financial regulator, the PBC did not recognise them as formal financial institutions.

Thus, RCFs fell into a legal grey zone with only a semi-formal status (Y. Cheng, 2006). At the same time, informal providers such as ROSCAs, pawnshops and even loan sharks made a dramatic return to the countryside. Rural people have also continued to rely heavily on their social networks – e.g. friends, families (historically on the male’s side but increasingly on the female’s side as well) and fellow villagers – for loans or pooled mutual help funds for a variety of purposes, including consumption, start-up capital for microenterprises, children’s education, medical expenses, house-building and ceremonial events. Some researchers, therefore, estimate that informal finance has become the largest source of lending capital in rural China since the reform period began (Hu, 2003; Tsai, 2004; Turvey & Kong, 2010; Y. Zhao, 2011).

The 1980s also saw the first attempts at emulating the global microfinance movement with the incorporation of microcredit programmes based on the ‘poverty lending approach’ associated with the Grameen Bank’s joint-liability lending methodology into some small-scale projects run by international development agencies and non-profit organisations (NPOs) or NGOs, such as the United Nations Development Fund for Women, the International Fund for Agricultural Development, Oxfam and others. These projects, initially relying on exogenous sources (e.g. grants) to fund their activities, were often run in coordination with local authorities and aimed to reduce poverty in rural areas (He, Du, Bai, & Li, 2009). In 1986 the central government started its own subsidised Poverty Alleviation Microcredit Programme (*guojia fupin tiexi daikuan* 国家扶贫贴息贷款, hereafter PAMP) in rural areas as part of its overall poverty reduction strategy.<sup>12</sup> These loans had interest rates set as low as 2.88 per cent and subsidies were paid for by the central Ministry of Finance (MoF). The PAMP was further expanded after 1996 as the main component of the 8-7 National Poverty Reduction Programme (*guojia baqi*

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<sup>12</sup> As stated in Chapter 1, sometimes the PAMP and other government lending programmes have not been considered to be ‘real’ microcredit, as they do not strictly adhere to the original Grameen lending methodology. However, for the purposes of this dissertation, 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.

*fupin gongjian jihua* 国家八七扶贫攻坚计划, hereafter 8-7 Programme)<sup>13</sup> to become one of the largest microcredit schemes in the world (Park & Ren, 2001; Park & Wang, 2010).

The 1990s brought more change through the official restructuring and differentiation of rural financial providers into policy, commercial and cooperative institutions.<sup>14</sup> The Agricultural Development Bank of China (ADBC) was created in 1994 to take over the unprofitable policy lending duties of the ABC, which also included the PAMP. The RCCs, which had been under the governance of the ABC since the beginning of the reform period, had their administration transferred to county credit unions, which were directly responsible to the PBC (Y. Cheng, 2006; Feng et al., 2013; X. Xu, Deng, Xue, Liu, & Hu, 1994; Y. Zhao, 2011). These reforms marked a shift in the operating principles of the financial intermediaries. The RCCs, as cooperative institutions, were expected to be more responsive to the needs of farmers, microenterprises, and SMEs. As the ADBC started shouldering the bulk of policy lending duties, the ABC was increasingly engaged in profitable commercial endeavours, which were often better achieved in urban areas. This led to the ABC's further retreat from rural areas, and by the end of the 1990s the bank had closed almost all of its township and village level branches, as well as many county level branches (Feng et al., 2013; X. Li, Gan, & Hu, 2011b; L. Ong, 2009a). Meanwhile, the PSRB continued expanding into both urban and rural areas (Y. Cheng, 2006).

In 1994, a group of researchers from the CASS-RDI established the Funding the Poor Cooperative (FPC) with support from the Ford Foundation and the Grameen Trust. Although some microcredit projects had been initiated in the 1980s (see above), the FPC was the first purpose-run MFI in China, and its

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<sup>13</sup> The 8-7 Programme was named for its declared targets of lifting 80 million rural people out of poverty in seven years (from 1994-2000) (Bislev, 2010; Tsai, 2004).

<sup>14</sup> According to the legislation, policy banks are not profit-oriented but instead provide loans for policy objectives (e.g. poverty reduction). Commercial banks are expected to be profit-oriented and financially sustainable. Cooperative institutions, typified in the case of the RCCs, are mutually owned and should meet the needs of their members (X. Chen, Zhao, Chen, & Luo, 2009).

establishment is considered to be the beginning of 'institutionalised' microcredit in the country (X. Du, 2003; He et al., 2009). Throughout the 1990s, NPO and NGO-style MFIs (both domestic and international) modelled on the Grameen group-lending practice and the 'poverty lending approach' gained popularity, and by the end of the decade there were more than 200 such MFIs across the country. The largest and most well-known of these were the FPC, the China Foundation for Poverty Alleviation (CFPA) and the Association for Rural Development of Yilong (ARDY) (Chan, 2009; Druschel, 2002; He et al., 2009). These MFIs, however, have not been allowed to register as formal financial institutions, and are thus not considered to be a part of the formal financial market subject to government supervision and regulation. They are, therefore, not permitted to conduct the full range of financial business, particularly with regard to accepting and mobilising deposits. Nevertheless, in many rural areas they have been allowed to operate and provide microloans to low-income groups at the discretion of local governments (He et al., 2009; Jia, 2008; Tsai, 2004).

After 1996, the PAMP was expanded and its management reverted back from the ADBC to the ABC.<sup>15</sup> The ABC was required to allocate the microloan quotas to township and village poverty alleviation offices (PAOs) – under the auspices of the State Council's PAO – which were then responsible for organising Grameen-style lending groups (consisting of about five people), and disbursing the loans in accordance with the quotas. It has been reported, however, that these subsidised loans often missed the target groups, and instead were 'captured' by more powerful local 'elites' – e.g. officials and better-off groups – to either promote local development projects or serve self-interests not necessarily related to the poverty reduction objectives. Moreover, with policy goals and local interests frequently overriding commercial considerations, these loans tended to become outstanding with repayment rates sometimes as low as 50 per cent, and thus became a liability for the ABC (Bislev, 2010; L. Ong, 2011; Park & Ren, 2001).

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<sup>15</sup> The fact that responsibility for the PAMP was returned to the ABC after it had been converted into a profit-oriented commercial bank illustrates the often blurred category boundaries between policy, commercial and cooperative financial institutions.

The end of the 1990s was a turbulent time for rural finance in China, which went hand in hand with the privatisation of many SOEs and TVEs, and the exacerbation of development 'problems' in rural areas, i.e. the *sannong wenti*. With the exception of the PSRB, other rural financial institutions were considered commercially 'unsustainable' because of their policy lending practices and loss-making outcomes, and thus subjected to further restructuring in an increasingly neoliberal climate. The existing rural financial system was seen as incompatible with the core commercial objectives of making and maximising profits, and improving 'efficiency' and 'competitiveness', and the primary rural financial institutions (i.e. the RCCs and RCFs) were, therefore, reformed within the logic of a market-driven commercial system, which prioritised 'financial sustainability'. This meant that 'underperforming' RCCs were closed or merged with more 'financially successful' ones, reducing the total number of branches from around 50,000 to just over 33,000 (Y. Cheng, 2006; Tsai, 2004; Wen, 2009), and RCC administration was shifted from the local county unions to more central provincial unions. In other words, RCCs underwent a process of 'de-localisation' through consolidation, commercialisation and centralisation (Loubere & Zhang, 2015). The RCFs, on the other hand, were deemed too big of a liability due to the fact that they were not technically a part of the formal financial system and were more independent (and therefore more difficult to control), and all 45,000 were forced to either shut down or merge with RCCs, causing protests across the country (Feng et al., 2013; State Council, 1998; Tsai, 2004; Wen, 2009). Wen Tiejun, Professor of Agriculture and Rural Development at China's Renmin University, has noted that the cost of this massive financial restructuring was mainly born by local governments and, by extension, the rural residents and enterprises whose taxes financed these governments, as this was before the abolition of agricultural taxes in 2006 (Wen, 2009).

These reductions in RCC branch numbers and the abolition of the RCFs, along with the ABC's retreat from townships and villages, represented a significant retraction of the rural financial sector and substantially hindered access (e.g. through increased travel distances) to financial information, services and institutions for many rural actors, and especially for farmers. At the same time, the remaining RCCs and the PSRB continued to channel rural household deposits to local and non-local governments, and TVEs or SOEs, most of which had transformed from collective to private or semi-

private entities by the turn of the new century (X. Chen, Zhao, Chen, & Luo, 2009). While it is true that government and NGO microcredit programmes were becoming more popular, they were still not widespread. Therefore, a majority of rural households and microenterprises continued to rely on informal sources to meet their credit needs (Tsai, 2004).

### **The current situation**

Since the early 2000s there have been two divergent trends in the Chinese rural financial system. Firstly, the continued exacerbation of the *sannong wenti* and increasing social discontent in the countryside has led to serious concerns within the central government about potential social instability and its own political legitimacy, which has prompted the leadership to put a greater emphasis on promoting rural development. For example, rural development issues have been the main feature of every Number One Central Document (*zhongyang yihao wenjian* 中央一号文件) since 2004, resulting in the formulation of overarching policy frameworks aimed at addressing the widening gap between rural and urban areas. These include the Campaign to Open up the West (*xibu dakaifa* 西部大开发), the XNCJS and the CXYTH. These development frameworks/strategies have pushed forward a number of specific policy measures, including the abolition of agricultural taxes and fees, the provision of agricultural subsidies, and the establishment of basic pension and healthcare systems for rural residents and migrant workers, to name a few (P. H. Brown, de Brauw, & Du, 2009; Fan, 2006; Veeck & Shui, 2011; Watson, 2009; H. X. Zhang, 2009a). More importantly for this dissertation, this renewed focus on the *sannong wenti* has emphasised the need to extend access to formal 'modern' financial services to rural areas (State Council, 2014), drawing on global narratives stressing the importance of 'financial inclusion' in order to promote rural development, modernise the countryside and 'empower' the poor (Sparreboom & Duflos, 2012; World Bank, 2014).

Within this context, the government again attempted to reform the RCCs in order to facilitate the extension of financial services to 'excluded' segments of the population. Along with various changes to RCC structure,<sup>16</sup> a large

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<sup>16</sup> After 2003 the RCCs were put under the administration of provincial unions and three different RCC models were introduced: rural credit



portion of RCC debt from the non-performing loans was written off and RCCs were required to begin providing subsidised microcredit through the RCC microcredit programme (*nonghu xiao'e xinyong daikuan* 农户小额信用贷款, hereafter RCCMP). The RCCMP was envisioned as a way to promote rural microenterprises and further diversify livelihoods through loans that are accessible to low-income households without collateral (*diya* 抵押), thereby 'financially including' them. Additionally, the PAMP has seen continued expansion as part of the Poor Village Investment Programme, and in the early 2000s the central government initiated the Employment Microcredit Programme (*xiagang shiye zaijiuye xiao'e danbao daikuan* 下岗失业再就业小额担保贷款, hereafter EMP)<sup>17</sup> for urban workers who had been laid-off during the reform and privatisation of the SOEs (*guoyou qiye gaige* 国有企业改革). The EMP was then extended to rural areas in 2006, and has since provided microcredit at 0 per cent interest in an effort to generate employment opportunities and increase income for a number of rural actors, such as returning migrant workers and local farmers (for more details on the RCCMP, PAMP and EMP see Chapter 4). Another important development was the transformation of the PSRB into the Postal Savings Bank of China (PSBC) in 2007 with the ability to provide loans in both urban and rural settings. The PSBC has been mandated to redirect investment capital back into rural areas through its national network by providing credit to rural individuals, households and microenterprises, as well as through wholesale loans to MFIs and private commercial financial institutions (X. Du, 2008a).

Clearly, these government-led and government-subsidised microcredit initiatives, and the PSBC's mandate to increase rural coverage, represent social policies aiming to more effectively address the *sannong wenti*, which is seemingly in contradiction to the earlier neoliberal policy discourse prioritising the 'financial sustainability' and 'efficiency' of financial institutions. However, the growing domination of the global neoliberal ideology, and the shift in the global microfinance movement from the 'poverty lending

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cooperatives, rural cooperative banks and rural commercial banks. For more on the institutional transformation of the RCCs see (L. Ong, 2009a).

<sup>17</sup> 下岗失业再就业小额担保贷款 is actually more accurately translated as the 're-employment microcredit programme'. However, since being extended to rural areas, the EMP's focus has expanded to include a variety of other target groups in addition to laid-off workers; therefore, I have opted to choose a translation that reflects the current objectives of the programme.

approach' to the 'financial systems approach' (see Chapter 1), has also had major implications for China's rural financial system and the provision of microcredit specifically, and since 2004 the central government has also pushed for new types of market-oriented rural financial service providers alongside the expansion of the government-subsidised initiatives outlined above (Feng, He, & Du, 2006; Feng et al., 2013; State Council, 2004). For instance, in 2005 the PBC initiated a new type of profit-oriented private MLC in rural areas; in 2006 the China Banking Regulatory Commission (CBRC) piloted and subsequently legalised private VTBs; and in 2007 the CBRC approved the formalisation of rural mutual credit cooperatives (RMCCs), which are the regulated equivalent of ROSCAs and not commercially-oriented. While different rules apply to MLCs and VTBs, the two emerging commercial rural financial institutions can lend at up to four times basic lending rate set by the PBC (as of July 2015 the rate was 5.6 per cent), which is much higher than the 2.3 times the basic rate allowed for state-owned financial institutions. However, in an attempt to prevent the type of rural-urban capital outflow discussed earlier, current rules forbid MLCs and VTBs from operating beyond their home counties, and they cannot link up to central administrative units at higher levels (X. Du, 2008a; He et al., 2009).

The entry of these commercial institutional forms into the rural financial sector has created new opportunities for private financial institutions, local investors and global capital – represented by international commercial banks – to tap into China's rural cash reserves. Indeed, since 2008 major international players, such as HSBC, the Bank of East Asia, and Standard Chartered Bank have set up VTBs, and Citi Bank has invested in MLCs (He, 2008). These large international financial institutions have often sought to frame investment in these new commercial MFIs as a form of corporate social responsibility, while also acknowledging their desire to gain a foothold in the Chinese countryside (which prior to the advent of MLCs and VTBs had been off-limits to foreign financial institutions) in the hopes that the restrictions on coordinating branch activities at higher administrative levels will be relaxed in the future (Stiles, 2009).<sup>18</sup>

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<sup>18</sup> Conversation 02.

Unsurprisingly, this commercialisation of the rural financial landscape has also instigated a rapid expansion and diversification of financial institutions at the grassroots. For instance, between 2008 and 2012 over 4,000 MLCs and VTBs were established nationwide (Y. Wang & Wang, 2012), mainly by small private investors. Practically, this has resulted in the formalisation of previously informal moneylenders and underground banks, with most VTBs and MLCs being located in more urbanised county seats rather than in townships and villages. Moreover, rather than lending to the poor and 'financially excluded' segments of society for 'development' activities, these commercial MFIs often lend at illegally high rates (i.e. higher than four times the PBC rate) for 'unproductive' activities, such as gambling, that regular banks would not provide loans for, with property (often real estate in urbanised county seats) being used as collateral rather than joint-liability groups.<sup>19</sup> At the same time, in a reversal of earlier practices, the ABC has started reopening some of its closed township level branches, while other state-owned banks have begun investing in VTBs and MLCs themselves (X. Du, 2008b). The increased competition caused by the growing number of providers backed by international, private and state-owned capital threatens the RCCs' position as the leading rural financial institution, and RCCs, in response, have become increasingly profit-driven, despite the fact that they are required to provide subsidised loans through the RCCMP. In other words, the rural financial system as a whole has become more commercialised, which has resulted in rural financial institutions increasingly prioritising profit-making over social policy objectives (Loubere & Zhang, 2015).<sup>20</sup>

These two contradictory trends (subsidised/directed lending versus a commercialised 'financial systems approach') have created a complex, dynamic but often fragmented financial landscape composed of an increasing number of players with diverse and sometimes conflicting objectives, providing a variety of financial services and products to different rural actors. For instance, the RCCs should meet the central government's mandate of providing support to rural households and microenterprises through subsidised loans (i.e. the RCCMP), but, at the same time, the

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<sup>19</sup> Conversation 35; Conversation 41.

<sup>20</sup> Interview 01; Interview 05; Interview 10.

government expects the RCCs to be financially independent and 'sustainable', i.e. responsible for their own profits and losses (Y. Cheng, 2006; He, 2014).<sup>21</sup> To achieve this, the RCCs must operate on a for-profit basis. Thus, there is clear inconsistency between the political and social goals on the one hand, and the market-oriented demands on the other. Without strong government fiscal support, the RCCs tend to operate more as commercial entities regardless of their officially defined duties, and this is particularly true in the context of growing competition in the rural financial market.<sup>22</sup> Furthermore, it is, at this stage, still unclear whether or how this increasingly complex rural financial market has been effectively regulated by the state to protect rural clients, particularly small-scale farmers, microenterprises and vulnerable social groups (e.g. low-income individuals and families, and the elderly) from falling victim to the unbridled profit-seeking malpractices and even fraud as witnessed in almost all parts of the world, particularly in relation to the new commercial institutions.<sup>23</sup>

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<sup>21</sup> PAMP and EMP implementers are also often under increasing pressure to ensure repayment. See Chapter 4 and Chapter 5 for more details.

<sup>22</sup> Interview 01.

<sup>23</sup> Recently, there have been particularly blatant examples of fraud in the rural financial sector. See, for instance (G. Zhu, 2015).

**Table 2.1:** Financial Service Providers in Rural China since 2006

	<b>Policy-oriented</b>	<b>Market-oriented</b>		<b>Cooperative</b>	<b>Informal and Semi-formal</b>
<b>Providers</b>	- ADBC	State-owned - ABC - PSBC	Private - VTBs - MLCs	- RCCs - RMCCs	- NPO MFIs - ROSCAs - Moneylenders - Pawnshops - Friends and family

Source: Adapted from (H. X. Zhang & Loubere, 2013)

**Table 2.2:** Financial Services Provided by Different Institutions in Rural China since 2006

	<b>Policy Loans</b>	<b>Savings</b>	<b>Remittances</b>	<b>Commercial Credit</b>	<b>Subsidised Microcredit</b>
<b>Sources</b>	- ADBC	- RCCs - RMCCs - ABC - PSBC - VTBs - Informal sources	- RCCs - ABC - PSBC - Informal sources	- RCCs - ABC - PSBC - VTBs - MLCs - PSBC - Informal sources	- NPOs/NGOs - RCCs - Government programmes

Source: Adapted from (H. X. Zhang & Loubere, 2013)

Table 2.1 and Table 2.2 outline the current financial landscape (since 2006) in rural China (township level and below) in terms of the different types of providers in operation, both ideologically and for regulatory purposes, and the services available. From the tables, it is clear that the only providers of microcredit services are NPO-style MFIs, government agencies offering subsidised policy-oriented microloans – e.g. the PAMP and the EMP – and the RCCs through the RCCMP. Meanwhile, other financial services – e.g. policy loans, savings, remittances and commercial credit – are provided by a wider variety of financial institutions and informal sources. Mapping the financial landscape in this way allows for a better understanding of where microcredit ‘slots in’ to the increasingly segmented rural financial landscape in China, which is essential for an analysis of what these programmes mean for local socioeconomic development and the livelihoods of different local actors. We now turn to analyse the current state of our knowledge of rural financial services generally, and microcredit in particular, based on a systematic review of the current literature.

## **2.2 Research on Rural Financial Services in China**

The historical review above shows that China’s rural financial system has transformed dramatically during the past few decades against the backdrop of major ideological shifts in the philosophical underpinnings of national rural development strategies. Obviously, these changes in the organisation of rural financial institutions and the provision of rural financial services have had significant implications for local socioeconomic development and rural livelihoods. Given this, it is unsurprising that there is a considerable, and still growing, body of research in both English and Chinese examining the role of China’s financial system in general, and microfinance industry in particular, in rural development. This research is mainly situated within the disciplines of economics, finance or political economy,<sup>24</sup> and tends to focus on macro-structural issues related to the functioning of the rural financial system and/or financial institutions, or is interested in the impact that changes in the supply and demand of financial services (particularly credit) have on rural

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<sup>24</sup> With a few notable exception (Bislev, 2010, 2012; Tsai, 2004; Tsien, 2002; Y. Zhang, Lin, & Li, 2012), see below for more details.

individuals, households and enterprises.<sup>25</sup> In this section I critically review the current scholarship on rural finance and microcredit in China in order to identify some of the field's strengths, the main assumptions underlying both research and policymaking, and areas where our understanding is relatively less developed.

### **The financial system, institutions and service provision**

Current research has paid considerable attention to the functioning of China's rural financial markets (Findlay, Cheng, & Watson, 2003; Meyer & Nagarajan, 2000; OECD, 2003; L. Ong, 2012; Turvey, He, Kong, Ma, & Meagher, 2011), the role that rural finance has played in economic growth (Nyberg & Rozelle, 1999; L. Ong, 2011), as well as the growth of the country's microfinance industry (Brandt, Park, & Wang, 2001; Dubas & Harris, 2008; He et al., 2009; H. Montgomery & Weiss, 2006; Park & Ren, 2001; Ren, 2012; World Microfinance Forum Geneva, 2008; L. Zhu, Jiang, & Braun, 2002). Literature has also focused on how regulatory reforms have changed the institutional environment for financial service providers, e.g. the differentiation between policy, commercial and cooperative financial intermediaries (Y. Cheng, 2006; X. Chen et al., 2009), and how policies have either facilitated or constrained the expansion and diversification of the rural financial industry, especially with regard to microcredit provision by both banks and non-banking institutions (Gowrie-Smith, 2010; Kwong, 2011; Ma, 2003; T. Sun, 2008; J. Thompson, 2003). Most commentators tend to consider the current state of China's rural financial system to be 'weak' or 'underdeveloped'. This is mainly attributed to 'unwanted' government interventions that have 'distorted' the market through subsidies (e.g. subsidised microcredit undermining commercial financial providers) and a legal framework that restricts the operation of financial service providers both directly, through the perceived 'overregulation' of the rural financial system, and indirectly, by not clarifying property rights (Farrell & Lund, 2006; OECD, 2003; Osthoff, 2005; Rahman & Luo, 2011).

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<sup>25</sup> The vast majority of studies on rural financial services focus on credit with a very small minority looking into savings and/or remittances. For example, see (Fleisher, Liu, & Li, 1994; Murphy, 2006; H. X. Zhang, 2004).

In addition to this system focus, there has been significant interest in examining the structural changes to rural financial intermediaries, and what this has meant for their operation. For example, the RCCs, which have the widest network and outreach in rural China, are the focus of many studies, most of which analyse how their operation has been impacted by the reforms made over the past few decades to their organisation and governance, their regulatory environment, the institutional factors contributing to the RCC crisis in the late 1990s, and the on-going expansion of the RCCMP (Y. Cheng, 2006; Deer, 2014; L. Ong, 2012; Swoboda & Zhang, 2007; Wenjun Wang, 2003; Xie, 2003; Y. Zhao, 2011). Similarly, the role of the ABC in rural China is the focus of much attention, especially with regard to the bank's relationship with the RCCs in the 1980s and 1990s, its transformation from a policy bank to a state-owned commercial bank in the early 1990s, its retreat from the countryside in the mid-late 1990s and subsequent return, and its perceived responsibility to support the central government's rural development strategies while maintaining 'financial sustainability' (Y. Cheng, 2006; X. Du, 2008b; L. Ong, 2011; Park & Ren, 2001; Park & Wang, 2010; Tam, 1988). Additionally, there are some detailed accounts of the regulatory environment, institutional structures, and current outreach of traditional NGO-style MFIs, and the new players that have come onto the stage since 2005, such as the PSBC, VTBs, MLCs and RMCCs, and what their emergence means for the microcredit environment (X. Du, 2008a; He et al., 2009; He, Tang, Zhang, Xie, & Rong, 2012; Lau, 2008; L. Ong, 2011; Rahman & Luo, 2011; B. Sun, 2011). However, as of yet there has been limited empirical investigation into how these new actors operate at the local level, how they have been perceived and utilised by local people, or the impact that they are having on rural livelihoods and development. Finally, there is some in-depth empirically-based research on informal finance, mainly focusing on the classification of its types, the operation of informal financial systems in different contexts, and the practices of pooling financial capital through informal social networks, in an attempt to understand how rural people, enterprises and communities have dealt with credit constraints, and sustained diverse livelihoods through informal lending and borrowing (Hu, 2003; J. Li & Hsu, 2009; Tsai, 2000, 2002, 2004; Y. Zhang, Lin, & Li, 2012; L. Zhou & Takeuchi, 2010).

Much of the existing research seeks to provide policy recommendations for 'improving' the financial system as a whole and the provision of specific



financial services (particularly microcredit), which are increasingly informed by a normative global neoliberal agenda that has largely underpinned the fundamental shift from promoting agricultural and rural development through state support, to the present-day profit-seeking 'financial systems approach' to microcredit (see Chapter 1). These recommendations include, for example, a discourse diagnosing China's rural financial institutions as 'unsustainable' and 'inefficient', and providing prescriptions for greater market liberalisation through the further privatisation of existing financial institutions (e.g. the RCCs) and deregulation of the financial market (Byström, 2007; OECD, 2003). The advocacy for further commercialisation and financialisation of the microfinance industry typifies this trend (He et al., 2009). These recommendations are made on the grounds that state subsidies create 'distortions', thus worsening the existing 'unsustainability' and 'inefficiency' of China's rural financial system as a whole. Furthermore, government actions in the form of monitoring and regulating the financial sector have been under increasing attack and are frequently framed in negative terms as inhibiting free market operation, restricting institutional entry and creating credit shortages, prohibiting competition, preventing the market's automatic optimal allocation of resources, discouraging entrepreneurship and, thus, hindering economic growth and development. Therefore, much research in the field, implicitly or explicitly, advocates further financial market liberalisation with regard to regulation of interest rates, services, institutional practices, ownership forms, geographical limitations, and so forth (Brandt et al., 2001; H. Montgomery & Weiss, 2006; Nyberg & Rozelle, 1999; OECD, 2003; L. Ong, 2011; Park & Ren, 2001; L. Xu, 2009). More controversial is the advocacy for full-scale privatisation through fundamental property rights changes, particularly regarding collectively-owned agricultural land, which, according to such logic, would provide a form of collateral for loans, thus enabling the release of capital locked up in land for farmers to invest in larger-scale agribusiness and other 'productive' assets (OECD, 2003; L. Ong, 2009c).<sup>26</sup>

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<sup>26</sup> This is largely based on the influential work of Peruvian economist Hernando de Soto, which conceptualises land with vague or communal property rights as 'dead capital' (de Soto, 2000). For a counter-argument in the Chinese context see (Q. F. Zhang & Donaldson, 2013).

## **Supply, demand and impact assessment**

Apart from the institutional foci identified above, there is also a substantial amount of research paying attention to the 'impact' of rural financial services on diverse actors. This research, however, is also largely dominated by the disciplinary perspectives of finance and economics, and is primarily concerned with measuring impact in a linear way by focusing on the effects that changes in the supply and demand of credit have on different actors. The main argument put forward is that the market reforms since the late 1970s have brought about increasing demand for credit from households, communities and enterprises, but supply by the formal financial sector has fallen far short, causing credit constraints and the formation of a large and diverse curb market to meet the demands of those 'excluded' actors (E. Cheng, 2007; Y. Cheng, 2006; Z. Du, 2004; Feder, Lau, Lin, & Luo, 1989; Kumar, Turvey, & Kropp, 2013; X. Li, Gan, & Hu, 2011a). For example, the OECD estimated that only 16 per cent of Chinese farmers had access to credit due to difficulties in meeting lenders' requirements (e.g. for collateral or a guarantor), that more than 70 per cent of loans to rural people were obtained through informal channels, and noted that formal financial institutions were reluctant to lend to small businesses because of the high transaction costs involved (OECD, 2003, p. 7).

Most studies attribute this situation to a restrictive policy environment created through onerous government interventions as discussed above, and also recommend further liberalisation and deregulation of the financial market in order to meet demand and promote 'financial inclusion' (Z. Du, 2004; Feder et al., 1989; Feng et al., 2006; He, 2008; He et al., 2009; OECD, 2003). At the same time, however, some researchers argue that credit constraints are not universally or evenly observed in the rural Chinese context, pointing to survey data that show widespread and sometimes concurrent use of both formal and informal sources (Park & Ren, 2001; Tsai, 2004; L. Zhou & Takeuchi, 2010). Other studies contest the predominant view that low-income rural households have high demand for loans by showing that many such households have actually decided not to participate (i.e. 'self exclusion') in credit programmes based on careful calculations of potential risks and returns (Bislev, 2010, 2012; Park & Ren, 2001; Turvey & Kong, 2010). Still others have begun investigating – in greater detail through micro level research – individuals' and households' awareness of, access to and utilisation of, financial information and services as vital livelihood

resources, their selection of different providers and services (formal and/or informal), as well as their borrowing behaviours, revealing dynamism, diversity and heterogeneity in local preferences, practices and goals with regard to lending and borrowing (Bislev, 2010, 2012; Tsai, 2004; L. Xu, 2009; G. Zhang, 2008; Y. Zhang et al., 2012; Y. Zhao, 2011).

Investigation into the use of financial services (again mainly credit) constitutes another aspect of impact-oriented research. Loans are found to have been used for 'productive' purposes – such as investment in agriculture, TVEs, microenterprises, and to facilitate rural-urban migration – and/or for 'consumption' purposes, such as children's education, healthcare, house construction, consumer durables, weddings, funerals, and daily necessities.<sup>27</sup> These studies usually come to the conclusion that easier access to credit (i.e. more 'inclusive' financial services) correlates positively with increased income, consumption, higher levels of educational attainment, and other beneficial 'impacts' (X. Li et al., 2011b; Nichols, 2004; Pan, Rejesus, & He, 2009; Park & Ren, 2001; Rahman, Luo, & Minjuan, 2014; You & Annim, 2014). Some other research has gone into more depth, exploring the heterogeneous and multiple uses of loans in diverse household livelihood strategies – with borrowers simultaneously engaging in farm, off-farm and non-farm activities – which has uncovered 'multiple impacts' (Kumar et al., 2013; H. Li, Rozelle, & Zhang, 2004). However, most of these studies still rely on econometric methods that attempt to identify causal linear relationships, and are, therefore, fundamentally structuralist and top-down in their approaches.

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<sup>27</sup> In existing research, borrowed capital used to help individuals and households survive due to poor harvests or other contingencies is conceptualised as 'consumption smoothing' (Park, Ren, & Wang, 2003; Unger, 2002a; L. Zhou & Takeuchi, 2010). This notion and the associated dichotomous division of loan use between 'productive investment' and 'consumption smoothing', however, have recently been questioned by critics, particularly in relation to global debates surrounding microfinance (Taylor, 2012). Certainly in the context of rural China the boundaries between productive investment and non-productive consumption are often blurred since the latter can also be considered investment in human and/or social capital and is, therefore, 'productive' in socio-cultural as well as economic senses.

However, while the vast majority of research is top-down and structurally-oriented, and largely neglects (or minimises) local agency, there is a small body of scholarship which examines the processes and dynamics involved in the acquisition and utilisation of financial information and services from the perspectives of local actors through in-depth fieldwork in Chinese townships and villages. This research explores the local political economy of formal and informal financial intermediation (Hu, 2003; L. Ong, 2006; Tsai, 2004), and often finds that rural financial services – and even ‘external interventions’ such as microcredit – become ‘embedded’ within existing socioeconomic and socio-political contexts at the local level (Bislev, 2010, 2012). In particular, it has been observed that access to financial information – especially with regard to subsidised loans – is differentiated based on existing social relations, power and widening social stratification in rural society (Bislev, 2010, 2012; Tsai, 2000, 2004; Unger, 2002a; Y. Zhang et al., 2012). Therefore, the negotiations surrounding access to, and utilisation of, financial intermediaries and their services, often have broader societal implications, e.g. for local power differentials, gendered divisions of labour, control of various resources and knowledge, etc. (Bislev, 2010, 2012; Tsai, 2000; Tsien, 2002), and provide a lens through which we can view the organisation and functioning of rural Chinese societies undergoing processes of dynamic and rapid socioeconomic development and change.

### **Strengths and weaknesses in the current scholarship**

This systematic review of the literature reveals that there has been a tremendous amount of work analysing the organisation of the rural financial system as a whole – particularly with regard to changes to policy, regulatory bodies and ideology. There has also been substantial focus on the operation of rural financial institutions, especially in terms of changes to institutional classifications (i.e. policy, commercial and cooperative financial institutions), the goals and objectives of different financial intermediaries, and the wide variety of informal providers.<sup>28</sup> Therefore, the current state of the art

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<sup>28</sup> However, financial providers are not equally represented in the literature. As stated above, most research is interested in the RCCs, the ABC and/or informal intermediaries, while other providers are often only mentioned in passing. For instance, there are only a few studies focusing primarily on government-subsidised microcredit programmes. In particular, the EMP has not been the main focus of any English-language research and is minimally represented in the Chinese-language scholarship.

represents a relatively comprehensive understanding of the top-down structures governing rural financial service provision in China, both historically and today – i.e. how (and why) the system and its constituent elements ‘should’ be operating. However, this (overly) structural focus, largely grounded in neoliberal assumptions, reinforces biases and misperceptions that obscure the high levels of complexity that are inherent in financial organisation in rural China, and, because much less effort has been made through the application of micro level sociological and anthropological approaches, there has been limited representation of the voices and perspectives of local people. Therefore, there are a number of ‘blind spots’ in areas of critical importance for an in-depth understanding of what rural financial services actually mean at the local level. Below I outline three key areas where our knowledge is relatively underdeveloped that will be addressed in this dissertation in order to answer the overarching and secondary research questions put forth in Chapter 1.

Firstly, the structural emphasis outlined above does not accurately represent the hugely important role that local agency plays in the negotiations between different actors, which ultimately determines how rural financial services are perceived and manifested in different localities. In other words, the understanding of how financial institutions and services are designed centrally is prioritised over in-depth analysis of their implementation and provision at the local level. This is surprising considering the comprehensive body of literature dedicated to the analysis of transformation and variation in the implementation of policy at the local level in rural China (Ahlers, 2014; P. H. Brown et al., 2009; Donaldson, 2009; Manion, 1991; O’Brien & Li, 1999). This scholarship, a significant segment of which explores rural development policies and campaigns, has much to tell us about developmental ‘realities’ in rural China – particularly in relation to the extension of financial services as part of government-led development initiatives – but has, nevertheless, been largely neglected by research on rural finance. This has resulted in a relatively underdeveloped picture of how (and why) rural financial services are actually provided in townships and villages – a gap that this dissertation addresses in Chapter 4 and Chapter 5.

Secondly, when local-level implementation is discussed, it is largely through the discourse of impact evaluation, which views financial services (particularly subsidised loans) as targeted external interventions with specific

objectives aimed at improving the situation in rural areas and the lives of rural people. From this perspective, transformation and variation in implementation is framed negatively as a 'failure' (because the objectives are not met), which is invariably blamed on incompetence or (more often) on collusion between greedy officials and elites at the local-level who 'capture' the funds for their own purposes (Hofmockel, 2005; L. Ong, 2011; Park & Ren, 2001). Moreover, these impact evaluations usually attempt to clearly define 'target groups' and 'measurable' variables denoting improvement, e.g. consumption, income, propensity to migrate, etc., in order to identify linear causation or correlation, rather than taking a more holistic approach, and thus suffer from the same weaknesses that have been identified in the global literature on microcredit impact evaluations (Bateman, 2013; Hulme, 2000). Even the small body of scholarship adopting micro level perspectives mentioned above, which provides detailed analysis of the ways in which microcredit and informal finance become embedded within local contexts, tends to focus primarily on the implications of these financial services for certain groups or singular aspects of livelihoods. Therefore, while the current body of research provides us with a relatively clear understanding of some of the ways in which financial services 'impact' specific actors, we still do not really understand how local variation in provision ultimately shapes the role that financial services play in processes of socioeconomic development more broadly, and the livelihood strategies of various actors at the local level (e.g. providers, borrowers and non-borrowers). For this reason, Chapter 6 and Chapter 7 outline the multidimensional and paradoxical 'impacts' of microcredit programmes.

Finally, due to the general neoliberal orientation of most existing research on rural financial services and microcredit in China,<sup>29</sup> there has not been sufficient engagement with the wider global debates over neoliberal modes of development in general, and the commercialisation and financialisation of local financial institutions and microcredit programmes in particular (i.e. the 'financial systems approach'), or the potentially negative impact they have

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<sup>29</sup> Either overtly and explicitly, or implicitly through the adoption of neoliberal assumptions about 'inclusivity', the importance of 'financial sustainability', or uncritically accepting that more access to credit is inherently good.

had on local development and rural livelihoods.<sup>30</sup> In this debate, researchers have provided evidence that in many developing and post-socialist societies – e.g. South Asia, Latin America, Africa, the Balkans, etc. – the increasingly neoliberalised microfinance industry has exacerbated inequality and undermined local development efforts. At the same time, microcredit has also been blamed for causing widespread risk, severe debt, distress and crisis at the individual, household, community and societal levels – with the impact on livelihoods being highly differentiated by caste, class, gender, ethnicity, and other social classifiers (Bateman, 2010; Bateman & Chang, 2012; Maclean, 2013; Taylor, 2012). This research has gone beyond a mere description and analysis of rural people’s livelihood distress and suffering to question fundamentally the theoretical reasoning, logic and ideological pillars of the neoliberal assumptions underpinning the microcredit model and the concept of ‘inclusive finance’. The non-engagement with this global debate in the Chinese context suggests an urgent need to critically interrogate fundamental ‘truisms’, and to develop more reflexive perspectives drawing on international experience while staying grounded in holistic understandings of local contexts. For these reasons, Chapter 7 and Chapter 8 explore the ‘alternative development’ literature and global critiques of microcredit in relation to the in-depth empirical data presented in this dissertation.

## **2.3 Conclusion**

By comprehensively charting the institutional trajectory and contours of the Chinese rural financial landscape since the founding of the PRC, this chapter shows that China’s rural financial system has, at different times, experienced either consolidation and contraction, or expansion and diversification. This is true for both government-subsidised financial services (as a means of facilitating local development), as well as for commercial financial institutions seeking access to rural financial resources (i.e. savings) and greater profits through investment in rural areas. This complex, dynamic and ideologically inconsistent financial terrain has played diverse and

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<sup>30</sup> For this reason, the literature aimed at assessing impact mentioned above usually seeks to measure positive impact and does not consider the possibility of negative side effects of expanding the provision of financial services.

multiple roles in the ways in which different rural actors access, utilise and perceive financial services as vital elements in their livelihood strategies, and in local socioeconomic development more broadly, making attempts to box China's rural financial landscape into a single 'ism' overly simplistic.

Therefore, in order to gain a more holistic understanding of the Chinese microfinance industry, and address this dissertation's overarching question – i.e. what role do microcredit programmes play in local processes of socioeconomic development and the livelihoods of diverse local actors? – it is necessary to identify and apply sophisticated conceptual, analytical and methodological approaches that have the ability to shed light on the socioeconomic, cultural and political processes, practices and dynamics involved in shaping local actors' perceptions and understandings of financial information and services. At the same time, we must interrogate the negotiations that take place over the provision, acquisition and utilisation of financial services both within localities, and between local and non-local actors. However, a careful scrutiny of current scholarship reveals that, with a few exceptions, most research is mainly interested in more macro-structural issues related to the functioning of the rural financial system, the mechanics of service provision, particular elements related to the environment within which rural financial institutions operate, and/or assessing the linear causal impact of financial service extension (especially microcredit) on specific aspects of livelihoods and/or local development.

The current body of research has, therefore, provided us with an invaluable understanding of the operation of the rural financial system and institutions from a top-down structural perspective, and has also successfully analysed key linear impacts and the ways in which financial services become embedded at the local level from the perspective of certain rural actors. However, it has not provided us with the tools to holistically analyse the complexities involved in rural financial organisation outlined above from the perspective of local actors themselves. Therefore, we now turn to Chapter 3, which will outline a conceptual and methodological approach grounded in an actor-oriented perspective that analytically focuses on the interfaces of interaction between different actors, the flows and linkages between interconnected financial landscapes, and the capabilities, resources and values associated with diverse local livelihoods. This framework, along with a detailed account of the socioeconomic background/context of the three



fieldwork sites, will set the stage for an in-depth analysis of the role that government-subsidised microcredit programmes play in dynamic processes of local socioeconomic development and the (re)production of the complex and diverse livelihoods of multiple rural actors, that is both grounded in ethnographic fieldwork in townships and villages, and also engages with the critical global debates outlined above.

### Chapter 3

## Conceptual Approach, Methodology and the Field

There is painfully little in-depth scholarly research on China that uses fieldwork and case studies. This is especially true in the rural sector. Research in the Chinese countryside is exceptionally demanding. However, it is only through such research that the challenges facing China's policy makers can be fully understood.

- Peter Nolan

The renowned development studies scholar Robert Chambers identifies two paradigms in development inquiry and practice. The first he terms “Neo-Newtonian’, which originates with physical things, and has underlying ontological assumptions of linear causality, predictability and regularity.” This is contrasted with the “Adaptive Pluralism” paradigm, which perceives “reality as non-linear, unpredictable and complex as it emerges from processes and interactions between people” (Chambers & Loubere, 2016, p. N/A).<sup>31</sup> As Chapter 1 and Chapter 2 illustrate – and as Aminur Rahman’s quote in at the beginning of Chapter 2 succinctly points out – the majority of research on the global microfinance movement and rural finance/microcredit in China is underpinned by ‘Neo-Newtonian’ understandings of social phenomenon. This is because they are based on approaches and modes of analysis that focus primarily on the structures of financial systems and institutions, and/or the evaluation of impact on ‘target groups’ through the identification of direct and linear causal relationships. While these bodies of research have been successful in producing detailed knowledge about how systems and institutions operate, and in the assessment of whether or not microcredit ‘works’ based on various normative and reductionist criteria, they have not been designed to address the more complex (and messy) questions related to how microcredit programmes are manifested at the local level, what heterogeneous implementation means for local development outcomes and the (re)production of diverse livelihood strategies – i.e. the

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<sup>31</sup> For a useful table outlining the differences between these two paradigms see (Chambers, 2008, p. 173); also see (Chambers, 2010).

questions that are central to this dissertation. Therefore, in order to address the research questions and objectives outlined in Chapter 1, it becomes necessary to shift away from the top-down 'Neo-Newtonian' paradigm, and instead adopt an epistemological stance that prioritises the different types of knowledge that emerge from people and their lived experiences. At the same time, it is important to interrogate the inherently relational nature of development processes and concepts, such as marginality, modernisation and exclusion (Mosse, 2010; Mosse & Kruckenberg, 2016; Pfaff-Czarnecka & Kruckenberg, 2016), through systematic analysis of the discontinuities and linages between individuals, groups and wider society (Long, 1999).

This type of research approach, situated within the 'Adaptive Pluralism' paradigm, necessitates patience and a significant amount of time spent working with, talking to and observing people in their everyday lives through in-depth empirical fieldwork based on inductive and qualitative principles. This is, however, by no means a straightforward proposition. Conducting in-depth fieldwork that focuses on people – and their experiences and perceptions – requires the formation of relationships with a variety of actors in the 'field'. While this can be immensely rewarding (and fun), it is invariably challenging and time-consuming work in any context – and particularly in the case of rural China, as Peter Nolan's statement above illustrates. After all, it is only within the last 30 years that 'foreign' researchers have been allowed to work in China with any level of flexibility (Thøgersen & Heimer, 2006; Thunø, 2006). However, despite the relative openness of the contemporary situation, the countryside has remained remote and difficult to access, both geographically and legally, especially for 'outsiders'. Indeed, in all three of the townships documented in this dissertation, the most noticeable aspect of my positionality was that of an outsider, and in one of the locations I was the first foreign 'visitor' since the Japanese invaded during the Second World War.

Of course, the challenges associated with working in rural China are not limited to outsiders. For instance, a local research collaborator who is an established academic in a Chinese university told me that it is also impossible for him to gain research access to field sites without good contacts in both the county and township governments, raising serious

questions as to how free any researcher is to pursue their own agenda.<sup>32</sup> Moreover, there are a host of other challenges that researchers must face, such as issues to do with language, with local dialects often being unintelligible even to native speakers of Mandarin Chinese (*putonghua* 普通话), and limited knowledge of local customs that vary widely across provinces, let alone the entire country. Unfortunately, these issues frequently leave both foreign and domestic researchers woefully ill-prepared in terms of linguistic and cultural fluency (Veeck, 2001). The point here is not to exoticise the fieldwork conducted for this Ph.D. dissertation, but rather to emphasise the difficulties involved in gathering data in a context where the researcher must maintain continuous critical reflexivity before, during and after the fieldwork is complete, in order to effectively question how positionality has affected the knowledge they have produced (Loubere, 2014b; Maclean, 2007; Sultana, 2007). It also requires researchers to maintain openness and flexibility, and acknowledge that the purpose of fieldwork is not to confirm what they already think they know, but to fundamentally reshape their understandings of the very questions that are asked before entering the 'field' (O'Brien, 2006).

With this in mind, this chapter seeks to provide an 'audit trail' for the research project by detailing its conceptual underpinnings, the processes involved in the collection and analysis of data, and the socioeconomic backgrounds of the three main fieldwork sites.<sup>33</sup> The chapter represents a reflexive account of how the research was conceptualised, how questions were formulated, how access was granted/gained, who was spoken to, the specific methods that were employed to gather data, and, ultimately, how the research evolved throughout the entire process, in order to shed light on the nature of the knowledge produced by the project. The rest of the chapter is organised as follows. In Section 3.1 I outline the justification for adopting an actor-oriented perspective that analytically focuses on actor interfaces, livelihood strategies and financial landscapes, in order to conceptually and

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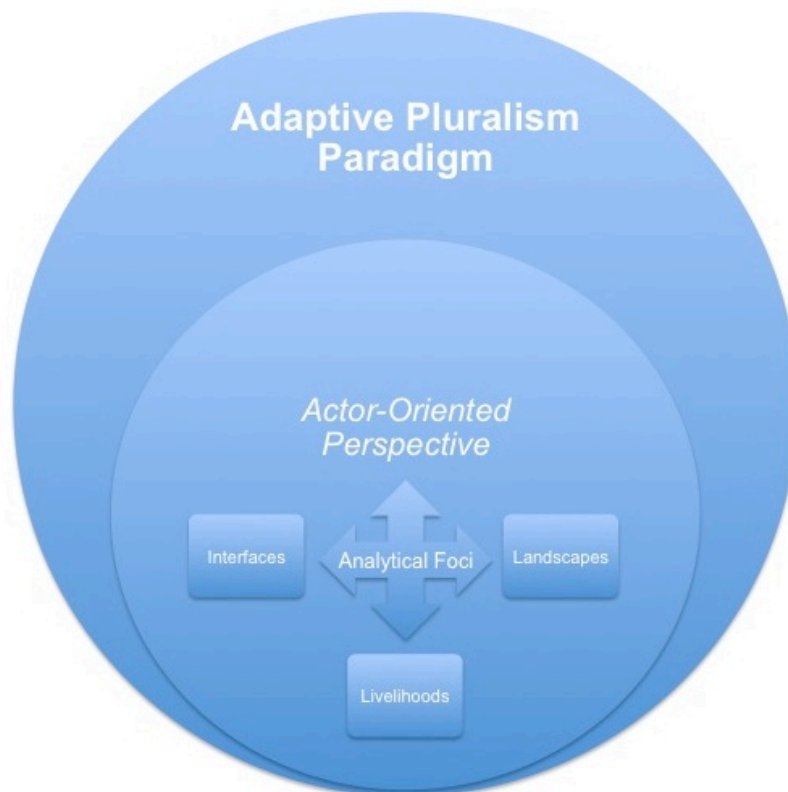
<sup>32</sup> Of course, this is not unique to China, and similar questions could (and should) be raised in other contexts, including fieldwork in the United Kingdom or other countries in the so-called 'Global North'.

<sup>33</sup> This type of audit trail is a necessary element of any research project, but is, unfortunately, often overlooked or omitted (Chambers & Loubere, 2016; Thøgersen & Heimer, 2006; Thomson, 2014).

theoretically move away from the ‘Neo-Newtonian’ paradigm outlined above. Section 3.2 details the methodological approach as well as the process and experience of fieldwork, and Section 3.3 is a detailed description of, and justification for, the specific methods utilised to collect and analyse data. Section 3.4 provides an overview of the socioeconomic backgrounds of the three townships where the vast majority of data was collected, and Section 3.5 concludes the chapter.

### 3.1 Conceptual Approach: Reorienting Towards Actors

**Figure 3.1:** Conceptual Approach and Analytical Foci



#### **Adopting an actor-oriented perspective**

The ‘actor-oriented perspective’ to understanding social phenomena was initially developed by Norman Long in the 1970s and 1980s as a reaction to the dominance of positivist approaches to social research, and particularly research on issues related to socioeconomic development, which “espoused various forms of determinism, linearity and institutional hegemony,” and were, for the most part, “‘people-less’ and obsessed with the conditions,

contexts and 'driving forces' of social life" (Long, 2001, p. 1). Rather than representing a fully developed theoretical and methodological approach, actor-oriented modes of analysis are an attempt to conceptually shift the loci of research from top-down structures to the lived realities "of those inhabiting, experiencing and transforming the contours and details of the social landscape" (Long, 2001, p. 1), as they "attempt to come to grips, cognitively, emotionally and organisationally, with the situations they face" (Long, 2001, p. 20).<sup>34</sup> Actor-oriented research is theoretically grounded in social-constructionist ontological and epistemological understandings of social process, in that social reality is perceived as being co-produced by different actors as they rework existing discourses and repertoires, "and react situationally and imaginatively, consciously or otherwise, to the circumstances they encounter" (Long, 2001, p. 3), resulting in the continual (re)making of local society, which itself consists of "a multiplicity of constructed and emergent realities" (Long, 2001, p. 2). In other words, actor-oriented perspectives tilt "the balance towards the agency side of the structure/actor equation" (Long, 2001, p. 1), based on the assumption that even under conditions of severe constraint, actors can make choices (Giddens, 1986; Long, 2001), while also acknowledging that agency itself is socially constructed, and therefore cannot be separated from shifting patterns of knowledge and power (Long, 2001).

This means that agency is inherently relational, as it is inevitably based on values, perceptions, interpretations and rationalisations, which are discursively expressed through negotiations with other actors (Hindess, 1986), and which arise from cultural discourses that are in a continuous state of flux, and at any given time or place hold more or less sway with different individuals and groups (Long, 2001). These individual and group agencies are expressed in self-organising practices at the local level, resulting in 'messiness', complexity and unpredictability, which are ultimately the defining features of local social processes (Chambers, 2008). Robert Chambers refers to this as "self-organising systems on the edge of chaos" (Chambers, 2008, p. 174), which reveals that local self-organisation should

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<sup>34</sup> Actors can be defined as any social unit that has agency, i.e. the ability to make decisions and carry out actions. However, broad social categories, such as gender, ethnicity, class, etc., which do not have the capacity to make and implement decisions, cannot be considered actors for the purposes of this type of research (Long, 2001).

not be viewed in terms of hierarchical organisational frameworks, but rather as the “outcome of the struggles and negotiations that take place between individuals and groups with differing and often conflicting social interests and experiences” (Long, 2001, p. 26). It is important to note that local self-organisation of this nature does not simply apply to ‘indigenous’ action and behaviour, but also shapes interventions planned by outside actors (e.g. development programmes) through processes of ‘internalisation’ whereby the ‘external’ becomes reconstituted at the local level, and thus comes to be perceived in different ways, takes on different sets of meanings, and gets integrated into diverse strategies employed by a variety of local actors. Therefore, by focussing on the ways in which external interventions become internalised, actor-oriented research provides a distinct mode of analysing and understanding the formulation, implementation and implications of development programmes and policy (such as microcredit programmes) by looking at how these forms of external ‘development’ manifest themselves – often in heterogeneous ways – at the local level through the self-organising practices of the actors involved (Long, 2001).

It is important, however, to emphasise that this focus on self-organisation should not be equated with ‘rational choice theory’ or the various types of ‘methodological individualism’ that often underpin positivistic understandings of development as the aggregate of individual and group actions, and which are perceived as being predictable as long as the external inputs (i.e. variables) are known. Actor-oriented conceptions of self-organisation do not see actors as detached from their social worlds, but instead depict actors and their environments as being “reciprocally constituted” (Long, 2001, p. 4). Outcomes are not predictable or deducible, but are instead complex and emergent, and thus more than the sum of their parts. Therefore, self-organisation of individual and group actors must be understood as both responding and contributing to (sub)cultural norms, the imperatives of dominant and subordinate discourses, and the underlying rules of institutions, systems and wider social networks, all of which are arenas of socio-political negotiation and struggle, and are fundamental to identities and values (Escobar, 2004; Long, 2001). Moreover, these emergent social processes are dynamic and overlapping, making it impossible to compartmentalise or define them in static terms. This means that instead of looking at separate actors, structures/institutions or local realities as atomised units whose distinctions are marked by solid boundaries, it

becomes necessary to analyse the negotiations which have rendered boundaries in their current state, and also to acknowledge areas where these 'units' overlap and are in states of flux. In this way actor-oriented perspectives of development allow us to think beyond simplistic linear cause and effect relationships, such as 'supply and demand' or singular 'impact', which frame local actors as 'passive recipients' of external development interventions, and instead to begin identifying more holistically the complex and multifaceted ways in which development processes are constructed and transformed at the local level (Long, 2001).

### **Analytical foci: Interfaces, livelihoods and landscapes**

In other words, the shift towards an actor-oriented mode has significant implications for where we focus our analysis when examining the provision of microcredit as a development intervention. Rather than attempting to diagnostically measure 'impact' on 'target groups', as if it were some kind of treatment to be administered for the affliction of 'underdevelopment', we are prompted to analyse where microcredit sits discursively within different (and often competing) rural development ideologies and narratives, how microcredit programmes institutionally 'slot into' the existing financial landscape, how and why these programmes come to be organised at the local level, how they fit into the strategies of diverse actors, and, ultimately, what kind of meanings are attributed to – and superimposed upon – the programmes themselves by different types of actors. In this dissertation, the shift from a structuralist/positivist (Neo-Newtonian) mode to an actor-oriented (Adaptive Pluralist) perspective is operationalised through the adoption of three overlapping and complementary analytical foci: actor-interface analysis, the livelihoods approach, and the financial landscapes approach.

#### **Interfaces**

Interrogating the interfaces of interaction between different actors allows for in-depth understanding of the negotiations, compromises and accommodations that ultimately shape the local manifestations of microcredit programmes. These interfaces are formed where different 'lifeworlds' – which are often grounded in fundamentally different interpretations of social reality – meet, overlap and struggle over meaning and value (Long, 2001). While examining social linkages is important, it is

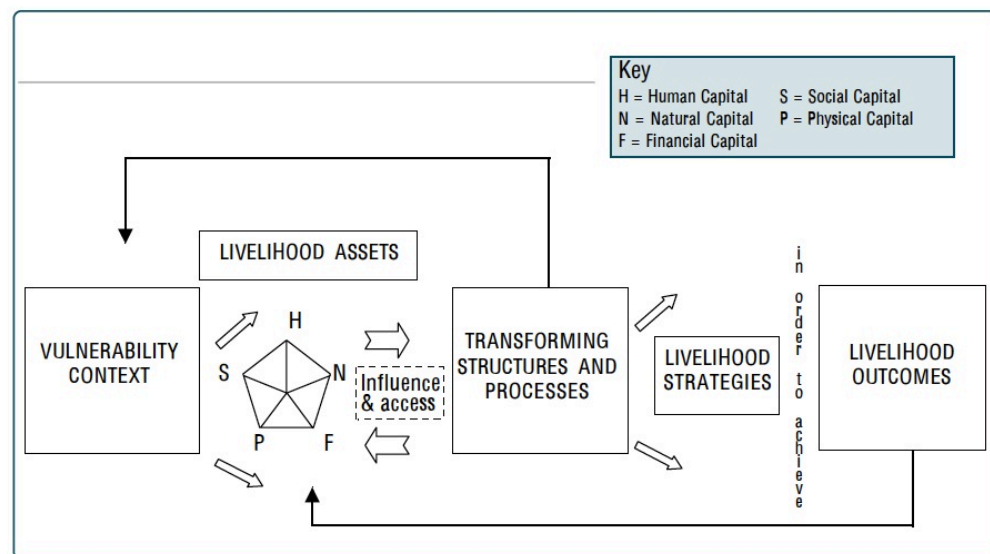


really the discontinuities, fragmentations, struggles, and boundaries that emerge from linkages and connections, that are the key analytical points for interface analysis, because this is where understandings of development come to be defined (Hebinck, Ouden, & Verschoor, 2001; Long, 1999, 2001; Long & Long, 1992). In the words of Norman Long, “continued interaction encourages the development of boundaries and shared expectations that shape the interaction of the participants so that over time the interface itself becomes an organised entity of interlocking relationships and intentionalities” (Long, 1999, p. 1). This allows us to perceive local implementation processes and the ultimate manifestations of development policies/interventions at the local level as the consequence of negotiations between diverse local actors, implementers and policy makers, resulting in heterogeneous outcomes across time and space (Long, 1999; Long & Liu, 2009). In other words, by looking to the interfaces, it becomes clear that development interventions in general, and government subsidised microcredit programmes in particular, are not implemented in a linear process from the ‘central’ to the ‘local’, but are continuously being redefined through encounters which are marked by struggles over power and meaning, and are thus inherently relational constructs (Mosse & Kruckenberg, 2016).

### **Livelihoods**

While a focus on interfaces allows for analysis of the emergent properties shaping microcredit implementation at the local level (i.e. the how and the why), an adapted livelihoods approach provides a means of investigating the role that these heterogeneous local manifestations of the microcredit programmes play in the strategies of diverse actors (including implementers/providers, borrowers, and those excluded from financial services), which ultimately sheds light on what microcredit actually means for different types of people, and the ways in which actors perceive development more generally. Beginning with the publication of Robert Chambers and Gordon Conway’s influential paper in the early 1990s (Chambers & Conway, 1992), the ‘livelihoods approach’ has marked a significant shift in development thinking, and has been adopted by major development NGOs (such as Oxfam and Care) and international organisations (such as the United Nations Development Programme and United Kingdom’s Department for International Development), and has, thus, been the basis for development research and development projects around

the world (Helmore & Singh, 2001; Small, 2007). Drawing on Amartya Sen's ground-breaking work on capabilities (Sen, 1981, 1984, 1985), Chambers and Conway define livelihoods as consisting of "people, their capabilities, and their means for living, including food, income and assets" (Chambers & Conway, 1992, p. iii). They depict the approach as a means of conceptualising the ways in which rural actors – particularly those at the margins of society – exercise their agency, make the most of their capabilities, and leverage various forms of knowledge and power in an attempt to gain access to resources and affect beneficial outcomes (both material and non-material) in the (re)construction and maintenance of their ways of life. Subsequent work has moved away from the focus on capabilities – i.e. actors' abilities to perform activities necessary for the reproduction of their livelihoods, including adaptation, innovation, etc. – and has paid increasing attention to livelihood assets, which have been reorganised into different types of 'capital', such as natural capital (e.g. natural resources), financial capital (e.g. monetary assets), physical capital (e.g. infrastructure), human capital (e.g. skills, labour), social capital (e.g. social networks and institutions) and sometimes political and/or cultural capital (Bebbington, 1999; Ellis, 2000; Scoones, 1998). Livelihoods research has, therefore, largely become the analysis of the ways in which actors gain access to and utilise these various 'capitals', and what this means for 'livelihood outcomes', which are defined as the 'livings' that are made from doing 'livelihood activities', taking into account gains/losses in capital, capabilities and/or access (Chambers & Conway, 1992). For this reason various researchers and institutions have devised visual frameworks to assist in the analysis of livelihoods and their components. Figure 3.2 below is one of the most widely used livelihood frameworks.

**Figure 3.2:** Framework for the Analysis of Livelihoods

Source: (DFID, 1999)

However, in recent years the livelihoods approach has increasingly been the subject of critique for its perceived tendency to ignore power relations, its inability to situate livelihoods within wider processes of long-run change, and its micro-focus – which fails to connect livelihoods to non-local processes of development, such as globalisation. In particular, Ian Scoones, one of the initial pioneers of the livelihoods approach, identifies the lack of focus on structures of power as being the key weakness of livelihoods studies, stating that power and politics need to “be central to livelihood perspectives for rural development. Politics is not just ‘context’, but a focus for analysis in and of itself. It is not just a matter of adding another ‘capital’ to the assets pentagon” (Scoones, 2009, p. 185). Additionally, some critics have pointed to the need to ‘historicise’ and ‘texturise’ livelihoods, due to the fact that livelihoods research often does little more than take a ‘snapshot’ of a specific time and place, without situating the contemporary situation within dynamic historical contexts, or conceptualising the critical linkages between the strategies that local actors adopt and wider processes of socioeconomic and ideological change (Lu & Lora-Wainwright, 2014; Rigg, Nguyen, & Luong, 2014). In this way, the livelihoods approach has the tendency to produce micro-oriented explanations of “social behaviour primarily in terms of individual motivations, intentions and interests” (Long, 2001, p. 14), thereby leaving itself vulnerable to co-optation by neoliberal ideologies that seek to equate development with individual action. This produces a type of

ahistorical and insular research that detaches livelihood strategies from their underlying rationalities, resulting in analysis that is devoid of the kind of 'texture' that is crucial for understanding why people make choices, take actions and ultimately construct their ways of life (Lu & Lora-Wainwright, 2014; Rigg et al., 2014). These critiques have led scholars to theoretically develop the livelihoods approach to incorporate the role of context (historical, political, cultural, etc.) using pathways or trajectories approaches, which emphasise dynamic and differentiated strategies and perspectives of different types of local actors – i.e. the importance of multiple realities – and strive to situate these realities in wider processes of development and change across time and space (de Haan & Zoomers, 2005; Leach, Scoones, & Stirling, 2010; Scoones, 2009).

While this move to historicise and contextualise livelihoods has done much to provide more nuanced and holistic understandings of the ways in which local people work within wider frames of reference when constructing their livelihood strategies, the approach still has problematic elements that need to be addressed before it can be integrated in an epistemologically consistent way within an actor-oriented mode of analysis for the purposes of this dissertation. For one, the visual representation of livelihoods in a framework is conducive to the depiction of the processes involved in making/maintaining a living as linear, and to the compartmentalisation and atomisation of the different livelihood 'components' for individual analysis (see the DFID framework above). This lends itself to macro-structural analyses based on measurable variables (e.g. income, growth, productivity, etc.) (Small, 2007), and is antithetical to the key features of the actor-oriented approach and the Adaptive Pluralism paradigm, which emphasise the emergent properties of local "self-organising systems on the edge of chaos" (Chambers, 2008, p. 174). In other words, livelihood strategies, trajectories and pathways are more than the sum of their parts, and their different fluid elements (rather than static components) need to be visualised holistically as overlapping and dynamic, with changes taking place simultaneously rather than in a linear fashion. Secondly, the conceptualisation of assets as 'capitals' monetises non-financial resources, attributes and capabilities, and implies a fungible or transactional quality underpinning areas of human life that are not 'economic' in nature. Indeed, the economist Ha-Joon Chang observes that the discipline of economics wrongly attempts to claim that "economics can explain not just the economy

but everything else as well” (H.-J. Chang, 2014, p. 20). This is fundamentally misleading, and, more problematically, imposes neoliberal and culturalist discourses of value onto social interactions, setting the stage for ‘rational actor’ analyses that rely on “an ethnocentric ‘Western’ model of social behaviour based upon the individualism of ‘utilitarian man’ that rides roughshod over the specificities of culture and context” (Long, 2001, p. 14). Undoubtedly, understandings of livelihoods cannot simply be reduced to analysis of a set of ‘capital’ transactions by individuals and groups operating in a ‘homo economicus’ mode and their resultant outcomes, but must also include analysis of identities, values and meanings produced at the local level. For this reason I have decided to avoid using a visual livelihoods framework, and have instead opted to adopt Norman Long’s definition of a livelihood as “the idea of individuals or groups striving to make a living, attempting to meet their various consumption and economic necessities, coping with uncertainties, responding to new opportunities, and choosing between different value positions” (Long, 1997, p. 11).<sup>35</sup> This will allow for a more holistic depiction of livelihoods as dynamic, intertwining and non-linear processes imbued with cultural meaning, diverse and differentiated identities and realities, and ultimately mediated by relationships (along with their associated differentials of knowledge and power), rather than simple transactions taking place over a set period of time in a certain place.

### **Financial landscapes**

Therefore, by combining actor interface analysis with a modified livelihoods approach, it becomes possible to better understand how and why microcredit programmes are implemented at the local level, and what they mean for local strategies of development and the (re)production of local ways of life. However, it is also necessary to situate these microcredit programmes themselves within wider historical, socioeconomic and institutional contexts, in order to determine how microcredit (as a development intervention) has fit into, and been framed by, local modes of financial organisation, and wider processes and discourses of socioeconomic development and change. For this reason, I have also opted to focus analytically on ‘financial landscapes’ as a means of historicising and

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<sup>35</sup> For a more detailed account of how Norman Long’s work can strengthen the livelihoods approach by providing ontological consistency see (Small, 2007).

contextualising microcredit in rural China. As Frits Bouman and Otto Hospes (the originators of the concept of financial landscapes) point out, the 'landscape' metaphor "is not only used to indicate the physical features of the financial landscape such as the offices of banks, cooperatives, credit unions..." but it also emphasises "regional diversity and historical change in financial eco-systems," which "stimulates us to explore what relations, norms, actions and processes influence, directly or indirectly, the transactions of savers, borrowers and lenders" (Bouman & Hospes, 1994, p. 1). This allows us to answer Long's call to adopt "a modified political economy perspective," which can deal with the ways in which rural financial services in general, and microcredit programmes in particular, are "structured by the larger arenas of economic and political power relations," within wider regionalised systems of production (Long, 2001, p. 27 and 40). At the same time, it permits us to acknowledge the role that discourse, ideology, norms and identity play in shaping microcredit at the local level. Practically, this approach facilitates the analytical mapping (geographically, economically and socially, see Section 3.3) of the intersections between the implementation of financial services, rural livelihoods and rural development. It also prompts us to visualise the provision, acquisition and utilisation of microcredit as multidimensional, textured and fluid – based on the time, place and actors involved. Finally, it allows us to explore direct and indirect linkages and disconnects between financial services, modes of production and consumption – as well as the inherently human need to accumulate resources in an attempt to (re)produce certain ways of life.

### **Ethnographies of development: Telling Chinese stories**

In this way, analysis of interfaces, livelihoods and financial landscapes can be integrated within a wider actor-oriented perspective to provide a comprehensive conceptual approach to understanding how microcredit is provided, accessed and utilised as a part of differentiated strategies at different levels, which are "mediated by institutions and social relations, including the market, the state, formal and informal rules and social and cultural norms" (H. X. Zhang, 2007, p. 202). Therefore, this approach effectively marries micro-level and historical-structural perspectives. It also allows us to see development processes as inherently relational constructs formed by the dynamic and fluid negotiations between actors at different levels (Giddens, 1986; Long, 2001; Mosse & Kruckenberg, 2016; Small, 2007), thereby representing an "antidote to the excesses of structuralist and

culturalist types of explanation” (Long, 2001, p. 2), particularly with regard to microcredit as a facilitator of development, both in China and globally. In other words, this research seeks to answer Alberto Escobar’s call for “much-needed local ethnographies of development” that are able “to investigate the concrete forms that concepts and practices of development and modernity take in specific communities” (Escobar, 1995, p. 13 and 222). At the same time, it seeks to go beyond the narrative of exceptionalism that is inherent in much micro-ethnographical research (Bebbington, 2000) by telling “local Chinese stories” in relation to the “broad canvass” (Tomba, 2012, p. N/A) that encompasses the discourses underpinning the wider “China Story,” which is told both by and about China (Barmé, 2012, p. N/A), while also relating these ‘stories’ to global discourses on development and change.

### **3.2 Methodological Approach and Fieldwork**

If you want to know about rural credit, you need to go to the countryside, spend time there and talk to people. Reading papers and policies, and talking to officials in the city will tell you nothing.

- Interview 02

Shifting the focus of inquiry to actors themselves, the interfaces of interaction between them, their livelihoods and how this is all situated within socioeconomic and financial landscapes, requires a flexible, reflexive and pluralistic methodological approach to collecting and analysing data that is open-ended, avoids ‘methodological fundamentalisms’, and gives local actors a greater role in the definition of analytical concepts and frames (Chambers, 2008). It “calls for a detailed ethnographic understanding of everyday life and of the processes by which images, identities and social practices are shared, contested, negotiated, and sometimes rejected by the various actors involved” (Long & Liu, 2009, p. 71). For this reason, I elected to adopt a grounded ethnographic approach to empirical fieldwork drawing on the methodological tools found in social anthropological, sociological and human geographical modes of inquiry, while also utilising historical-structural documentary methods common to local political economy research. This allowed the research to take the context of rural China and the issue of socioeconomic development as its points of departure for social inquiry, rather than applying top-down theoretical frameworks based on disciplinary

knowledge. In other words, I adopted a combined and multifaceted methodological approach which allowed for the extrapolation of micro level theory that has the ability to contribute to the types of bottom-up locally-grounded understandings of rural development in China that are needed in order to answer the research questions posed in this dissertation.

### **Grounded ethnography and rapid rural appraisal**

The fieldwork itself was fundamentally underpinned by grounded theory, which outlines a systematic but open approach to data collection and analysis allowing concepts and theories related to social processes to inductively emerge from empirical data. This contrasts with top-down approaches that impose pre-set theoretical and conceptual constructs onto the research project before data collection in order to test hypotheses or frame findings (Charmaz, 2006; Corbin & Strauss, 2008; Glaser, 1992; Glaser & Strauss, 1967; C. Oliver, 2012; H. X. Zhang, 2003).<sup>36</sup> This means that the concepts and theories that emerge are reflections of the perceptions and interpretations that local people have of their lived realities, and the actions they take as they interact with their environment (Goulding, 2002).<sup>37</sup> During and after the data collection, grounded theory approaches utilise qualitative coding techniques in order to identify, organise and compare emerging concepts, which allows researchers to construct “levels of abstraction directly from the data and, subsequently, gather additional data to check and refine... emerging analytic categories” culminating in “an abstract theoretical understanding of the studied experience” (Charmaz, 2006, p. 6). In line with the constructionist underpinnings of the overarching

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<sup>36</sup> Rather than going into the field with a completely ‘blank slate’ as is recommended by some grounded theory proponents, I conducted a systematic review of the literature before and during the main phases of fieldwork (see below for more details), which informed my theoretical and conceptual understanding of the data I was collecting, and which can be considered to be another type of ‘informant’ (Glaser, 1978; Goulding, 2002). Nevertheless, I strove to maintain an open mind throughout data collection as required for the production of grounded theories.

<sup>37</sup> Grounded theory approaches to data collection are especially well-suited to research in language-based area studies because, rather than taking theories associated with a discipline as the point of departure, language-based area studies research starts with a focus on cultures and societies, and is, therefore, interested in understanding local concepts and knowledge rather than imposing outside frames.



actor-oriented conceptual approach outlined above, this research adopts Kathy Charmaz's version of grounded theory that acknowledges the interactionist nature of research as a joint-venture between the researcher and others involved in the research project, thus producing theory that is not discovered (i.e. an inherently positivist conceptualisation), but co-created (Charmaz, 2006), and emergent from complex and inherently relational processes (Glaser, 1992; Mosse, 2006; Mosse & Kruckenberg, 2016).

Therefore, grounded theory – in conjunction with an ethnographic approach – is well suited to the creation of the 'local ethnographies of development' outlined above, which can give rise to the formulation of micro and meso level theories (Bebbington, 2000; Charmaz, 2006) that have the valuable ability to help explain the diverse social processes both emerging from and shaping China's rapid socioeconomic transformation. Ethnographic inquiry utilises a number of methodological tools to describe and analyse the social, cultural, political and economic behaviour of individuals and groups by combining both 'emic' (i.e. local) and 'etic' (i.e. outsider) perspectives in a reflexive and iterative process that begins with the collection of broad contextual data on a defined thematic area and then narrows down to specific themes based on the concepts that emerge during the course of fieldwork (P. Atkinson & Hammersley, 2007; Goulding, 2002). This research drew on a number of common ethnographic methods, including participant observation, structured and unstructured interviewing, and the collection of artefacts and documents (P. Atkinson & Hammersley, 2007; Bryman, 2008). However, in contrast to traditional ethnography conducted by social anthropologists, which usually requires immersive fieldwork over a prolonged period of time (often one year or more) spent directly engaging with participants (Goulding, 2002), I opted to conduct fieldwork in four shorter phases, each lasting for one to three months. This decision was primarily made for two reasons. First there were a number practical issues related to field entry that could not be ignored and required time and patience to deal with – e.g. it was not possible to get a long-term research visa on my first trip to the field,<sup>38</sup> nor would it have been politically or culturally feasible to spend a prolonged period in a remote field site without

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<sup>38</sup> For more on the need to form relationships and be attached to an institution in order to get the proper visa for research in China see (Thøgersen & Heimer, 2006).

first forming close, trusting and reciprocal relationships with local people. Secondly, I envisioned short trips as having the potential to more easily facilitate reflexive analysis and engagement with the literature throughout the research process – e.g. in-between trips to the field I could return to the office in order to analyse data, form preliminary conclusions and check how they fit (or did not fit) with established knowledge in the field.

For this reason, I opted to adapt some of the principles and techniques of Rapid Rural Appraisal (RRA) methodology in an attempt to gather data more efficiently and quickly. RRA is a set of methodologies that were developed in the 1980s by development researchers and practitioners as a reaction to the amount of time and resources needed for traditional ethnography (i.e. prolonged immersions) and questionnaire survey methods (i.e. large samples requiring a team of researchers).<sup>39</sup> RRA emphasises the need to maintain flexibility and openness, and, therefore, adapts methods to be quicker and more adaptable in order to get faster and more useful results. RRA also utilises methods such as sketch mapping, to “flexibly follow up on leads” (Chambers, 1994, 2008; Chambers & Loubere, 2016, p. N/A). In the words of Robert Chambers, “the methods of RRA seek a rigour of cost-effectiveness through exploratory iteration and trade-offs between relevance, accuracy, and timeliness, ignoring inappropriate professional standards. They apply the principles of optimal ignorance and proportionate accuracy (or appropriate imprecision)” (Chambers, 2008, p. 67).<sup>40</sup> Like grounded theory, RRA aims to allow participants to create their own categories, rather than imposing conceptual schemes (e.g. from the literature or from our own perceptions) onto the field and the local people involved in the research. This openness and receptiveness was something that I strived to maintain during fieldwork, primarily by holding back, letting people speak and attempting not to dominate or interrupt, which are all principles of RRA (Chambers, 1994, 2008; Chambers & Loubere, 2016).

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<sup>39</sup> Robert Chambers, one of the principal architects of RRA, describes in-depth ethnography and questionnaires “as being ‘long and lost,’ because they took such a long time and also often generated data that was not particularly relevant” (Chambers & Loubere, 2016, p. N/A).

<sup>40</sup> One such example of an ‘inappropriate professional standard’ is verbatim transcription. Therefore, I developed an RRA-style set of methods called ‘systematic interview reports’ and ‘reflexive dialoguing’ as an alternative, which are covered in more detail below.

Ultimately, this pluralistic methodological approach based on grounded ethnography and RRA was selected to allow for as much flexibility as possible within the constraints that are inherent in this type of fieldwork. It was also utilised in an attempt to reduce pre-existing biases and avoid reinforcing the kinds of ‘blind spots’ associated with ‘rural development tourism’ (i.e. short visits to rural areas from an urban centre) (Chambers & Loubere, 2016), and to allow for unexpected discoveries – or serendipity – to be an integral part of the research design (Pieke, 2000). In other words, rather than going into the field “full of theory” (Pfaff-Czarnecka & Kruckenberg, 2016, p. N/A) like most social anthropologists, or applying reductionist strategies to limit the type and amount of data I was collecting from the beginning in a quantitative mode (e.g. through quantitative questionnaire surveys) – I instead sought to allow theory to emerge naturally from my interactions with various types of actors, and through observation of their interactions with each other, combined with the collection of documentary and visual sources. At the same time, I strived to take on principles and values associated with participatory modes of inquiry (which evolved out of RRA), such as “mutual respect, humility, listening, sensitivity, courage, awareness, integrity, curiosity, playfulness, humour, originality, [and] critical reflection” (Chambers, 2008, pp. 176–7).

### **Preparing for fieldwork**

Based on the methodological approach outlined above, I started the research project with an exploratory orientation, defining the parameters of the research broadly as an attempt to examine the role that microcredit plays in rural China, rather than beginning with specific research questions or hypotheses to test (P. Atkinson & Hammersley, 2007). The goal was to identify the important areas that needed to be investigated within the scope of these parameters, based on the themes emerging from fieldwork and engagement with the literature. After defining my broad research areas, I conducted a thorough review of the theoretical/conceptual literature relevant to the project and the background literature on rural society, politics and development in China, followed by an in-depth systematic review of the

literature<sup>41</sup> on the global microfinance movement, and rural financial services and microcredit in China.<sup>42</sup> When reviewing the literature, I took notes in separate Microsoft Word documents for every item (e.g. article, book, etc.) and then imported these Word documents into the NVivo software package for coding and analysis, which allowed me to draw out the key themes present in the different bodies of scholarship in a grounded theory mode.<sup>43</sup> I then used the same NVivo project file for my primary data analysis, which made it easy to identify crosscutting themes and/or issues I encountered which were absent from, or contradicted, the literature (see below for more on NVivo).<sup>44</sup> In this way, my literature reviews helped me to develop a more focussed (but still flexible) idea of the issues I intended to study by providing important background/contextual knowledge about the Chinese rural development situation in general, and rural financial services specifically. Based on this knowledge, I made a preliminary research design and plan for fieldwork, and completed the ethical review and risk assessment processes, which were both accepted by the University of Leeds. Finally, in the spring of 2012, I went on my first 'scoping trip' for the research project.

My initial point of contact with the 'field' was Zhejiang University, which, along with the University of Leeds, is a member of the Worldwide

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<sup>41</sup> For discussions on the importance of conducting a systematic review of the literature in the social sciences, see (Bryman, 2008; Hart, 1998; Mallett, Hagen-Zanker, Slater, & Duvendack, 2012).

<sup>42</sup> In addition to the systematic review of the English language scholarship, I used Google Scholar, CNKI, other Chinese electronic databases and the Zhejiang University library to search for relevant scholarship in Chinese. However, due to the time constraints of the Ph.D. and the dauntingly large number of articles and books on rural finance in Chinese, this review was not as extensive as the review in English. Nevertheless, in general, I found that the Chinese academic literature on rural finance and microcredit is similar to the English language literature in that it is primarily situated in the disciplines of finance and economics, and focuses on top-down approaches (see Chapter 2).

<sup>43</sup> In reality, I undertook these reviews of the literature before, during and after fieldwork as part of an iterative process where both engagement with scholarship and collection/analysis of primary data fed into the flexible research design and shaped the trajectory of the research project.

<sup>44</sup> For an overview of how to use NVivo for a critical and systematic review of the literature, see (Beekhuyzen, 2008).

Universities Network. This allowed me to apply for fieldwork funding to visit Zhejiang University from March to April 2012, and my connection with the institution allowed me to apply for a short-term research visa, which is vitally important in order to conduct research in China legally (Thøgersen & Heimer, 2006). This institutional connection with a Chinese university also provided the opportunity to meet and work with established academics and students in Zhejiang Province, who then subsequently introduced me to their colleagues in Jiangxi University of Finance and Economics. In this way my social and professional network expanded, and, through my new friends and colleagues, I was able to meet a range of different actors of relevance for my research, including government officials at various levels who facilitated my access to the rural field sites on this and later trips. Moreover, my contacts in Zhejiang and Jiangxi also accompanied me on initial trips to a number of townships and villages that they had access to, and helped me to decide which available sites would be most suitable for my research.<sup>45</sup> During these trips I strived to keep my options open and maintain flexibility in order to avoid what Robert Chambers calls “premature closure” in the field (Chambers & Loubere, 2016, p. N/A). I visited a number of different locations in Zhejiang and Jiangxi, and spoke with as many different types of people as possible, including academics, officials at different levels of government, migrant workers, farmers, and shopkeepers, among others. I also spent as much time as possible unhurriedly wandering around and observing everyday life in the places I visited, rather than following detailed itineraries or plans, in an attempt to allow for spontaneity and serendipity.

Because Zhejiang is located in the more prosperous eastern coastal region, the locations I visited in the province were quite urbanised and ‘modern’, and marked by a relatively ‘developed’ financial infrastructure – i.e. a greater number of formal institutions, and especially commercial banks. Rural areas in Zhejiang were also better connected to urban areas (e.g. better quality roads), which allowed rural residents to more easily access the huge number of urban financial institutions. Moreover, informal finance was widespread and even institutionalised in Zhejiang counties and townships. Jiangxi, on

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<sup>45</sup> Rather naïvely, I initially planned to gain access to rural fieldwork sites by simply riding a bicycle by myself across the countryside. However, it became immediately (and abundantly) clear that this would not be socially, politically or culturally acceptable.

the other hand, is located in the less prosperous central region, and the potential field sites generally had less access to formal financial services and particularly credit. Informal finance was also less institutionalised (i.e. usually provided through friends and family rather than underground organisations), meaning that the microcredit programmes had the potential to play more important (or at least more visible) roles in local development and livelihoods. More importantly, Jiangxi Province was the initial provincial pilot site for the EMP (see Chapter 4), and, as a poorer central province, is home to officially designated 'poverty-stricken villages' (*fuchi pinkun cun* 扶持贫困村) as part of the Poor Village Investment Programme, which are the target areas for the PAMP (see Chapter 4), while the wealthier Zhejiang Province does not have any nationally designated poverty-stricken villages. Finally, in Jiangxi I had the opportunity to work in a township that was in one of the original pilot areas for the RCCMP, which would not have been possible in Zhejiang.

Based on these factors, I decided that northern Jiangxi Province had the best potential for productive and interesting fieldwork, so in discussion with my local colleagues/partners and future research assistants, three townships in different counties were selected, each of which represented intriguingly distinct socioeconomic and socio-political situations (see Section 3.4), and, thus, varied experiences and perceptions with regard to the implementation, acquisition and utilisation of microcredit. In order to comply with the University of Leeds' ethical guidelines and to protect the anonymity of the interviewees, I have selected pseudonyms for the three townships based on their primary economic activities: the agricultural township (AT), the migrant work township (MWT), and the diverse economy township (DET). Additionally, in each township I selected one village to be the primary location for interviewing rural households, due to the fact that most of the township populations lived in villages – especially the farming populations. Different types of villages were selected in each site in order to provide a variety of contexts and perspectives. In other words, in line with Norman Long's research style, my location sampling approach "commenced by selecting a number of contrasting social locations" within which it was possible to study "in depth the lifeworlds of different social groups" (Long, 2001, pp. 23–4). After this scoping trip I returned to Leeds but remained in contact with my research assistants. I also conducted preliminary analysis of the data I had collected, revisited the literature and sought out new

academic sources based on the themes that had emerged during the trip. At the same time, I began to plan and prepare for the three main fieldwork trips.

### **In the field**

The main fieldwork for this research project took place over three trips lasting approximately two to three months each. The first trip was for more than two months from October 2012 to December 2012; the second trip lasted for just under three months from April 2013 to June 2013; and the third trip was for one and a half months from July 2013 to August 2013. The first trip was initially spent conducting interviews with officials at the provincial, prefectural and county levels, followed by two weeks in the AT and one week in the MWT. During this time I did not live in the townships or villages, but instead commuted daily from Nanchang with my research assistant to get to know local people and build up trust. The second trip was spent entirely in the MWT, where I lived with a family in the village and conducted interviews in both the village and the township, and also with some county officials when they visited the township. The third trip was spent entirely in the DET, where I lived with a family in the township centre and conducted interviews in the village, township and county. Most of the interviews were conducted jointly with a research assistant; however, there were also periods when I was the lone researcher at the field sites, during which time I conducted some interviews by myself, but more frequently engaged in unstructured conversations, and carried out socioeconomic mapping and other types of observation.<sup>46</sup>

Conducting fieldwork in four shorter trips rather than one extended ethnographic immersion had both benefits and drawbacks. For instance, because I stayed at the sites for relatively shorter periods of time, I did not have a chance to do as much unstructured exploring and wandering as I would have liked. Moreover, I could not witness the passing of a full year in order to see how different seasons influenced life, and I felt as though I was always regarded as an 'outsider' who was perceived to be 'on his way out'.

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<sup>46</sup> Because I developed the 'systematic interview report' and 'reflexive dialogue' methods, both of which require two researchers (see below), I tried to ensure that most of the interviews were conducted with research assistants.

This perception, however, was also beneficial in certain circumstances because people seemed to be more willing to speak to me on short notice due to the time limitations – especially busy officials who might have put off our meeting if it was understood that I would be around for a long time. More importantly, I was able to get some ‘distance’ from the field between visits, which allowed me to reflect on what I had discovered (and what mistakes I had made) and devise better methods of conducting research on subsequent trips. Furthermore, it also helped me avoid getting ‘burnt-out’ and potentially allowed me to maintain good relationships with the people I worked with, who may have felt acute pressure to accommodate me if I had requested to live ‘on site’ for a year.<sup>47</sup>

Decisions about who would take part in interviews and conversations were based on “judgement or opportunistic sampling” (Burgess, 1984, p. 55; H. X. Zhang, 2003, p. 255), which entailed selecting key criteria (i.e. types of actors), and attempting to find willing participants who met the criteria.<sup>48</sup> In the early stages, and particularly with government officials at the provincial, prefectural and county levels, this necessitated a ‘snowballing’ sampling technique, beginning with initial contacts and then expanding my network through references and recommendations (R. Atkinson & Flint, 2001). In the townships and villages I would walk around trying to find people to talk to based on the flexible criteria and emergent themes – and also by asking my assistants to help set up interviews, asking interviewees to recommend others, and generally mobilising my growing network of contacts in the field to help me find other potential participants (i.e. ‘snowballing’). After conducting systematic household and business mapping (see below), I was able to revise my criteria based on the different types of actors in each site

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<sup>47</sup> This raises the obvious point about the ethical issues involved with researchers ‘imposing’ themselves on local people, particularly in ‘developing’ contexts, which need to be rigorously reflected upon. Ultimately, based on my experiences, I don’t think that it is possible to say that multiple short trips to the field is a better or worse means of conducting research than long-term immersions. Rather, the two methods are simply different and, for this reason, produce different types of data and knowledge, requiring researcher reflexivity before, during and after fieldwork.

<sup>48</sup> It is important to note that these criteria changed during fieldwork in an iterative process as new information presented itself (P. Atkinson & Hammersley, 2007).



and their relative socioeconomic situations, which allowed me to select respondents from different strata of local society with different livelihood strategies, and also different types of small, medium and large enterprises. I, therefore, did not attempt to get a 'representative' sample in order to produce 'generalisable' (by aggregate) or 'replicable' data, but instead targeted specific types of actors in an attempt to explore their lived experiences and perspectives in relation to the three microcredit programmes for the purpose of micro and meso level theory construction (Charmaz, 2006; H. X. Zhang, 2003). I then triangulated what I had discovered by crosschecking with different actors, through the collection of different types of data, and by letting themes, concepts and categories emerge as naturally as possible – in order to achieve what Robert Chambers refers to as a “rigour of trustworthiness” (Chambers & Loubere, 2016, p. N/A). That being said, the interview/conversation sample size was, nevertheless, relatively large, consisting of 78 semi-structured interviews (lasting between 40 minutes to one and a half hours), and 41 unstructured conversations (lasting anywhere from five minutes to two hours), which took place primarily in the three townships/villages, but also at the county, prefectural and provincial levels. I should note that I did not pay any interviewees for their time, but in some cases I brought chocolates for female interviewees, and I also had packs of expensive Zhonghua cigarettes (*zhonghua xiangyan* 中华香烟), so that I could offer male interviewees a cigarette during the interview or conversation (female interviewees rarely smoked). I also attempted to create a role for myself in the field (i.e. make myself 'useful') by teaching English to children in the local schools and in the homes of the people I stayed with.<sup>49</sup>

Of course, the collection of this substantial qualitative data set, which forms the core foundation of this Ph.D. dissertation, would not have been possible without significant help, and I am heavily indebted to my research partners in China, and especially to my two research assistants who helped with data collection, organisation and, to a certain extent, *in situ* analysis. My first assistant was an M.A. student who worked with me during the scoping trip, the first main fieldwork trip and for half of the second trip. His M.A. supervisor agreed that the trips could be used to contribute to some of his

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<sup>49</sup> For more on how researchers must continuously negotiate their role in the field, see (P. Atkinson & Hammersley, 2007).

coursework, and I also assisted him with his application for Ph.D. study, so he was not paid as a research assistant. The second assistant worked with me for half of the second trip and the entire third trip, and was a final year undergraduate student who was preparing to begin an M.A. programme. She saw the research project as a summer job to help her gain experience, and for this reason she was paid approximately RMB 150 per day as a formal research assistant.

Collaborating with local partners is, of course, a common feature of research in rural China, which is often omitted or 'glossed over' in the writing-up and dissemination stages of research projects, with local collaborators being labelled as 'informants' or 'translators', understating the importance of their role in the (co)production of data and knowledge (Thøgersen & Heimer, 2006; Thunø, 2006). In my case, my research 'assistants' became both professional colleagues and good friends. They provided invaluable support both tangibly and intangibly during fieldwork, and certainly played a role in shaping the research as it evolved. In-between interviews and in the evenings we shared ideas, feelings, hunches and perceptions. We were often surprised at how different our (emic and etic) perspectives were, and exploring these different worldviews brought out new realisations drawing on the relative strengths of our different types of knowledge (P. Atkinson & Hammersley, 2007; Bröckerhoff & Kipnis, 2014). Ultimately, it was through joint brainstorming and the sharing of ideas that many of the concepts and themes that would later form the basis for analysis emerged (Chambers, 2008). There were, of course, also practical advantages to working with local partners in the field. For instance, since my assistants are both from northern Jiangxi, they were able to speak the local dialects, which proved to be invaluable with some interviewees who could not speak Mandarin Chinese well or who had heavy accents (particularly elderly farmers). In this way they played the role of semi-interpreters in certain interviews. Moreover, they also provided invaluable advice on sociocultural traditions and informal rules that I was unfamiliar with, but which shaped many of our social encounters, thus helping me to avoid insulting people or transgressing cultural norms, while also assisting with the interpretation of behaviours and actions based on the local cultural contexts.

My research assistants were also vital to helping me secure access to the remote townships and villages where I conducted research, which would not

have been possible without social and political connections with local authorities. In all three townships my research assistants played a role in facilitating access, albeit through very different methods, which reflected the different power constellations they themselves were embedded within. This meant that I was perceived differently in the three townships (i.e. my positionality was differently constructed), and was, thus, able to speak with different types of actors and interact with people in different ways, raising important epistemological issues.<sup>50</sup> For instance, in the AT and the MWT my access was dependent on official connections at the prefectural level, meaning that local officials and some households felt compelled to talk to me, resulting in a higher response rate amongst some actors. At the same time, however, it was clear that I was perceived to be associated with a 'higher power'. In the DET, on the other hand, I gained access as a friend and guest of a 'normal' – but well regarded – local household, meaning that I was not necessarily perceived as having anything to do with the government, and that people (especially family and good friends of the household) would speak to me more frankly. However, because I had not entered through top-down hierarchical channels, I was worried about my presence being met with suspicion by local and county authorities, potentially resulting in trouble for the family I was staying with and myself. Therefore, I proceeded with caution when attempting to contact local officials and financial institutions, and while I did manage to conduct interviews with these actors, it was limited in comparison with the AT and the MWT.<sup>51</sup>

Ultimately, however, despite being largely defined by my 'foreignness', my positionality was constantly shifting in the field depending on where I was, how I got there, who I was with, who I was speaking to, and what I was doing. This meant that I was provided with different types of information in different contexts, which obviously has serious epistemological implications for the data that was generated.<sup>52</sup> While this would be seen as a failing in a

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<sup>50</sup> For more on the various implications that the shifting nature of research positionality has on the knowledge that is produced, see (Loubere, 2014b; Sultana, 2007; Thunø, 2006).

<sup>51</sup> See Appendix A for detailed diagrams illustrating how I gained access to the sites and different actors in the three townships/villages.

<sup>52</sup> The issue of my role and position in the field as a researcher, and what this means for the relationships that were formed and the data that was

quantitative study attempting to create a ‘representative’ and ‘generalisable’ data set, in the case of my research it was invaluable as a method of presenting the voices and lived experiences of different types of actors in relation to microcredit. It also allowed for crosschecking and triangulation, which, as stated above, are necessary in order to achieve a “rigour of trustworthiness” (Chambers & Loubere, 2016, p. N/A).

### **3.3 Data Collection and Analysis**

#### **Interviews and conversations**

As stated above, the primary method of collecting data for this research project was through semi-structured interviews, or what Stig Thøgersen refers to as “dialogue-type interviews,” where the interview is based on a set of flexible questions, but is open-ended, allowing for “a clarification process with interruptions, repetitions and negotiations rather than a monologue or a series of questions and answers” (Thøgersen, 2006b, p. 121). Separate ‘flexible interview outlines’ were designed for different types of participants, including borrowing households, non-borrowing households, large industries, financial institutions and government officials, which aimed at collecting different types of data, and also relating to actors in ways that were more natural to them socially, culturally and linguistically.<sup>53</sup> The flexible interview outlines allowed me to pursue interesting and unexpected lines of inquiry as they presented themselves, in a ‘responsive interviewing’ mode (Rubin & Rubin, 2011). The interview outlines also evolved over the course of fieldwork as new questions arose during interviews and based on observation.

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produced, is a topic that I have explored in conference presentations and publications (Crawford, Kruckenberg, Loubere, & Morgan, 2016; Loubere, 2012, 2014b; Loubere, Morgan, Kruckenberg, De Beukelaer, & Hernandez Montes De Oca, 2012), and is important enough to deserve a chapter of its own. Unfortunately, there is simply not enough space in this Ph.D. dissertation to allow for a chapter of this nature.

<sup>53</sup> Interviews with households or microenterprises always started out with a basic set of questions about the household/family and their social and economic situations, which was triangulated with observational data and interviews with other actors in order to assess socioeconomic status.

The vast majority of the interviews (and conversations, see below) were conducted in Chinese, with both my research assistants and myself asking questions and taking notes. In a few cases, interviews were conducted primarily in local dialect, either because the interviewee did not have the ability to speak Mandarin, or because they felt more comfortable conversing in their own local language. In these cases my assistants acted as interpreters, but I would continue to ask questions in Mandarin as the interviewees could usually understand, even if they could not (or would not) speak the language. Where possible (and appropriate) interviews were recorded, although this was done in order to allow my assistants and I to return to the recordings later for verification purposes during the writing of 'systematic interview reports' and 'reflexive dialoguing', not to produce full verbatim transcripts (see below for the justification of this approach). Depending on the attitude of the interviewee towards us, and their accent or language ability, either my assistant or I would lead the interview, with both strategies having their associated strengths and weaknesses.<sup>54</sup> Prior to the interviews, interviewees were always told about the research in detail and provided with some material introducing the research. They were also informed that they were free to end their participation at any time, as is required by the University of Leeds Ethical Review Committee. Having two people engaged in the interviews was highly beneficial because it allowed one person to take notes (both on what was said and on observations of non-verbal cues and the environment) while the other engaged in discussion. During the interviews my assistants and I would often switch back and forth between the role of note-taker and interviewer, meaning that there were not many long pauses in the discussions, allowing the interviews flow more naturally.

In addition to the formal semi-structured interviews, I also gathered a significant amount of data through unstructured conversations, which is not surprising considering I was living in the fieldwork sites and interacting with many different types of people on a daily basis. These conversations were with a wide variety of actors, covered a range of topics, and they usually

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<sup>54</sup> There are obvious benefits associated with a native speaker leading interviews and conversations; however, research has also shown that non-native speakers can be better suited to allow respondents to define their own concepts (in a grounded mode) during interviews by "deferring to their position as a language authority" (S.-H. Chen, 2011, p. 119).

occurred spontaneously – lasting anywhere from five minutes to two hours. Additionally, some conversations took place with government officials who were unwilling to be formally interviewed, but were willing to talk informally and off the record. Generally, conversations were not recorded and did not follow the format of the semi-structured interviews. Instead they were usually part of everyday life and were informal in nature, meaning that the types of information that I was presented with were different, but often of vital importance – especially for triangulation purposes. Whenever I had a conversation that was directly relevant to the research, I would write a ‘conversation report’ using the same technique as the ‘systematic interview reports’ outlined below. In total I produced 41 conversation reports, which were imported into NVivo for analysis after fieldwork. Other conversations that were of less direct relevance to the research were reflected upon in my fieldwork journal (see below). See Reference Lists A, B and C for a complete list of all the interviews and conversations utilised in the writing of this Ph.D. dissertation.

### **Systematic interview reports and reflexive dialogue**

While the semi-structured interview method outlined above is common to many types of qualitative research, I found that the standard approach of recording and transcribing interviews was not entirely suitable for the research that I was conducting. Like many other researchers, I began this research project assuming that recording interviews for full verbatim transcription was necessary to establish ‘validity’, ‘rigour’ and ‘trustworthiness’, and that most of my data would emerge from these transcriptions.<sup>55</sup> However, I immediately encountered problems with this approach, which caused me to reflect on what the recording and transcription processes actually mean for the generation and interpretation of data. In the end, I determined that attempting to produce complete verbatim transcriptions of interviews would result in lower quality research for a number of reasons.

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<sup>55</sup> Some researchers have started to question whether or not transcription is really a necessary step in ethnographic research (Halcomb & Davidson, 2006; Lapadat, 2000; D. G. Oliver, Serovich, & Mason, 2005). However, in general, it is considered a standard and professional ‘best practice’ across disciplines (McLellan, MacQueen, & Neidig, 2003; Poland, 1995).

Firstly, verbatim transcription necessitates the audio recording of interactions with research participants; however, this is not always possible or desirable (P. Atkinson & Hammersley, 2007; Werner, 1999). Often people do not want to be recorded, or the environment is not conducive to producing a recording of sufficient quality. For instance, some of my interviews/conversations were conducted with street vendors at a busy township market; there was nowhere to sit or place a recording device and the background noise made any recording virtually unusable. Other times participants were happy to have an informal discussion, but became withdrawn and uncommunicative after I requested their consent to record. These examples illustrate the fact that important information is often presented when the recorder is off. However, research that relies on verbatim transcription as a means of proving 'rigour' will necessarily valorise the recorded while downplaying the significance of information collected in other ways. Second, it is widely recognised that transcription is technically very difficult (DiCicco-Bloom & Crabtree, 2006; Halcomb & Davidson, 2006; McLellan, MacQueen, & Neidig, 2003; D. G. Oliver, Serovich, & Mason, 2005). Spoken language is structured differently from written language, and things like incomplete sentences, pauses, self-corrections, partial utterances, and background noise all make producing a truly accurate verbatim transcription basically impossible – especially in a second language. More importantly, verbatim transcription on its own leaves out vital non-verbal modes of communication, such as posture, facial expressions and gestures that may change the meaning of what is being said. Researcher observations, feelings, hunches and positionality are also left unreflected upon in a 'pure' verbatim transcription. Moreover, because transcription takes place after fieldwork, I felt that it would have pushed critical engagement with the field to a later time when memories and feelings associated with the 'fieldwork event' would have faded. In this way, transcription reinforces the false dichotomy that the field is for collecting data and the office is for analysis, when in reality data collection in the field should include critical analysis of emerging themes. Finally, there was also the issue of time and resource limitations, as it would have simply taken too long to fully transcribe all the interviews myself, and it would have been too costly to pay assistants to help with the task.

In other words, I came to realise that verbatim transcription is a methodological choice rather than a 'best practice' that should be blindly adhered to, and I decided that it was necessary to find a different way to

deal with the rich set of data that I was collecting through interviews and conversations. For this reason, I developed two interlinking methods that I refer to as 'systematic interview reports' and 'reflexive dialoguing', which are based on the principles of RRA. Systematic interview reports are co-produced documents written by my research assistant(s) and myself. Reports were written based on our notes and memories from the interviews, and (when possible) we referred back to recordings for verification of details (see Figure 3.3 below for an overview of the process).<sup>56</sup> Most days we conducted two to three interviews and, after returning to the house in the evenings, we would spend approximately one hour writing each report in Microsoft Word using the flexible interview outlines as templates. Usually we would each write one of the reports to save time, and if we had conducted three interviews I would write two reports and my assistant would write one.<sup>57</sup> After completing the reports we exchanged what we had written, and the second person added further information, made note of additional observations and analyses, and highlighted points of disagreement or inconsistencies based on their own notes, memories and the recording where possible. Because the reports were written in Word, each author used a different text colour so that it was easy to determine who had written which parts of the text. These systematic interview reports allowed for the inclusion of observational material about the surroundings, non-verbal cues, the attitude and demeanour of the respondents, their reaction to different questions, and the types of 'language codes' that different actors employed when speaking (Thøgersen, 2006b), all of which are generally lost in a verbatim transcription that reduces the interview to text that is analysed long after the discussion actually took place.<sup>58</sup> Moreover, the systematic interview

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<sup>56</sup> I have presented on my use of these two methods at conferences and workshops (Loubere, 2014a), and in the future I plan to publish a paper outlining the methods in greater detail.

<sup>57</sup> As stated above, similar reports were also written for conversations of direct relevance. However, because conversations were unstructured, the reports were not based on any template and relied on memory rather than extensive notes.

<sup>58</sup> The argument could be made that transcription is inherently positivist, and therefore inappropriate for research based on a grounded actor-oriented approach. This is because transcription inherently assumes that meaning is the result of combinations of words (i.e. objective in an almost mathematical way), rather than emergent from discourse – which is complex, dynamic



reports also included preliminary reflections, analyses, triangulation, and hunches relating the interview to what had been said by previous respondents and/or observed during the course of fieldwork. Finally, interesting quotes were also included in the systematic interview reports, or we highlighted specific parts of the interview where good quotes might be extracted in the future by listening to the recording (where available).

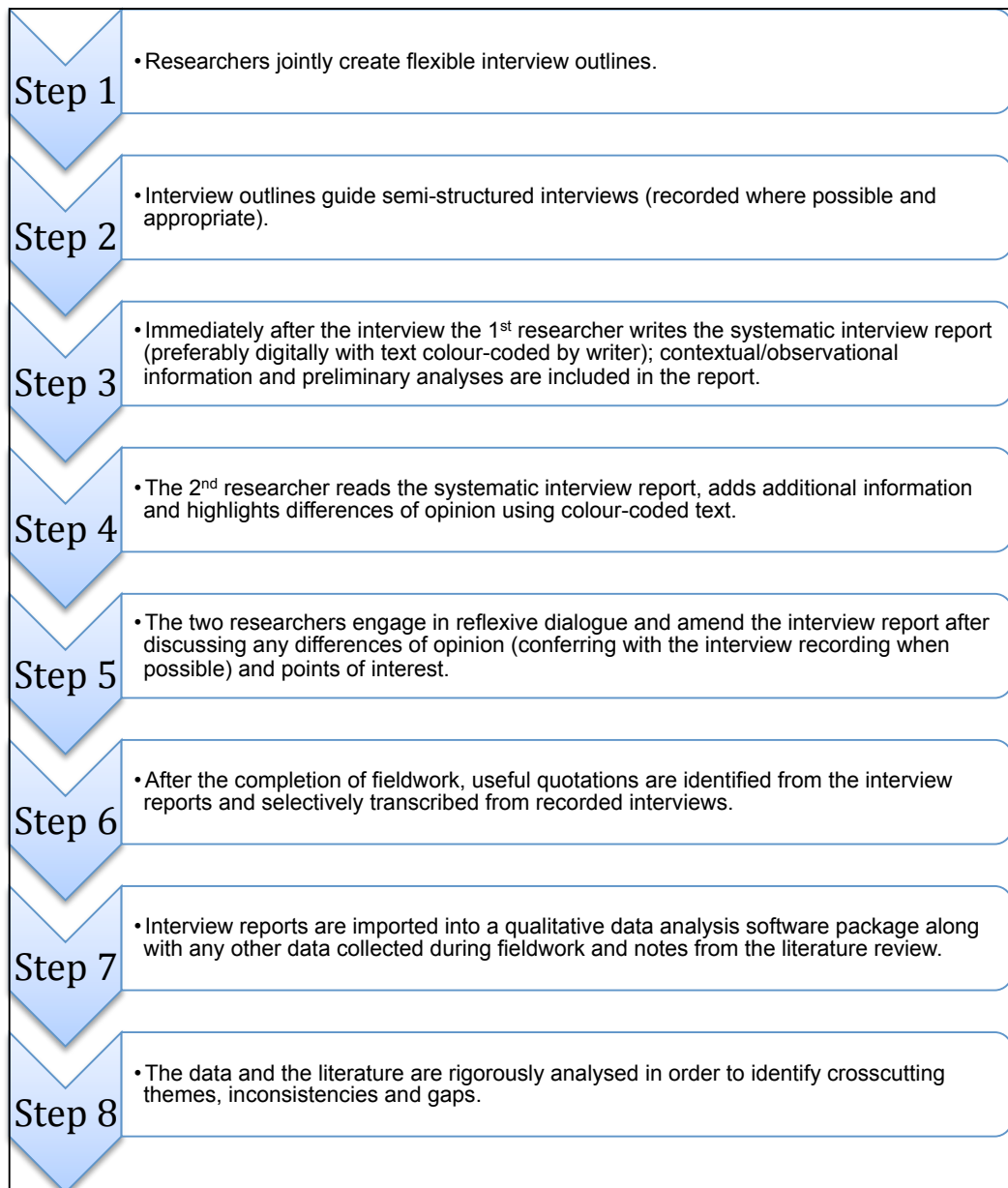
After the systematic interview reports had been written, exchanged and modified, my research assistant and I engaged in what I term 'reflexive dialoguing' about the interviews and conversations specifically, and our personal experiences of the day's work in general. During this time we discussed points of interest and disagreement in the reports (referring back to recordings if possible) and, more generally, tried to make sense of what we had learned and put it into wider context. Reflexive dialoguing helped me to interpret what respondents were trying to say, even if they did not say it directly, and I feel the method was key to challenging "ethnocentric views and partial interpretations of empirical data" (Thunø, 2006, p. 246), which is vital in order to avoid imposing hegemonic development discourses onto the interviews/conversations through the act of unreflexive direct translation (Maclean, 2007). These reflexive dialogues also allowed the systematic interview reports to reflect a combined emic/etic perspective, which limited the inherent weaknesses associated with 'pure' insider or outsider research (Bröckerhoff & Kipnis, 2014). Moreover, the method also facilitated the formulation of concepts and codes, identification of key areas for further study, and provided a means of determining which aspects of the reports needed to be triangulated to assess validity through further interviews/conversations, observation or with documentary data. These reflexive dialogues usually lasted from between 30 minutes to one hour, and afterwards I would finalise the reports based on what had been discussed before retiring for much needed sleep.<sup>59</sup>

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and, in addition to the words that are said, includes a host of other elements of great importance, such as non-verbal communication, intonation, etc.

<sup>59</sup> These were obviously very long and tiring days for both my research assistants and myself. Particularly in the summer months, it sometimes reached 40 degrees Celsius during the day, making fieldwork even more strenuous and leaving us exhausted in the evenings. It is, therefore, a testament to the work ethic and ability of my assistants that they were able to perform at such a high level throughout the immersive fieldwork trips.

Ultimately, the interlinking systematic interview report and reflexive dialoguing methods facilitated critical engagement with emergent themes *during* fieldwork, rather than after. They also resulted in a detailed set of concise, organised and rigorously co-reviewed interview/conversation reports (3000-5000 words in length) containing participant responses, rich contextual information, and preliminary analyses and coding, which allowed for much faster and more effective analysis after the fieldwork was complete (see below for more on analysis). These reports also often contain useful verbatim quotations, or have at least highlighted sections of the interview that are of particular interest and may yield good quotations, which have been included in the dissertation to more effectively and directly 'give voice' to the actors whose opinions, understandings and aspirations are at the heart of this research.

**Figure 3.3:** The Process of Producing Systematic Interview Reports

### Documentary data

In addition to the interviews and conversations outlined above, I also collected a significant amount of primary and secondary documentary data before, during and after fieldwork. This includes policy documents issued at the national, provincial and prefectural levels, which were collected from officials themselves during interviews, or online from relevant websites and databases. These policy documents provide a broad understanding of the historical development of the programmes, and form the basis for the analysis of the formulation of policy for the microcredit programmes in

Chapter 4. I also collected various local government documents, particularly publicity for government programmes, and propaganda produced by local governments in an attempt to attract outside investment, which is often one of the most important duties of township officials (G. Smith, 2010). These documents provided useful background knowledge of the areas, albeit from specific (and potentially quite biased) perspectives. Linked to this, I also gathered as much material as possible from local financial institutions (especially the RCCs), such as publicity and propaganda for their products and services, and for the microcredit programmes themselves. Unfortunately (but unsurprisingly), financial institutions were not willing to provide sensitive documentary data related to their operation.<sup>60</sup> I was, however, able to collect some sensitive primary documentary data from households and government officials through the use of a digital camera (with permission of the respondents), such as completed loan application forms, household registration documents (*hukou ben* 户口本), bank books, bank cards, identification cards, and even one letter of complaint about local government officials written by a local household. Finally, I also collected a range of secondary documentary data using the internet, such as newspaper articles and government reports.<sup>61</sup>

These different types of documentary data facilitated the type of historical-structural analysis usually associated with local political economy research, and allowed me to connect the lived experiences expressed in the interviews and conversations with the macro and meso structural aspects of the institutional and policy environments. Therefore, by combining these data, I was able to perceive a textured financial landscape mutually constituted by institutions, structures, discourses and actors at various levels. Documentary data that is directly referenced in this Ph.D. dissertation can be found in the bibliography (particularly policy documents). However, due to limited space, the huge amount of documentary data that has played a role in my understanding of the this project, and in order to maintain the anonymity of

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<sup>60</sup> Sometimes information of this nature was provided during interviews/conversations with willing employees, but it is difficult to assess validity in these circumstances.

<sup>61</sup> For a detailed overview of the different types of documentary data available to social science researchers in China, see (Thøgersen, 2006a).

the fieldwork sites, I have decided against providing a comprehensive list of all the documentary data collected for the research project.

### **Observation**

Observation was another crucial element of data collection and I utilised a variety of techniques to systematically document my observation of participants and local contexts. To begin with, as soon as I entered a fieldwork site I began writing a 'contextual observation report' based on a flexible template. Like the flexible interview outlines, the contextual observation report templates evolved throughout fieldwork and were tailored to each site, but in general they were meant to provide background information and useful socioeconomic indicators – e.g. population, land area, geography/environment, income, infrastructure, industry/business, cultural life, etc. – in order to provide a platform for analysis based on detailed contextual (or 'grounded') understandings of the places being researched. These contextual observation reports were complemented by over 1,200 photos and videos of the different sites taken by my research assistants and myself. See Reference List D for details of all the observational reports that contributed to this dissertation.

Additionally, I also conducted systematic mapping exercises in order to gain an in-depth understanding of the different socioeconomic landscapes of the three townships/villages. In particular, I mapped out the different types of housing and businesses operating in the different localities. In terms of households, I found that mapping of housing structures (i.e. the buildings themselves) is useful "as an indicator of poverty or prosperity... and may be useful (not least because so visible and easy to count) as a proxy for relative poverty or prosperity between villages and for the same village over time" (Chambers, 2008, p. 75). In other words, the most visible representation of a household's socioeconomic status is usually the house where they live, so I created a typology of five household 'classes', with one having the highest socioeconomic status and five having the lowest, and I mapped out distribution of house class across the three townships/villages and also made a note of the house class of each interviewee in the systematic

interview reports.<sup>62</sup> This not only allowed for effective comparison of the socioeconomic situations of the three sites, but it also aided in sampling, as I was able to ensure that I had a reasonable balance of respondents from different socioeconomic backgrounds. Outlining business type and distribution was also crucial to my understanding of how the local economies were structured in the three townships and how people/groups earned a living (e.g. what they used financial services for). For this reason, I systematically mapped out all the different types of businesses operating in the MWT and the DET (both townships and villages). Unfortunately, due to time and socio-political constraints, I was not able to systematically map the businesses in the AT, but I was able to get an accurate sense of the quantity and types of businesses in operation (see Section 3.4 below).<sup>63</sup> Similar to the household mapping, the business mapping also played an important role in sampling because – by allowing me to visualise the different types of business/industry in each area – I was able to better target a range of businesses spanning the spectrum of local society for interviews. See Appendix B for tables detailing the results of the business mapping exercises in the MWT and DET, and Section 3.4 for an approximation of business types in the AT.

Finally, ‘just being there’ – particularly living in households in the villages and townships, and spending all my free time (including meals) with local people – had a huge impact on me as a person and researcher (Caple, 2011; Okely, 1994), and represents experiential observational data. I tried to tangibly capture this data by keeping a reflexive field journal (Chambers & Loubere, 2016) that documented my thoughts and feelings with regard to conversations, encounters and observations, which did not fit neatly (or were too personal to be included) in the interview and conversation reports. I would usually write a few notes every day, and whenever I had some spare time or energy (usually every three to four days) I would compile these notes

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<sup>62</sup> See Appendix C for the household class typology and tables showing the distribution in the three sites.

<sup>63</sup> While it is unfortunate that I was unable to do business mapping for the AT, based on the principle of ‘appropriate imprecision’, the approximate data I gathered is still valid and valuable. Indeed, as the old saying attributed to John Maynard Keynes states: “it is better to be approximately right than precisely wrong” (Chambers & Loubere, 2016, p. N/A).

into a more formal journal entry that also linked what I was thinking and feeling at the time to my wider experiences and understandings of the fieldwork, the wider project, and what it all meant to me as a person. In this way, my journals provided 'snap shots' of my various mindstates, which have been very helpful in stimulating my memory during analysis. In total I have four fieldwork journals (one for each phase of fieldwork including the scoping trip) of approximately 10,000 words each (see Reference List D for more details).<sup>64</sup>

## **Analysis**

Analysis of the diverse types of data outlined above was undertaken in a continuous iterative process both during and after fieldwork, through which concepts emerged that were grounded in the empirical data, were reflected upon and modified/adapted as new information was presented, and were then analysed in relation to the wider academic literature. Because I was working in a grounded ethnographic mode, *in situ* analysis coincided with the beginning of data collection, as I immediately started framing my experiences and conceptualising what they meant for the research. The interlinking systematic interview reports and reflexive dialoguing methods was another type of *in situ* analysis and also represented the beginning of the coding process, as themes began to emerge and were written down as textual frames of reference that would form my core understanding of the interviews when I revisited them after the fieldwork was over. These different forms of *in situ* analyses were consolidated through the writing up of preliminary analysis reports and/or progress reports for my supervisors approximately every two weeks while in the field. These reports outlined key questions, important findings and theoretically framed the data that had been (co)produced during fieldwork. They also played an important role in shaping the direction of the research, and largely followed the grounded theory approach to memo-writing, which aims to allow for "continuous interplay between analysis and data collection" (Goulding, 2002, p. 42). The analysis/progress reports also became valuable data for analysis in and of

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<sup>64</sup> Robert Chambers notes that reflexive journals of this nature are vital to preserving 'valid' memories of fieldwork events, because "your memory tricks you... We manufacture memories and we massage them all the way through – particularly through repetition" (Chambers & Loubere, 2016, p. N/A).

themselves (C. Oliver, 2012), as they represented different stages of my understanding of the research (see Reference List D).

These *in situ* analyses provided a solid foundation for further in-depth analysis of the data upon returning to the office. The vast majority of my data were already in a digital format, as my research assistants and I had been working in Microsoft Word to produce the various reports, and we had digitised as much 'hard' documentary data as possible while in the field using our digital cameras. After returning to Leeds, I digitally scanned all remaining hard data, which left me with a large (but well organised) digital data set that had already undergone preliminary analysis, but was in need of further coding (i.e. categorising or indexing) in order to draw out the key themes and concepts that would shape the research as a whole and determine which academic theories I needed to engage with (Bryman & Burgess, 1994). Therefore, I opted to import the entire data set into the NVivo software package. NVivo is a computer programme that enables researchers to efficiently organise different types of digital material (including Word documents, PDFs, images and audio-visual files), and apply 'codes' or categories to selected sections/parts of the data. These codes then allow the researcher to quickly see the themes that are emerging from the data and, because multiple codes can be applied to each section/part, it is possible to visualise how these themes overlap and intersect (Bazeley & Jackson, 2013). NVivo also has a powerful search function, making it easy to run queries on words or phrases when working with large data sets. Because I used the same NVivo project file for the literature review (see above) and the primary data, I was able to see how the themes that emerged from my empirical data related to the key themes in the scholarship. Based on this in-depth analysis of the data in NVivo, I constructed preliminary outlines for the overall Ph.D. dissertation and each individual chapter, identified key areas of the literature that I needed to explore in more depth, and highlighted parts of the interviews to revisit in order to clarify meaning and/or extract interesting verbatim quotations.



### **3.4 Introduction to the Field: The Socioeconomic Backgrounds of the Three Townships**

The final section of this chapter provides a detailed overview of the socioeconomic contexts of the three northern Jiangxi townships where the majority of data was collected for this Ph.D. dissertation.<sup>65</sup> Jiangxi is located in China's central region, which, along with the poorer western provinces, has been the target of a number of development policies and programmes (including the microcredit programmes discussed in this dissertation) aimed at replicating the kind of 'modernisation' that has occurred in the more prosperous eastern coastal region (Barabantseva, 2009). Jiangxi has historically represented a varied socioeconomic landscape. With its long growing season and extensive network of canals linking the province with important urban centres, Jiangxi has been one of the traditional 'rice bowls' of China. At the same time, the province has also been home to the historically important porcelain industry, mining, and – as one of the first areas to be controlled by the CCP – 'Red Jiangxi' played an important role in revolutionary history, with some of Mao Zedong's early socioeconomic research taking place in the province (Mao, 1990; R. R. Thompson, 2009). This means that Jiangxi's historical and contemporary 'development situation' is complex and cannot be fully explained or understood by its simple categorisation as an 'underdeveloped central province'.

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<sup>65</sup> As stated above, some data collection took place at the provincial, prefectural and county levels – i.e. interviews with officials and employees in financial institutions, and collection of documentary data. However, the vast majority of the fieldwork took place in the three townships/villages outlined in this section.

**Figure 3.4:** Map of Jiangxi Province

Source: (R. R. Thompson, 2009)

Therefore, in an attempt to understand different aspects of Jiangxi's complex and differentiated socioeconomic landscape, I specifically selected three sites that represent a variety of physical geographies, types of socioeconomic development, institutional structures and sets of occupational opportunities (see Section 3.2 for more on location sampling). In other words, I selected sites that represent three distinct developmental and livelihood contexts – providing the means to analyse how microcredit is perceived by a variety of actors, and what it means for development in different socioeconomic situations.<sup>66</sup> As stated above, the names of the

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<sup>66</sup> Interestingly, these townships/villages fit three out of the four categories in Jonathan Unger's typology of rural China – i.e. local government has taken

three townships have been anonymised through the use of pseudonyms in order to protect my respondents. Additionally, I have opted not to mention the names of counties or specific governmental departments at the prefectural and provincial levels in order to avoid the possibility of specific individuals being identified. Table 3.1 below summarises the key features of each site.

**Table 3.1: The Key Features of the Three Townships**

	<b>Agricultural Township (AT)</b>	<b>Migrant Work Township (MWT)</b>	<b>Diverse Economy Township (DET)</b>
<b>Distance to urban area (car)</b>	1.5 – 2 hours (bad roads)	40 minutes (good roads)	40 minutes (good roads)
<b>Average income per year (official estimates)</b>	RMB 6,000	RMB 7,000	RMB 5,000 *This estimate is contradicted by observational data.
<b>Socioeconomic situation based on observational data</b>	Poorest of the three townships	Poorer than the DET but richer than the AT	Richest of the three townships
<b>Designated poverty-stricken villages</b>	No	Yes - 1 (provincial)	Yes - 1 (provincial)

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the lead (the MWT); private industry dominates (the DET); and the hinterland (the AT) (Unger, 2002b).

<b>Main economic activities</b>	Rice farming Vegetable farming Contracting farmland Migrant work (30%)	Migrant work (40%-70%) Local construction Industrial park	Local business Textile factories Local construction Farming Tourism Migrant work (40%)
<b>Financial institutions</b>	RCC	RCC ABC ATM	RCC PSBC ABC

### **The agricultural township (AT)**

The AT has a population of over 30,000 people, administers just under 30 villages, and is located approximately 60 kilometres outside of a major urban area in northern Jiangxi Province. However, despite the close proximity to the city, there are no major transportation links and the roads that do exist are small and largely in disrepair, making transportation difficult, especially during adverse weather conditions or the harvest season when farmers dry their rice on the sides of the roads. For this reason it takes between an hour and a half to two hours to travel the distance by car, and significantly more than two hours by bus. The distance and travel times from the township to the county seat are similar. Local officials estimate that the average yearly income in the township is around RMB 6,000, 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). Nevertheless, despite this fact, the AT is not home to any designated 'poverty-stricken villages'.<sup>67</sup>

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<sup>67</sup> AT Contextual Observation Report; Conversation 01; Interview 05.

**Figure 3.5:** View of the River in the AT

The AT is located on a flood plain next to a large river and surrounded by flat agricultural land that is primarily used for rice farming. Because the township is subjected to regular flooding, agriculture (rather than industry) has remained the primary livelihood activity, and almost all the township's agricultural land is cultivated. The fieldwork period coincided with one of the harvest seasons,<sup>68</sup> and farmers were using both manual and mechanical methods to harvest their crops. In addition to rice farming, some of the land has been converted into vegetable greenhouses, principally because vegetables sell at a higher price than rice. With the notable exceptions of two TVEs – a brickmaking factory and a rice processing plant – there are few industries in the township, and there are not any large-scale businesses or much diversity in the types of commercial enterprises operating in the township centre, with most being related to agriculture, construction or daily necessities (i.e. small shops and restaurants).<sup>69</sup> After agriculture, the second most popular livelihood activity is migrant work, with approximately 30 per

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<sup>68</sup> Most rice farmers in Jiangxi engage in multiple cropping, i.e. two to three crops per year.

<sup>69</sup> AT Contextual Observation Report. As noted above, I was not able to systematically map out the businesses in the AT in the same way as the other two townships (see Appendix B). Nevertheless, in general AT businesses were smaller and less diverse than the other sites.

cent of the population currently working outside of the township, which is significantly less than the MWT or the DET.

**Figure 3.6:** Mechanised Farming in the AT





**Figure 3.7: Rice Collection in the AT**

The AT is physically smaller than the MWT and the DET, with the centre comprising of a main commercial street and two smaller intersecting streets. For the most part, the infrastructure and buildings in the township are old and worn down, especially in comparison with the other two townships. Most of the township housing was built in the 1980s or 1990s, and can be considered 'class 3' based on the House Classification Criteria (see

Appendix C). The township is home to a primary school and a middle school, and a small health centre. The township government is housed in a small, old and rundown building, with a number of government offices also being located in different buildings around the township. The township RCC, on the other hand, is the newest building in the AT, and is large with a spacious courtyard. The RCC is the only financial institution in the AT, and there is only one branch in the entire township. Remittance services are also available to residents through China Post, but there is no branch of the PSBC located in the township.<sup>70</sup>

**Figure 3.8:** Houses in an AT Village



The village where I conducted most of my household interviews in the AT is located 10 kilometres away from the township centre on the bank of the river. There is no public transportation to the village, meaning that it takes 20 minutes to travel from the village to the township by car or motorcycle, and over two hours to walk. The village itself has a population of just under 1,700 people, or slightly more than 300 households, and is divided into seven

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<sup>70</sup> AT Contextual Observation Report.



natural villages. Like in the rest of the township, the main livelihood activity is agriculture, and most households farm relatively large plots of land – of at least 10 mu (*mu* 亩) – and raise livestock, such as chickens, ducks, and water buffalo, along with some aquaculture. Additionally, some households rent land in neighbouring townships in order to scale-up their agricultural production,<sup>71</sup> and some local residents have started building vegetable greenhouses. There are five small shops selling daily necessities in the village (and one doubling as a hair dresser), but no other type of business or industry, and the shop owners all engage in farming as well. During fieldwork, the village committee was just finishing construction on a brand new three-story building to house the village government, which is actually larger than the township government building. Funding for this building has probably been made possible because the village was designated a national ‘model experience’ for the XNCJS and has won awards for agricultural development.<sup>72</sup> The village also has an elderly community centre, a small health centre and a primary school; however, these are all housed in small old buildings. The household mapping exercise also revealed that the vast majority of households live in class 3 (30 per cent) and class 4 (50 per cent) houses, and that there are no class 1 houses (see Appendix C). Finally, it is important to note that in the 1980s and 1990s there used to be a branch of the RCC in the village, which was closed in the late 1990s due to the rural financial crisis (see Chapter 2).<sup>73</sup>

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<sup>71</sup> Since the ratification of the Land Rights and Transfer Agreement in 2008, it has been possible to rent agricultural land (Ahlers & Schubert, 2013; Veeck & Shui, 2011), and this practice is common in the township, with some households renting over 100 mu of outside land (Conversation 01; Interview 05).

<sup>72</sup> We were told that this was paid for by the county and that other villages do not have buildings like this. Moreover, during our interviews the village committee members presented us with packs of one of the most expensive cigarette brands in Jiangxi costing RMB 100 per pack (Interview 04).

<sup>73</sup> AT Contextual Observation Report; Conversation 01; Interview 03; Interview 04; Interview 07.

**Figure 3.9:** Village Committee Building with Rice Drying out Front in the AT



### **The migrant work township (MTW)**

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. 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, the 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, but that the richest residents in the MWT are wealthier than their counterparts in the DET (i.e. the MWT is more unequal). Nevertheless, despite the fact that the MWT is more prosperous than the AT (based on both official and observational data), the township has one provincially designated 'poverty-stricken village', while the AT has none.<sup>74</sup>

**Figure 3.10:** The Main Road in the MWT



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<sup>74</sup> MWT Contextual Observation Report; Interview 12; Interview 13; Interview 14; Interview 15; Interview 16.

The MWT is bordered on one side by hills, forests and lakes, but the rest of the township is flat and, for the most part, suitable for farming. 300 *mu* of the township's agricultural land is controlled by a commercial farm that cultivates crops and raises livestock, and which is 90 per cent owned by an SOE and 10 per cent owned by private investors. This land has been rented from township residents on rolling five-year contracts.<sup>75</sup> Many of the poorest households rely on agriculture as their primary livelihood activity, often selling their produce in the township market. However, most household do not engage in agriculture as a livelihood strategy,<sup>76</sup> so much of the agricultural land has been abandoned (and now considered 'dead land'), is under-utilised, or has been contracted to farmers coming from other townships (e.g. the AT).<sup>77</sup> The main livelihood activity in the MWT is, as the pseudonym suggests, migrant work, with between 40 to 70 per cent of the population working outside of the township depending on the time of year. During fieldwork, the small proportion of working age males in the township was noticeable, and the demographic breakdown was consistent with the widely observed phenomenon of the 'left behind' elderly, women and children (Lin, Yin, & Loubere, 2014; H. Wu & Ye, 2014).<sup>78</sup> This migrant work trend is responsible for the relative prosperity of many households in the township, as they benefit from remittances sent from their family members. However, it is also partially responsible for widening inequality, as households that do not have any members engaging in migrant work are usually poorer.<sup>79</sup> The money flowing into the township from migrant work has also created a more dynamic commercial environment in the MWT, with 113 small, medium and large businesses in operation in the township centre. Most of these businesses are related to the construction of new houses (see Appendix B), which is usually one of the first priorities for households when they can accumulate enough wealth through remittances or other means.

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<sup>75</sup> Interview 49.

<sup>76</sup> Many of the elderly continue to farm very small plots of land for personal consumption and/or out of habit (MWT Contextual Observation Report; Conversation 08; Conversation 10).

<sup>77</sup> Conversation 12; Interview 37.

<sup>78</sup> One respondent told me: "You can see that most of the people in the village are elderly or children, the young adults have all gone to work in the cities" (Interview 30).

<sup>79</sup> Interview 09; Interview 17.

The largest business in the township is a construction company, which deals with both residential construction and infrastructure. This company had recently relocated from the city to the township to take advantage of preferential tax rates and lower costs. The township is also home to a new industrial park with room for 24 companies (at the time of fieldwork only nine companies had taken up residence in the park), which provides work for some locals and also attracts a limited number of migrant workers to the township, and there is also a profitable natural gas station located in one of the villages, which used to be fully state-owned, but has now been effectively privatised. Local people can also find seasonal work in the SOE commercial farm mentioned above.<sup>80</sup>

**Figure 3.11:** View of the SOE Commercial Farm in the MWT



Geographically, the MWT is significantly larger than the AT, but smaller than the DET. The township centre consists of three main commercial streets and a few smaller connecting streets. About 70 per cent of the buildings in the

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<sup>80</sup> MWT Contextual Observation Report; Conversation 08; Interview 14; Interview 32; Interview 45.



township centre are newly built (within the past five years), and are four-stories tall with room for a business on the ground floor and living spaces on the higher levels – i.e. class 2 buildings. The remaining 30 per cent are class 3 buildings, which were constructed in the 1980s or 1990s, and are smaller, but still have space for both living and commercial activity. Approximately 20 per cent of the commercial real estate is vacant. The MWT has a primary school, a middle school and a small health centre. The township government is located in a large and spacious building (with a big courtyard), which was built in the 1990s. The RCC on the other hand, is in a smaller new building next to the government. As in the AT, the RCC is the only financial institution in the township, and there is only one branch, which is located in the township centre. There used to be a branch of the ABC in the township but this was closed in the 1990s. However, there is now a cash machine for the ABC in the industrial park (approximately 15 minutes walking from the township centre), and residents can use the China Post for remittance services, but there is no branch of the PSBC.<sup>81</sup>

The village I selected to study in the MWT covers a large area, and has a population of 3,800 (about 1,000 households) in 10 geographically dispersed natural villages, some of which are located in remote hilly areas and others next to the township centre. Because the village administrative area partially overlaps with the township centre, the village committee is actually located on the main commercial street of the township in a class 3 building. Due to the fact that the village is so large, I opted to focus my mapping exercises and interviews on two neighbouring natural villages (where I lived during fieldwork), located approximately two and a half kilometres from the township centre (i.e. a 30 minute walk). As would be expected, most people in the natural villages relied on migrant work as the main source of income for their households, which has allowed over 50 per cent of the population to build class 3 houses. However, 11 per cent of the population live in class 5 houses, compared to five per cent in the AT and zero per cent in the DET. Moreover, there are also more class 1 houses in the MWT natural villages, indicating a higher level of inequality than in the other two townships and villages (see Appendix C). The poorer residents usually still farm, or they work as day labourers for construction companies or on the SOE commercial farm, which borders the natural villages. Commercial activity in

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<sup>81</sup> MWT Contextual Observation Report; Interview 38.

the natural villages is very limited, with only one small shop, a mechanic and two pig farms in operation. There is no school, so children must travel to the township to attend class, and there are no leisure or health facilities. Unlike the AT, there has never been a branch of the RCC in the natural villages or in the village that they are administered by, but there is more informal finance than in the AT.<sup>82</sup>

**Figure 3.12:** Migrant Farmers on Rented Land in the MWT



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<sup>82</sup> MWT Contextual Observation Report; Conversation 18; Interview 17.

**Figure 3.13:** View of a Natural Village in the MWT





### **The diverse economy township (DET)**

The DET is located on a well-maintained road connecting it to an urban centre and the urbanised county seat, which are both 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 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. I decided to conduct most of my household interviews in the DET's largest village, which also overlaps with the township centre (administratively and geographically), making it practically difficult to draw a distinction between the two, as most of the people and businesses identified themselves as belonging to both the township centre and the village.<sup>83</sup> Officially, the village has a per capita income of only RMB 5,000 per year, and has been designated a 'poverty-stricken village' by the province. However, in reality the DET village is (by far) the richest of the three sites, based on observation and conversations with local officials.<sup>84</sup>

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<sup>83</sup> This is quite different from the villages/natural villages in the other two townships, which are geographically distant and therefore have an identity that is separate from (but still linked to) the township. For this reason, my household mapping exercise covered the township centre (which is technically also the village), so I when I refer to the DET in the text I actually am referring to both the township and the village.

<sup>84</sup> DET Contextual Observation Report; Conversation 20; Conversation 21.

**Figure 3.14:** View of the DET

Moreover, the township represents a significantly more diversified range of livelihood strategies and activities. In the 1990s, many of the township residents went to work in manufacturing centres in Zhejiang Province, and have since returned to set up small component ‘microfactories’ in the township that supply the larger factories in Zhejiang and provide work for locals and some migrants.<sup>85</sup> The centre of the township is home to over 330 businesses (including TVEs) of different sizes and scales (see Appendix B), and unlike the other two townships this commercial activity is diverse, rather than being dominated by construction (as in the MWT) or agriculture (as in the AT). The DET is also located in a county that is well known for tourism, and is therefore surrounded by scenic hills. While the township itself is not a tourist hub, many residents engage in tourism-related work/business in various parts of the county. Additionally, there is large-scale tea farming in the surrounding hills, and many people still cultivate rice and vegetables either as their primary or secondary livelihood strategy, so there is very little unused agricultural land. Finally, only 10 per cent of the village population is currently engaged in migrant work, while 40 per cent of the total DET population migrates to cities to earn a living, meaning that remittances still

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<sup>85</sup> The DET is emblematic of the wider phenomenon of ‘returning migrant workers’ (*fanxiang nongmingong* 返乡农民工), who often become local entrepreneurs while maintaining economic linkages with the areas and industries where they worked as migrants (Démurger & Xu, 2011).

represent an important source of income in the township, but not in the township centre/village itself.<sup>86</sup>

**Figure 3.15:** Small Tea Processing Plant in the DET



The DET centre is much larger than the AT or the MWT, and consists of a number of distinct residential neighbourhoods and commercial streets. The

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<sup>86</sup> DET Contextual Observation Report; Conversation 20; Conversation 29; Conversation 31; Conversation 34; Interview 53.

township is home to a medium-sized hospital, a number of health clinics, large primary and middle schools, and a range of other facilities not available in the other two townships (e.g. a bus station). The DET government is housed in a modern building (less than five years old) that is at least twice as large as the MWT government and easily three times the size of the AT government. Most of the buildings in the township/village are modern and large. The commercial streets are primarily lined by class 2 and class 3 buildings (three to four-stories high) with businesses on the first floor and residences on the higher floors, and almost all the commercial real estate is in use. There are also distinct residential neighbourhoods composed of predominantly class 2 (42 per cent) and class 3 (47 per cent) houses, and no class 5 houses, indicating a higher overall level of wealth and more even distribution of wealth than the other two townships (see Appendix C). The township is also home to a more diverse range of financial providers and services. In addition to the RCC, there are branches of the ABC and the PSBC (all located in modern buildings), and formal credit is much more widely available due to the fact that the township is in a county that was one of the model/pilot sites for the RCCMP (see Chapter 4). Moreover, because there is generally more capital available in the township due to a greater amount of commercial activity, informal finance is more widespread and semi-institutionalised.<sup>87</sup>

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<sup>87</sup> DET Contextual Observation Report; Conversation 20.

**Figure 3.16:** Township Government Building in the DET

### 3.5 Conclusion

This chapter has sought to provide a comprehensive ‘audit trail’ summarising the research process that went into producing and analysing the data that form the basis of this Ph.D. dissertation. The first Section (3.1) detailed the conceptual and theoretical justification for adopting an actor-oriented perspective analytically focused on interfaces, livelihoods and financial landscapes, in order to answer the dissertation’s overarching research question and secondary research objectives. It is argued that this perspective allows for research to move away from a ‘Neo-Newtonian’ approach based on positivistic principles, and constrained by a focus on structures/institutions and top-down linear causality, towards an approach adhering to an ‘Adaptive Pluralist’ paradigm, and therefore more suited to analysing the complex realities emerging from the negotiations between different actors as they attempt to make sense of microcredit programmes and integrate them into local development and livelihood strategies. Section 3.2 and Section 3.3 outline the process of fieldwork, detail the precise methods utilised to gather and analyse data, and describe the specific types of data collected. Both sections also reflect on how the different methods I utilised to gain access to the field and collect data have shaped the knowledge that has been created, and what this means for the findings of this research project more generally. Section 3.4 represents a detailed

overview of the three townships/villages where most of the fieldwork took place, in order to provide the necessary background understanding of the different socioeconomic contexts examined in this Ph.D. dissertation. We now turn to Chapter 4, which outlines the formulation of the policy development of the three microcredit programmes at the central and provincial levels, and compares this with the realities of how these programmes have been implemented in the three townships.

## Chapter 4

### The Policy and Practice of Government Microcredit in Jiangxi Province

The mountains are high and the emperor is far away (*shan gao huangdi yuan* 山高皇帝远).

- Old Chinese saying

Since the initiation of the first ‘modern’ microcredit projects in the 1980s, the Chinese microcredit sector has expanded and diversified, with the number of NGO/NPO programmes and commercialised MFIs increasing at a seemingly exponential rate, particularly over the last decade (see Chapter 2). Nevertheless, despite the rapid expansion of microcredit services provided by NGOs/NPOs and commercial MFIs, the three largest programmes run and subsidised by the government (the PAMP, RCCMP and EMP) are still, by far, the largest source of microcredit in rural China in both size (i.e. total amount of loans) and scale (i.e. outreach). These programmes, while being fundamentally different to NGO/NPO or commercial MFIs in a number of key aspects,<sup>88</sup> have, to a certain extent, exhibited ideological characteristics of both the ‘poverty lending approach’ utilised by NGOs/NPOs, and the ‘financial systems approach’ adopted by commercial providers (see Chapter 1). For instance, all three of the programmes have provided loans at subsidised rates to different target groups that have been perceived to be ‘financially excluded’. The programmes also all aim to jumpstart rural development and reduce socioeconomic inequalities by facilitating grassroots entrepreneurship, in much the same way that the Grameen Bank and other early proponents of the ‘poverty lending approach’ envisioned turning on “economic engines among the rejected population of society” (Yunus & Weber, 2007, p. 56). At the same time, however, government microcredit in China has also been influenced by the global microfinance

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<sup>88</sup> Most notably, these government programmes are not institutions themselves like MFIs. Rather, they are intermediaries that facilitate microcredit transactions between rural borrowers and financial institutions (mostly state-controlled), and mobilise funds to pay interest.

movement's shift towards the 'financial systems approach', as well as by the increased emphasis on 'financial sustainability' and 'profitability' in China's financial sector more generally (Loubere & Zhang, 2015), which has prompted both the local implementers and the financial institutions providing the loans for the PAMP, RCCMP and EMP to think of their involvement in the programmes in more commercial terms.

Ideologically these microcredit programmes have also been firmly situated within the government's overarching rural development strategies and frameworks, including longstanding development narratives put forward by China's top leaders. For instance, policies for the programmes have been framed as "following the guidance of 'Deng Xiaoping Theory' (*Deng Xiaoping lilun* 邓小平理论) and the 'Three Represents' (*sange daibiao* 三个代表)" (JXPMoHRSS & JXPRCCU, 2009; State Council, 2003), while also being linked to efforts to create a 'Harmonious Society' (*hexie shehui* 和谐社会) and a 'Well-off Society' (*xiaokang shehui* 小康社会) (JXPPAO, JXPMoF, & JXPABC, 2006; PBC, 2001; State Council, 2002, 2003). Since the early 2000s, the extension of 'modern' financial services in general (and microcredit programmes in particular) to rural areas has been identified as a key method of dealing with the *sannong wenti*, and the RCCMP has been especially singled out as an effective method of supporting rural people engaged in agriculture (MoF, 2010; PBC, 2001; State Council, 2003, 2014; Tang, 2006). More recently, the three programmes have also been integrated into newly emerging and overlapping rural development strategies, such as the XNCJS, which seeks to 'modernise' the countryside while maintaining its rural nature (State Council, 2006), and the CXYTH, which aims to "break down the systemic urban-rural dichotomy" (Weiguang Wang, 2013), with the RCCMP seen as a method of improving rural production (particularly through agricultural modernisation), the PAMP as a way of increasing rural consumption, and the EMP as a means of improving and 'modernising' the rural employment situation (JXPPAO et al., 2006; State Council, 2006, 2014).

Therefore, similar to most other top-down rural development interventions in China, these government microcredit programmes are embedded within a number of overlapping (and sometimes conflicting or contradictory) development ideologies, discourses and narratives both within China and globally. This situation, unsurprisingly, has resulted in a complex and



dynamic environment that allows for a variety of interpretations of how policy should be implemented based on different developmental and ideological priorities, meaning that, in reality, there is often significant policy transformation from the centre to the local, and variation in the actual operation of the programmes across localities. This chapter aims to explore both the formulation of microcredit policy in China, as well as the reality of policy implementation in rural areas in order to set the stage for analysis of the reasons for the heterogeneous implementation of the programmes, and the nexus between microcredit provision, local development and livelihoods in subsequent chapters.

The rest of the chapter is organised as follows. The next section (4.1) outlines how the policies for the three programmes have been formulated at the central and provincial levels, before turning to examine key areas that have been left open to local discretion. Section 4.2 explores the ways in which these microcredit programmes have manifested themselves in the three townships, and the perceptions of local implementers and borrowers towards the programmes. The final section (4.3) concludes and leads into Chapter 5.

#### **4.1 The Formulation of Microcredit Policy**

The PAMP, RCCMP and EMP were initiated at different times by different government entities and are, therefore, operationally different in a number of ways. This section reviews the policies for each of the programmes at the central and provincial levels in order to provide a detailed overview of their official historical development, objectives and ideological underpinnings – as well as the technical aspects related to programme administration, loan provision, interest payment, the application processes, etc. Table 4.1 below summarises the information. The section concludes by outlining key areas where the programmes are left open to local discretion.

**Table 4.1: Policy Background of the Three Microcredit Programmes**

	<b>Poverty Alleviation Microcredit Programme (PAMP)</b> 扶贫贴息贷款	<b>Rural Credit Cooperative Microcredit Programme (RCCMP)</b> 农户小额信用贷款	<b>Employment Microcredit Programme (EMP)</b> 下岗失业再就业小额担保贷款
<b>Initiated</b>	1986	1999	2002 (expanded to rural areas in 2006)
<b>Administered by</b>	Poverty Alleviation Office	People's Bank of China	Ministry of Human Resources and Social Security
<b>Subsidies paid by</b>	Ministry of Finance (central): 80% Ministry of Finance (provincial): 20%	Rural credit cooperatives People's Bank of China	Ministry of Finance (central): 100%
<b>Interest rate (banks receive with subsidy)</b>	The same as a normal loan (1 – 2 times the national rate set by the People's Bank of China)	1.2 times the national rate set by the People's Bank of China	3% + the national rate set by the People's Bank of China
<b>Interest rate (paid by borrowers)</b>	Households: 5% Businesses/Cooperatives/Projects: 3%	1.2 times the national rate set by the People's Bank of China (maximum)	Fully subsidised for individuals and households Half interest paid for businesses, cooperatives and projects
<b>Loan amount</b>	Depends on local conditions	Depends on local conditions	Households: RMB 100,000 (maximum) Businesses: RMB 4,000,000 (maximum)
<b>Loan term</b>	1 year	Progressive lending	2 years (maximum)
<b>Provided by</b>	Any financial institution	Rural credit cooperatives	Any participating financial institution
<b>Loan secured by</b>	Guarantor; credit rating; other/none	Credit rating; joint-liability	Guarantor (individual, cooperative, institution); joint-liability; collateral; credit rating; other/none
<b>Quota</b>	None specified at the central or provincial levels	60% of rural credit cooperative savings required to be used for household microcredit	None specified at the central or provincial levels
<b>Target areas</b>	National/provincial designated poverty-stricken villages	Nationwide	Nationwide
<b>Target borrowers</b>	Poor households engaged in productive commercial activities Rural businesses, cooperatives and projects that reduce poverty	All rural people with an emphasis on farmers	Laid off workers out of work for 1 year (including migrant workers returning to rural areas) Veterans Recent college graduates Disabled people Companies hiring unemployed people Farmers and agricultural enterprises

### **The poverty alleviation microcredit programme (PAMP)**

The PAMP was initiated in 1986 and was first piloted/modelled<sup>89</sup> in a handful of counties around the country before being expanded nationwide as part of the central government's general poverty alleviation programme. Over the approximately 30 years since its inception, administration of the programme has shifted between the ADBC, the ABC and PAOs at various levels, and it has also been co-opted by, and reformulated within, subsequent rural development programmes (L. Ong, 2011; Park & Ren, 2001; Park & Wang, 2010; Tsai, 2004). For instance, in the 1990s the PAMP became the largest component of the 8-7 Programme (Bislev, 2010), and since the early 2000s it has fallen under the umbrella of the Poor Village Investment Programme, which provides targeted funds for community-based activities in 'poverty-stricken' villages, township and counties that are designated at the national, provincial and prefectural levels (Park & Ren, 2001; Park & Wang, 2010).<sup>90</sup> In recent years, the PAMP has been influenced by the general ideological shift towards more neoliberal approaches to rural development, and now emphasises the need to "follow the rules of the market in order to implement poverty alleviation and development" (JXPPAO et al., 2006).

Unlike the other two programmes, which are supposed to be provided in all rural areas, because the PAMP is now part of the Poor Village Investment Programme, it is only offered in the designated poverty-stricken areas. There are two types of loans available through the PAMP. First, there are small loans for impoverished households. In order to be eligible for the loans, households need to have a special type of identification to prove that they are truly impoverished, which is usually provided by the township

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<sup>89</sup> The modelling/piloting of policies and programmes, particularly rural development interventions, has been an integral part of China's development planning (Ahlers & Schubert, 2013; Heilmann, 2008).

<sup>90</sup> Nationally designated poverty-stricken villages receive the most support followed by those designated at the provincial and prefectural levels. Unsurprisingly, therefore, villages actively lobby to be designated as 'poverty-stricken' making the final selection "very much a political question" (Bislev, 2010, p. 99; Park, Wang, & Wu, 2002). In my experience, villages expend a significant amount of time and resources attempting to successfully apply, and it is usually the richest villages that end up getting selected (see section 4.2).

government. Second, PAMP funds can also be used to provide larger loans to companies, cooperatives or government projects that ‘reduce poverty’ in some way – although the policies do not specify what counts as ‘poverty reduction’ in this context. The interest rate for the household loan is set at 5 per cent, and the rate for companies, cooperatives and projects is 3 per cent. The loans themselves are provided by participating financial institutions at the township or county levels (usually RCCs or the ABC) that charge their normal interest rate of between 0.9 to 2.3 times the base rate set by the PBC. The difference between the subsidised rate and the rate charged by the financial institutions is jointly paid by the MoF at the central (80 per cent) and provincial (20 per cent) levels (JXPPAO et al., 2006; PAO, 2006).

Due to the fact that the Poor Village Investment Programme is supposed to be community-based, with the needs of each poverty-stricken village being determined through a participatory approach (Park & Wang, 2010), technical aspects related to the application procedure and ultimate provision are left relatively open. For instance, there is no quota for the number of loans that should be provided, and there is no maximum or minimum amount for each loan. Moreover, local governments and PAOs have the power to determine whether they want to target households, companies, cooperatives or projects.<sup>91</sup> Depending on the locality, different administrative units at different levels have more power and interest in the administration of the PAMP.<sup>92</sup> However, village committees are ultimately responsible for the organisation of the loans. Finally, local governments, PAOs and the financial institutions actually providing the loans have discretion with regard to how the loans are secured, and can rely on guarantors (*danbaoren* 担保人), credit ratings, collateral, or can decide not to require any form of security (JXPPAO et al., 2006; PAO, 2006).

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<sup>91</sup> Other studies have found that local governments overwhelmingly select to use the PAMP to fund local TVEs and/or government projects (e.g. infrastructure projects), which is framed as elite or government ‘capture’ of resources designated for poor households (L. Ong, 2011; Park & Ren, 2001). However, it is important to point out that according to the policy it is perfectly legal for loans to go to TVEs or local government projects, and it is unsurprising that localities choose to target these borrowers considering the lower interest rate for these types of loans and the fact that one large loan is much easier to administer than many smaller loans.

<sup>92</sup> Interview 16.

### **The rural credit cooperative microcredit programme (RCCMP)**

The RCCs have a long history of providing small loans to rural individuals and households. For instance, in the 1970s they sometimes offered loans to cover illness-related expenses, and in the 1980s and early 1990s they provided some loans for agricultural inputs (e.g. seeds, feed and fertiliser).<sup>93</sup> However, before the RCC reforms of the late 1990s household loans were, for the most part, very limited and RCCs primarily lent to TVEs and local governments (L. Ong, 2006).<sup>94</sup> The RCCMP was initiated by the PBC in 1999 as part of the rural financial sector reforms in an attempt to redirect lending to rural households. It was first piloted in a number of counties across the country and then expanded nationwide in the early 2000s (L. Ong, 2009a; Park, Ren, & Wang, 2003). Unlike the other two programmes, the RCCMP only provides loans for households, and not for companies, cooperatives or projects. While there is no specific quota for loan numbers or loan amounts, every RCC in the country is directed to use at least 60 per cent of their total savings for the RCCMP, and the policy states that RCCs that do not follow these guidelines will be “dealt with severely” (PBC, 2001). Therefore, the RCCMP is the largest microcredit programme in China, and, based on the fact that there are over 30,000 RCC branches across the country, it could be claimed that it is the largest microcredit programme in the world.

The RCCMP has been heavily influenced by the global microfinance movement, and was initiated with the goal of providing credit to ‘financially excluded’ households. For this reason, the programme doesn’t require borrowers to have any collateral or a guarantor. Instead, the RCCMP operates using a credit rating system, with each household’s credit worthiness being determined by the village committee.<sup>95</sup> Therefore, households with a relatively low socioeconomic status or with a history of defaulting on loans will often be given a bad credit score, meaning that they

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<sup>93</sup> Interview 01; Interview 35.

<sup>94</sup> Interview 01; Interview 05. Also see Chapter 2.

<sup>95</sup> Other research has documented that, in some cases, the township government allocates credit ratings to entire villages largely based on their socioeconomic conditions (L. Ong, 2011).

are not able to borrow individually. In these cases, households can form joint-liability groups to borrow from the RCCMP, i.e. emulating the ‘poverty lending approach’ pioneered by the Grameen Bank (see Chapter 1) (PBC, 2001). Because the RCCMP is envisioned as a way to make credit easily accessible, the application process is supposed to be simple and straightforward. Prospective borrowers with a good enough credit rating are issued a loan card that they can use to borrow from the RCC at any time and receive the money immediately. The RCCMP utilises the progressive lending technique, so as soon as a loan is successfully repaid within the loan term, borrowers are eligible to borrow again at a higher limit. Upper and lower limits for loans are determined by local RCCs, but are usually between RMB 10,000 and RMB 100,000. Failure to repay a loan within the specified time limit results in a bad credit score and ineligibility for future loans (X. Du, 2008a; He et al., 2009; PBC, 2001).<sup>96</sup>

The RCCMP is also different from the other two programmes in the way that it is subsidised. While the subsidies for the PAMP and the EMP are paid directly by the MoF at the central and provincial levels, township RCCs are required to provide the RCCMP without any fiscal support from higher levels. The interest rate for the RCCMP is set at 1.2 times the PBC base rate (i.e. 6.72 per cent as of July 2015), and is, therefore, significantly lower than the rate that RCCs are normally allowed to charge for loans (i.e. up to 2.3 times the base rate or 12.88 per cent). The fact that township RCCs are effectively required to subsidise the RCCMP, along with the fact that they cannot require security on the loans, puts significant financial pressure on the local institutions, which is magnified by the recent emphasis on RCCs achieving ‘financial sustainability’ (Loubere & Zhang, 2015).<sup>97</sup> That being said, township RCCs that do run into financial difficulties providing the RCCMP can apply for support from the county RCC union, which can subsequently apply for support from the provincial union. However, this is discouraged, with the mantra being “the centre supports but the local is responsible” for the RCCMP and other RCC reforms (PBC, 2001; State Council, 2003).

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<sup>96</sup> Interview 55.

<sup>97</sup> Interview 01. Also see Chapter 2.

### **The employment microcredit programme (EMP)**

The most recent government microcredit programme is the EMP, which was initiated in 2002 by the PBC, the MoF, the State Economic and Trade Commission (SETC, which has since been incorporated into the Ministry of Commerce [MoFCOM]), and the Ministry of Labour and Social Security (MoLSS, which has since been transformed into the Ministry of Human Resources and Social Security [MoHRSS]).<sup>98</sup> As stated in Chapter 2, the EMP was formulated as the main pillar of the government's re-employment campaign, which was devised as a response to the massive layoffs resulting from the restructuring and privatisation of SOEs in urban areas. Initially, therefore, the EMP was only provided in urban areas to people in possession of official documentation proving their laid-off worker status, and the goal was to provide loans to those who could 'help themselves' through entrepreneurial activity (PBC, MoF, SETC, & MoLSS, 2002),<sup>99</sup> representing a significant shift in responsibility for social welfare from the 'work unit' (*danwei* 单位) to individuals and households (see Chapter 7 for more on neoliberalism and shifting responsibilities).

Jiangxi Province was selected as the first pilot site for the EMP, mainly due to the fact that over one million workers were laid-off from SOEs in the province between 1998 and 2002.<sup>100</sup> The EMP was then scaled up nationally, and in 2006 the programme was extended to rural areas under the banner of the XNCJS, which aims to increase rural employment, and later in conjunction with the CXYTH, which aims to modernise agriculture and standardise financial service provision across urban and rural areas. At the same time, the target group for receiving the loans was expanded to include returning migrant workers, farmers, and agricultural cooperatives (JXPMoHRSS, 2012; JXPMoHRSS & JXPRCCU, 2009; JXPPG, 2009; State Council, 2006, 2014). At the national and provincial levels the programme has been deemed a success and is, for instance, credited with being directly responsible for 10 per cent of all new employment in Jiangxi Province. For

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<sup>98</sup> The EMP is jointly administered, but the MoHRSS has the most responsibility and makes a majority of the decisions (Interview 02; Interview 06; Interview 07; Interview 11).

<sup>99</sup> Interview 11.

<sup>100</sup> Interview 11.

this reason Jiangxi has continued to expand the EMP in terms of total funding, target area and target borrowers, and the province now accounts for one-fifth of all EMP loans nationwide and is considered to be a 'national model' (JXPMoHRSS, 2009; JXPMoHRSS & JXPRCCU, 2009).<sup>101</sup>

In Jiangxi, the programme is subsidised by the central MoF, which pays 100 per cent of the interest directly to the financial institutions providing the loans (meaning that borrowers pay no interest) at a rate of three percentage points higher than the prevailing interest rate set by the PBC.<sup>102</sup> While this is lower than interest rates state-owned financial institutions are usually allowed to charge (see above), at least the interest payment is guaranteed by the central MoF (X. Du, 2008b; JXPMoHRSS, 2012; JXPMoHRSS & JXPRCCU, 2009; JXPPG, 2009; MoF, 2008; State Council, 2008). Currently, EMP loans can be provided to individuals for a maximum of RMB 100,000 and to businesses, cooperatives or government projects that 'promote employment'<sup>103</sup> for a maximum of RMB 4,000,000; however, businesses can only get 50 per cent of the interest subsidised.<sup>104</sup> The maximum loan term is two years, but this is decided at the local level (county or township) and normally only one year is given.<sup>105</sup> Localities can also determine how to secure the loans, the most common method being through a guarantor with connections to the local government or an SOE/TVE. That being said, the local MoHRSS is also allowed to accept credit ratings, mortgages, joint-liability loan groups, proof of assets, or nothing at all (JXPMoHRSS, 2012; JXPMoHRSS & JXPRCCU, 2009).

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<sup>101</sup> Interview 02; Interview 06; Interview 07; Interview 11.

<sup>102</sup> In the more prosperous eastern coastal region, the provincial or prefectural MoF is required to pay the subsidy (MoF, 2008).

<sup>103</sup> Similar to the concept of 'poverty reduction' in the PAMP, it is not clear what constitutes 'promoting employment' in this case.

<sup>104</sup> In 2002 when the EMP began, the maximum loan amount was RMB 20,000. From the beginning policies left the door open for local governments to initiate projects with the loans, effectively allowing for the loans to be used in a 'local developmental state' mode (JXPMoLSS, 2002; NCCPBC, JXPMoF, & JXPMoHRSS, 2004).

<sup>105</sup> Conversation 01; Interview 07; Interview 08.



In rural areas, the application process for the EMP is slightly complicated. Prospective borrowers need to first apply to the township level MoHRSS, and, if accepted, their documents are sent to the county level MoHRSS for approval. After the loan documents have been approved at both the township and county levels, they are then sent to an approved/participating financial institution at the county level where the final decision is made on whether or not to issue the loan.<sup>106</sup> The financial institution's decision is supposed to be based on an approach that prioritises financial considerations, i.e. repayment and profitability. Unsurprisingly, considering the number of different actors involved at different levels, this process can take many months and can represent a huge expenditure of time for both applicants and administrators.<sup>107</sup>

### **Spaces for local discretion**

As with other centrally formulated development policies in China (see Chapter 5), there is significant room for local discretion built into all three of the government-subsidised microcredit programmes – both purposefully, through the delegation of responsibility to lower levels of government and less directly, due to vague and even contradictory ideological imperatives. This results in local implementers deciding which parts of the programmes to implement largely based on value positions, the outcomes of local negotiations and other context specific reasons. In other words, implementation emerges from the interfaces of interaction between actors at different levels, all of whom are embedded in distinct social, economic and political contexts. For instance, while all three programmes have national guidelines, provinces are ultimately responsible for designing their own specific policies.<sup>108</sup> In the case of Jiangxi, county and township governments and financial institutions usually have discretion to experiment within these national and provincial guidelines without asking for permission from higher

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<sup>106</sup> All state-owned banks and RCCs are approved to provide EMP loans, but different financial institutions agree to participate in different localities.

<sup>107</sup> Interview 08; Interview 30.

<sup>108</sup> This is consistent with research on other rural development frameworks and policies, such as the XNCJS and the New Cooperative Medical System (*xinxing nongcun hezuo yiliao* 新型农村合作医疗) (Ahlers & Schubert, 2013; P. H. Brown, de Brauw, & Du, 2009).

levels of government,<sup>109</sup> which is rooted in the longstanding tradition of policy experimentation/modelling in the Chinese countryside – or “proceeding from point to surface” (*youdian daomian* 由点到面) (Heilmann, 2008, p. 2).

This local discretionary power is significant across all three programmes in that local implementers and financial institutions are permitted to choose how loans should be secured, whether or not a quota should be enforced, which types of loans to provide and which groups to target (i.e. households, businesses, cooperatives, or projects) (JXPPAO et al., 2006; PAO, 2006), which effectively gives local governments the ability to utilise loans to push forward their own ‘development agendas’ (e.g. promotion of agriculture, infrastructure projects, etc.).<sup>110</sup> More significantly, national and provincial policies provide a massive loophole for local governments by stating that microcredit implementation should always be “based on the actual (local) situation” (*genju shiji qingkuang* 根据实际情况) – which is undoubtedly a modern adaptation of the revolutionary approach to implementing policy “in accordance with local conditions” (*yindi zhiyi* 因地制宜) (Heilmann, 2008, p. 7) – effectively creating a situation where ‘anything goes’ as long as it works (PBC, 2001; State Council, 2008). That being said, due to the ‘soft centralisation’ of control over some township agencies (i.e. co-optation by the county government), it is not always clear which ‘local’ level groups actually have the discretion. For instance, with the EMP, the MoHRSS is sometimes controlled at the county level (i.e. as a ‘vertical agency’) and sometimes controlled at the township level (i.e. as a ‘devolved work unit’), meaning that the final decision-makers differ across localities.<sup>111</sup> Similarly, local level PAOs are often merged with other agencies and given a subordinated role, and it is difficult to assess how much power and independence township level RCCs have in relation to local government bodies and county level branches (see Chapter 5).

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<sup>109</sup> Interview 02; Interview 05; Interview 07; Interview 11; Interview 16.

<sup>110</sup> As stated above, in the literature this is usually criticised as ‘mission drift’ or government/elite ‘capture’, and is blamed for low repayment rates (Hofmockel, 2005; L. Ong, 2011; Park & Ren, 2001; Tsai, 2004).

<sup>111</sup> For more on ‘soft centralisation’, ‘vertical agencies’ and ‘devolved work units’ see (Mertha, 2005; G. Smith, 2015).

Compounding this ‘designed discretion’ is vagueness and contradiction with regard to the ideological underpinnings of the programmes. For instance, while all three of the programmes were originally designed to target and assist relatively marginalised and vulnerable groups through the provision of inherently risky loans (i.e. a social service), they have since evolved to adhere to a more neoliberal ‘financial systems approach’ to microcredit, which prioritises repayment, ‘financial sustainability’ and even profitability, and, therefore, sees the market as the solution to rural development problems (JXPMoHRSS, 2009; JXPPAO et al., 2006; State Council, 2009). Particularly over the past five years, the government agencies running the programmes and the participating financial institutions have been increasingly pressured to ensure that loans are repaid.<sup>112</sup> For instance, one township RCC director told me:

The central government has given us the responsibility to provide microcredit, but at the same time we need to meet our costs... We have less and less interest in providing these loans as the interest is low, and they are risky and unprofitable. We wish we could expand into more profitable business and charge higher rates of interest.<sup>113</sup>

This ideological paradox can also be seen in the financial and social capital requirements that are built into the architecture of the programmes. For instance, prospective borrowers are explicitly required to already have a sufficient amount of financial capital to ensure repayment (JXPMoLSS, 2002), and the short loan terms (one to two years) implicitly suggest that those without resources are not suitable to apply, as it is very difficult to start a profitable enterprise from scratch and fully repay the loan within such a short period of time. Moreover, the policies explicitly state that borrowers need to have a good reputation and high social standing in their communities – e.g. the RCCMP is disbursed based on locally determined credit scores, and the EMP policy states that borrowers should be “honest and trustworthy” (*chengshi shouxin* 诚实守信) (JXPPG, 2009). This means that local government agencies and financial institutions vet prospective

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<sup>112</sup> Interview 01; Interview 08; Interview 11.

<sup>113</sup> Interview 01.

borrowers (and their guarantors) based on socioeconomic status, effectively excluding many of the marginalised people and groups that the programmes were supposedly designed to assist.

#### **4.2 A Tale of Three Townships: Microcredit Implementation at the Local Level**

The combination of vagueness and contradictory ideology outlined above has opened up a significant amount of space for local discretion and has transformed the three government-subsidised microcredit programmes into what could be considered general development microcredit programmes – where the definition of ‘development’ is determined through negotiations at the local level – as opposed to microcredit programmes specifically targeting certain groups (such as the very poor, farmers, and the unemployed) as their names and original mission statements suggest. It is, therefore, not surprising that all three of these programmes have manifested themselves in very different ways in each of the three townships. This section details the reality of microcredit implementation in the AT, MWT and DET, and the different ways in which the programmes have been perceived by implementers and borrowers. Table 4.2, Table 4.3 and Table 4.4 below summarise this information.

## The agricultural township (AT)

Table 4.2: Implementation of the Three Microcredit Programmes in the Agricultural Township

	Poverty Alleviation Microcredit Programme (PAMP) 扶贫贴息贷款	Rural Credit Cooperative Microcredit Programme (RCCMP) 农户小额信用贷款	Employment Microcredit Programme (EMP) 下岗失业再就业小额担保贷款
Level of administrative control	County	Township/County	County
Quota	None (no designated 'poverty-stricken villages' in the township)	RMB 50,000,000 for the township (set by the county)	RMB 1,100,000 for the township (set by the county)
Borrowers	N/A – Programme not implemented	Households – Primarily farmers	12-member farmer cooperative (all 22 loans)
Borrower selection	N/A – Programme not implemented	Prospective borrowers applied themselves	Social connection between the county MoHRSS and the leader of the farmer cooperative
Use	N/A – Programme not implemented	Agriculture – Primarily to rent farmland in neighbouring townships; also for agricultural inputs	Build two modern vegetable greenhouses
Loan security	N/A – Programme not implemented	Credit rating determined by village committees	Township government acted as guarantor
Loan amount (per person maximum)	N/A – Programme not implemented	No upper or lower limit – During fieldwork the smallest loan was RMB 3,000 and the largest loan was RMB 600,000	RMB 50,000
Loan term	N/A – Programme not implemented	1 year – Progressive lending so borrowers could immediately take out a larger loan after repayment	1 year
Perception (providers)	Ignorance – There are no villages with the 'poverty-stricken' designation in the township and poverty alleviation work was not a priority; the township PAO has been merged with other departments; township officials and the director of the township RCC have never heard of the PAMP	Respect – The township RCC director said that providing the RCCMP was challenging because of the high demand and limited number of staff, but that it was very effective and improved the lives of people in the township	Pride – The county and township MoHRSS both hoped this could become a 'new model' for the EMP
Perception (borrowers)	N/A – Programme not implemented; i.e. no borrowers	Respect/pride – Borrowers stated that the RCCMP helped them increase their income and improve their lives; they also believed that the loans should only be available for clever and hardworking people who were willing to take risks	Pride – The members of the farmer cooperative were proud to be involved in a 'new model' and to be using technology from a 'more developed' region (Jiangsu); they also believed that the vegetable greenhouses could increase their income and improve their lives

### The PAMP

Despite being more agricultural, more remote and both visibly and measurably poorer than the other two townships (see Chapter 3 and Appendix C), the AT has no designated poverty-stricken villages at the national, provincial or prefectural levels, while both the MWT and the DET do (see below). For this reason the township is not eligible for the PAMP, and none of the township or county officials had ever heard of the programme.<sup>114</sup> Rather than poverty alleviation, the township government saw agricultural modernisation and mechanisation as its priority, and the township PAO was run as a ‘hanging sign work unit’ (*gua paizi danwei* 挂牌子单位).<sup>115</sup> This allowed the township to allocate the resources that would have been spent on poverty alleviation work to agriculture and other priority areas.<sup>116</sup>

### The RCCMP

In the 1980s and early 1990s there used to be RCC branches in a number of AT villages. But in conjunction with the rural financial sector reforms at the end of the 1990s (see Chapter 2), these branches were closed and during fieldwork there was only one branch for the entire township located in the township seat.<sup>117</sup> However, since the early 2000s the AT RCC has set up 22 cash machines around the township and it also started providing the RCCMP. The county designated a quota of RMB 50,000,000 per year for the programme in the township, and during fieldwork there were approximately 2,000 borrowing households – or about 20 per cent of the total township households. That being said, the director of the AT RCC estimated that there was significantly more demand for the RCCMP loans – potentially up to

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<sup>114</sup> Conversation 01; Interview 04; Interview 05; Interview 07; Interview 08.

<sup>115</sup> “Hanging sign work units” are “phantom agencies” with “no personnel assigned to them on a full-time basis” basically created to appease inspection teams from higher levels of government (G. Smith, 2010, p. 607).

<sup>116</sup> Conversation 01.

<sup>117</sup> AT Contextual Observation Report; Interview 05; Interview 24; Interview 25.

RMB 100,000,000 – therefore many township households remained excluded.<sup>118</sup>

In accordance with the national guidelines, the township RCC did not require any guarantor or collateral for the RCCMP, and credit scores were allocated to households by village committees based on their local reputation. Technically, joint-liability loans for borrowers with bad credit scores were available; however, the RCC director did not think that this method is “compatible with rural China’s situation”<sup>119</sup> and, since there was more than enough demand from applicants with good credit ratings, the RCC allocated its entire quota to individual household borrowers. Both men and women could apply for the loans, but since men are usually considered the ‘head of the household’ based on household registration documents, more than 90 per cent of the RCCMP loans in the AT were disbursed to male borrowers. The vast majority of the loans were for agricultural activities, with the township RCC director saying: “Local farmers are the main beneficiaries of the RCCMP because they can develop traditional agriculture through borrowing. SMEs can borrow from the county.”<sup>120</sup> This was unsurprising considering that agriculture is the main activity in the township and the main priority of local development planners. In particular, farmers from the AT have used the loans to rent over 200,000 *mu* of land in neighbouring townships and counties in order to scale-up their agricultural production.<sup>121</sup>

There were no upper or lower limits on RCCMP loan amounts in the AT, and loan sizes varied from RMB 3,000 to RMB 600,000, with the average loan standing at approximately RMB 25,000. The RCC charged 1.4 times the PBC base rate, which is higher than the amount permitted in the national

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<sup>118</sup> Interview 05. It is important to note that the fact that households with good credit scores were sometimes unable to get loans undermined the goal of eliminating the loan application process and providing immediately accessible credit. This type of credit rationing mirrors Ane Bislev’s experience with some RCCs in the early 2000s (Bislev, 2010).

<sup>119</sup> Interview 05.

<sup>120</sup> Interview 05.

<sup>121</sup> Conversation 01; Interview 05.

policy guidelines (i.e. 1.2 times the PBC base rate).<sup>122</sup> According to the director of the AT RCC, the programme has achieved 98 per cent repayment, and borrowers only default due to accident or personal tragedy of some kind.<sup>123</sup> The director also said that “residents of the AT are more trustworthy than people in other townships” – an assertion that was repeated by others in the township during conversations and interviews.<sup>124</sup> This high repayment rate, along with the fact that 7.84 per cent interest (1.4 times 5.6 per cent) on a loan of RMB 25,000 is RMB 1,960 – or one third of the average income in the township – suggests that most RCCMP loans in the AT are, in fact, going to households that already have significant amounts of financial and social resources, as opposed to ‘financially excluded’ segments of local society.

The director of the AT RCC saw the RCCMP as a necessary duty, telling me that:

We must carry out the programmes directed by the county and the province in order to support and serve the *sannong*... We do not worry about accounting or investments here in the township, we just carry out the programmes, such as the RCCMP.<sup>125</sup>

He said that the biggest challenge was the very high demand for the loans because the RCC only has four employees to deal with the entire township. However, he also said that he respects the RCCMP and that the loans have significantly improved the lives of township residents. At the same time, the RCCMP was described in positive terms by the borrowers themselves. For instance, one borrower who was using the RCCMP to rent over 100 *mu* of land from a neighbouring township said that it allowed him to double his income. He went on to frame himself and other successful borrowers as the rightful and deserving recipients of RCCMP loans, stating that:

Local people borrowing from the RCCMP are mainly bold, intelligent and hard-working farmers who, in order to live a better

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<sup>122</sup> As late as 2008 the RCC only charged an interest rate of 4.5 per cent (Interview 23).

<sup>123</sup> This was, of course, impossible to verify.

<sup>124</sup> Conversation 01; Interview 03; Interview 04; Interview 05.

<sup>125</sup> Interview 05.



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.<sup>126</sup>

### The EMP

The EMP was initiated by the county MoHRSS in 2008, and a quota of RMB 1,100,000 (with a maximum loan size of RMB 50,000 over a 1-year loan period) per township per year was set.<sup>127</sup> In the AT the MoHRSS was controlled at the county level (i.e. a 'vertical agency'), so county officials took the lead in the implementation of the EMP and decided that the programme should be used to support agriculture, increase farmer incomes and help farmers become more entrepreneurial. Therefore, MoHRSS officials at both the county and township levels were instructed to target borrowers who would help achieve these goals.<sup>128</sup>

In the AT, the director of the county MoHRSS became aware of a 12-member farmer cooperative (*nongmin zhuanye hezuoshe* 农民专业合作社, hereafter FC) based in one of the township's villages through mutual friends with its leader (who was also the village party secretary).<sup>129</sup> This local leader was described by both county and township officials as being a very 'capable person' (*nengren* 能人) who was good at organising the villagers and had gained technical knowledge of how to build vegetable greenhouses from a party-organised 'model tourism' trip to Jiangsu Province in 2006, which led to the construction of some small vegetable greenhouses in the

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<sup>126</sup> Conversation 01.

<sup>127</sup> Counties have the discretion to set EMP quotas for the townships. Quotas are not dependent on county or township resources, but are the outcome of negotiations between various actors at the county level (Interview 07).

<sup>128</sup> Conversation 01; Interview 04; Interview 07.

<sup>129</sup> This village was one of the original pilot villages for the XNCJS and has won awards for being an 'exemplary model'. It is also important to note that members of the FC had familial ties with members of the county government (Interview 25).

village.<sup>130</sup> Through this social connection, the county MoHRSS directed the township MoHRSS to support the FC in an application for the entire township loan quota (i.e. 22 loans of RMB 50,000 each) to build two large modern greenhouses in order to scale-up the cultivation of more profitable vegetables year-round. Rather than applying for the larger EMP loan for companies, cooperatives or projects (which is only half subsidised), the members of the FC were instructed to apply for loans individually in order to receive the full subsidy (i.e. zero per cent interest). The MoHRSS in both the county and the township then lobbied the township government to act as the guarantor for all the loans to ensure that the FC's application for the EMP would not be deemed 'too risky' by the county financial institution providing the credit (in this case the county RCC).<sup>131</sup> The members of the FC then gathered together the necessary documentation with the support of the township MoHRSS and applied for the EMP. However, since there were only 12 FC members applying for the full quota of 22 loans, the household registration documents of other villagers were used in the loan application without their knowledge, which was effectively identity theft and meant that the FC added 'fictitious members' in order to apply for the loans.<sup>132</sup> Ultimately, the FC's application for the EMP was successful, and during fieldwork the greenhouses were under construction.<sup>133</sup>

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<sup>130</sup> Interview 03; Interview 24. For more details on 'model tourism' see (Ahlens & Schubert, 2013). For more on vegetable greenhouses see (B. Wu & Zhang, 2013).

<sup>131</sup> The fact that the officials in the county MoHRSS were on good terms with the county RCC director and other employees also helped with the EMP application process.

<sup>132</sup> This information was discovered when the county MoHRSS let me look at the loan application documents and I saw that some of the applicants were villagers who were not part of the FC and who had no knowledge of the EMP. The phenomenon of 'fictitious members' in Chinese FCs and 'fictitious groups' for other types of microcredit is not uncommon, see (Augustin-Jean & Xue, 2011; Bislev, 2010).

<sup>133</sup> AT Contextual Observation Report; Conversation 01; Interview 03; Interview 07; Interview 25.

**Figure 4.1:** Small Vegetable Greenhouses in AT



**Figure 4.2:** Construction of a Large Modern Vegetable Greenhouse in the AT



The people I spoke to who were directly involved in the EMP in the AT were proud of what had been accomplished, and were invested in ensuring that the programme became a 'success' in the township. The members of the FC felt pride in the fact that they were utilising farming technologies and methods that came from a 'more developed' and 'modern' eastern province (i.e. Jiangsu), and they were excited at the prospect of increasing their income and reducing the risks associated with a single crop (i.e. rice).<sup>134</sup> The implementers (i.e. officials in the county and township MoHRSS) considered the AT experience to be a 'new model' for EMP provision that allows for more efficient, convenient and secure service through group loans with one guarantor (i.e. the township government), while also promoting cooperative and agricultural development, and they hoped that it would be adopted in other places.<sup>135</sup> For instance, one official in the county MoHRSS said:

The EMP is one of the 'calling cards' (i.e. priority policies) of the provincial MoHRSS... We hope to make a breakthrough with this new model, which represents an innovation in EMP service, and is unique in the province. Of course, this innovation is within the permitted scope of the policy.<sup>136</sup>

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<sup>134</sup> Conversation 01; Interview 03, Interview 24; Interview 25.

<sup>135</sup> Considering that the AT experience with the EMP also came up in conversations with officials at the prefectural level (Interview 06), it seems as though their ambitions may be realised.

<sup>136</sup> Interview 07.

## The migrant work township (MWT)

Table 4.3: Implementation of the Three Microcredit Programmes in the Migrant Work Township

	Poverty Alleviation Microcredit Programme (PAMP) 扶贫贴息贷款	Rural Credit Cooperative Microcredit Programme (RCCMP) 农户小额贷款	Employment Microcredit Programme (EMP) 下岗失业再就业小额贷款
Level of administrative control	County	Township/County	Township
Quota	None (no PAMP despite having one designated 'poverty-stricken village')	Unclear – Over RMB 50,000,000 for lending generally, not specifically for the RCCMP	RMB 600,000 (set by the county)
Borrowers	N/A – Programme not implemented	N/A – Programme not implemented	Friends and family of township officials
Borrower selection	N/A – Programme not implemented	N/A – Programme not implemented	Social connections between the borrowers and the head of the township MoHRSS
Use	N/A – Programme not implemented	N/A – Programme not implemented Majority of RCC funds lent to the largest construction company in the township	Investment, consumption, informal on-lending
Loan security	N/A – Programme not implemented	N/A – Programme not implemented Regular RCC loans required collateral	Each borrower must find an eligible guarantor (i.e. needs to have a connection with local government or TVE/SOE)
Loan amount (per person maximum)	N/A – Programme not implemented	N/A – Programme not implemented Regular RCC loans had no upper or lower limit	RMB 50,000
Loan term	N/A – Programme not implemented	N/A – Programme not implemented Regular RCC loans had various loan terms	1 year
Perception (providers)	Indifference/ignorance – Despite the fact that there is one provincially-designated poverty stricken village in the township, poverty alleviation work was not a priority and the township PAO has been merged with other departments; township officials and the director of the township RCC have never heard of the PAMP	Covert defiance – Publically the RCC provided the RCCMP, but in reality this programme was not running and a vast majority of the RCC funds were going to one large company; this was justified by claiming that the RCC's primary responsibility is to ensure 'financial sustainability'	Indifference/annoyance – The township MoHRSS was under pressure to ensure 100% repayment from the county; the loan process was time-consuming and the officials had many other more important tasks
Perception (borrowers)	N/A – Programme not implemented, i.e. no borrowers	N/A – Programme not implemented RCC borrowers claimed that it was difficult to borrow from the RCC due to the collateral requirement; the large company claimed that there were significant 'grey' costs involved in borrowing from the RCC	Indifference/apathy – The borrowers had many other sources of credit (both formal and informal) and significant amounts of personal capital; the loans represented a small amount of extra capital for investment or consumption

## The PAMP

Despite being significantly wealthier, more industrialised and less remote than the AT, the MWT is home to one official provincially-designated poverty-stricken village and was, therefore, eligible to run the PAMP (JXPPAO, 2011).<sup>137</sup> However, similar to the AT, the PAMP was not in operation in the MWT, mainly due to the fact that poverty alleviation was not a priority in the township, which resulted in the PAO being merged with a number of other departments in 2013 – including agriculture, forestry, water management, the XNCJS and disaster/disease protection – into a new larger department called the Department of Agriculture, Technology and Publicity. As in the AT, none of the township officials had ever heard of the PAMP (including the previous director of the township PAO), and they didn't show any interest when I told them about the programme. This indifference and apathy with regard to the PAMP was mainly due to the fact that most of the township officials did not believe that poverty alleviation work is important. Instead, they pointed to increasing economic growth, promoting infrastructure development and attracting outside investment as the best methods for reducing poverty – essentially conflating ideas associated with the local developmental state and trickle-down economics. That being said, one of the vice-directors of the MWT cryptically urged me to “look at the actual situation of poor households” myself, demonstrating that township officials also hold different opinions about the best methods of facilitating rural development.<sup>138</sup>

An interview with the director of the county PAO shed further light on the reasons for the PAMP being neglected in the township. Unlike the township officials, he did know about the programme, but told me that microcredit is not an effective method to facilitate poverty alleviation, saying:

The money isn't enough and, even though the interest is subsidised, the poor cannot afford to pay it. The application process is time-consuming and difficult, borrowers need too many certificates to prove they are poor, so it is not a good way to help the poor. Instead the poor should be helped with the minimum

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<sup>137</sup> Interview 12; Interview 15.

<sup>138</sup> Interview 12; Interview 13; Interview 14; Interview 15.

living standard guarantee (*dibao* 低保), and if they need to borrow they can borrow from friends and family.<sup>139</sup>

He also said that poverty alleviation work in general is very difficult because it often is not clear who is really poor, and there are too many PAOs at different levels that do not coordinate their activities. He described his position as being a “volunteer job with no real rewards.”<sup>140</sup> When asked about the designated poverty-stricken village in the MWT, officials at the village, township and county levels said that the village is not actually very poor, but it is the job of the PAOs to help villages to apply for the designation so that the county can get additional funds from higher levels.<sup>141</sup> However, the county did not actually use all of these funds for the villages themselves, and instead of initiating projects or programmes (such as the PAMP), the county used some of the funds to send officials to the villages with money and food for poor households – which was described as being “nothing more than a photo shoot” by township officials.<sup>142</sup> Ultimately, poverty alleviation work in the township mainly involved “improving the environment and investing in infrastructure,” and the actual work of helping the poor was left to the Ministry of Civil Affairs (MCA).<sup>143</sup>

### **The RCCMP**

The director of the MWT RCC perceived the RCC’s role very differently from his counterparts in the AT and DET, and described his work by saying:

The RCC gives the greatest possible support to farmers, provided they meet the conditions for this support... Our primary responsibility is to ensure repayment and to be financially

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<sup>139</sup> Interview 16.

<sup>140</sup> Interview 16.

<sup>141</sup> Interview 13; Interview 16. The situation of non-poor villages being given the poverty-stricken village designation has been documented in the literature (Park & Wang, 2010).

<sup>142</sup> Interview 12; Interview 15.

<sup>143</sup> Interview 16. It is interesting that infrastructure was identified as an important component of poverty alleviation work, but the county nevertheless neglected the potential to use the PAMP to invest in infrastructure projects.

sustainable. We cannot lend to risky borrowers, it is against our directives from the county.<sup>144</sup>

He then went on to describe the RCC's role in the township's development strategy:

We aim to build an industrial township. With the nearby industrial zone driving economic development, people's lives have improved. The government's policies are very good and support the XNCJS, and economic development promotes comprehensive growth. At the same time, local people's need for financial services has diversified to include business rather than just farming.<sup>145</sup>

For this reason, the RCC in the MWT operated very differently from the RCCs in the other two townships, and the RCCMP – while nominally being provided – was basically unrecognisable from the programme described in the policy guidelines. According to the director and RCC promotional material, the RCCMP was available to any borrower with a good credit rating, and the MWT had a quota of RMB 50,000,000 (the same as the AT), with loans being provided at between 6 per cent and 8 per cent interest (JXPRCCU, n.d.).<sup>146</sup> However, the director also said that the RCCMP was provided to both households and enterprises (which is contradictory to the central and provincial policies), and that loans were only provided to borrowers with collateral and based on the 'feeling' (*ganjue* 感觉) of the loan officer and other RCC employees.

Practically, this meant that very few households were borrowing from the RCC in the MWT, and despite an extensive search, I did not encounter any farming household borrowers. Interviews with RCC employees and small enterprise borrowers confirmed that it was not possible get a loan from the RCC without collateral and/or good social connections (*guanxi* 关系), but that interest was indeed around 8 per cent.<sup>147</sup> Further investigation revealed

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<sup>144</sup> Interview 10.

<sup>145</sup> Interview 10.

<sup>146</sup> Interview 10.

<sup>147</sup> Conversation 05; Interview 30; Interview 40; Interview 46.



that the main reason for the seeming lack of credit from the RCC was due to the fact that the vast majority of the funds were being lent to the largest construction company in the township. In an interview, the company owner divulged that the company was borrowing RMB 50,000,000 from the township RCC at a rate of 5 per cent per year (i.e. lower than the PBC mandated rate),<sup>148</sup> which was not only the same as the amount supposedly allocated to the RCCMP, but also the largest single loan to any company in the county. This loan was primarily used for investment in infrastructure and residential construction outside of the township, which were the company's key business activities.<sup>149</sup> Therefore, while the RCC claimed to provide the RCCMP, it is clear that the financial institution effectively circumvented the programme in favour of large-scale lending, and required collateral for smaller loans, which was justified by claiming that the RCC's primary objective was to achieve 'financial sustainability'. Nevertheless, the subsidised interest rates remained in place, with an especially low (official) rate for the construction company.

### **The EMP**

In the MWT the county MoHRSS initiated the EMP in 2008, and set a quota of RMB 600,000 per township per year, with loans ranging from RMB 10,000 to RMB 50,000 (1-year loan period). The MoHRSS was controlled at the township level (i.e. a 'devolved work unit') with visibly less material and administrative support than its counterpart in the AT, and was located in an office with four people responsible for a number of other 'hanging sign work units' in addition to the MoHRSS. In reality, there was only one local official dealing with the EMP, and he also had a large number of other responsibilities for both the MoHRSS and other departments, many of which arose suddenly and unexpectedly (e.g. inspections from higher levels of government). Moreover, the county MoHRSS basically delegated full responsibility for finding and vetting borrowers, helping with applications, and

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<sup>148</sup> While the official rate was 5 per cent per year, the owner said that, in reality, he was paying approximately 15 per cent interest after all the 'grey costs' associated with successfully applying for the loan (Interview 45).

<sup>149</sup> Interview 45.

ensuring that all the requirements were met, to the township MoHRSS, but retained final decision-making power over who received the loans.<sup>150</sup>

The county MoHRSS also set different 'development' goals for the EMP in the MWT than in the AT. Officially the programme was supposed to promote 'economic development' as opposed to support agriculture. Unofficially, however, the county MoHRSS ordered the township to achieve 100 per cent repayment, as this resulted in a monetary reward for the county from the province (one to two per cent of the loan total). Due to the lack of time/resources and the top-down pressure to ensure repayment – and because there was no bottom-up pressure from cooperative groups or interaction between potential local borrowers and the county MoHRSS (as in the AT) – the township official decided to target friends and family members that he knew he could trust to repay the loans, and who would be accepted by the MoHRSS and financial institutions at the county level with minimal problems. During the time of the interview the entire quota had been lent to this target group.<sup>151</sup>

In contrast to the pride expressed by those involved with the programme in the AT, the implementation of the EMP in the MWT engendered feelings of exhaustion, annoyance and/or indifference. The township official told me that the EMP caused a significant amount of stress, not only because it was getting increasingly difficult to find a sufficient number of new borrowers every year (each with a suitable guarantor) that he could trust to repay the loans, but also because the lack of engagement from the county MoHRSS meant that the entire process was time-consuming. In other words, the EMP was unappealing to potential borrowers and wasted his own time. However, he felt that he had no choice but to prioritise the programme, because he feared his job promotion prospects would be damaged if he did not continue to ensure a 100 per cent repayment rate. He described the situation by saying:

We have four people working in the office, and besides the EMP we are also in charge of social security, health insurance, work

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<sup>150</sup> Interview 08.

<sup>151</sup> Interview 08.

placement, employment training, etc. – a lot of work, a multitude of things... The application and decision process for the EMP is too long. It takes at least one month and sometimes even two or three months for a decision, and the loans are often held up by the county MoHRSS or RCC, meaning that applicants cannot get the money for a long time.<sup>152</sup>

The local borrowers of the EMP were also largely indifferent. Some were using the money to add to other investments or for consumption purposes, and some were using it to lend to family who had no access to loans, or even to others in the community for a profit.<sup>153</sup> For instance, one EMP borrower told me:

In 2009 I received a loan of RMB 50,000 from the EMP. I didn't need the money, but I took it and lent it to others at 12 per cent interest per year. From RMB 50,000 I could earn RMB 6,000!<sup>154</sup>

However, overall the borrowers were not particularly interested in the EMP, and perceived the loans as simply representing a small amount of extra capital. In reality, most of the borrowers in the MWT had little trouble gaining access to substantial loans from other formal and informal sources. Therefore, rather than feeling grateful towards the township official for providing them with interest-free loans, some of the borrowers actually felt as though they were doing him a favour because the application process was so time-consuming.<sup>155</sup> Moreover, even potential future borrowers who were interested in accessing the EMP for investments in local enterprises were hesitant to apply due to the time commitment involved.<sup>156</sup>

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<sup>152</sup> Interview 08.

<sup>153</sup> Interview 29; Interview 30.

<sup>154</sup> Interview 30.

<sup>155</sup> Interview 29; Interview 30; Interview 38.

<sup>156</sup> Interview 42.

## The diverse economy township (DET)

Table 4.4: Implementation of the Three Microcredit Programmes in the Diverse Economy Township

	Poverty Alleviation Microcredit Programme (PAMP) 扶贫贴息贷款	Rural Credit Cooperative Microcredit Programme (RCCMP) 农户小额信用贷款	Employment Microcredit Programme (EMP) 下岗失业再就业小额担保贷款
Level of administrative control	County	County	Township
Quota	None (no PAMP despite having one designated 'poverty-stricken village')	None	None
Borrowers	N/A – Programme not implemented	All eligible applicants can receive a loan (currently 80% of households in the township were borrowing from the RCCMP)	2012 – Any eligible applicant 2013 – N/A (programme halted)
Borrower selection	N/A – Programme not implemented	Everyone eligible unless they have defaulted on a previous loan	2012 – Based on policy guidelines 2013 – N/A (programme halted)
Use	N/A – Programme not implemented	Various – Microenterprises, SMEs, consumption, etc.	2012 – Various 2013 – N/A (programme halted)
Loan security	N/A – Programme not implemented	No security necessary – Everyone eligible	2012 – Any approved method 2013 – N/A (programme halted)
Loan amount (per person maximum)	N/A – Programme not implemented	Progressive lending from RMB 10,000 to RMB 200,000	2012 – RMB 100,000 2013 – N/A (programme halted)
Loan term	N/A – Programme not implemented	1 year	2012 – 1 year 2013 – N/A (programme halted)
Perception (providers)	Indifference/ignorance – Despite the fact that there is one provincially-designated 'poverty stricken village' in the township, poverty alleviation work was not a priority and the township PAO has been merged with other departments; township officials have never heard of the PAMP	Pride/respect – Because the DET was one of the original national pilot areas for the RCCMP, local officials considered the programme to be a local model; the programme and other reforms of the RCC were credited with improving RCC performance	Indifference/annoyance – The loan process was time-consuming and the officials had many other more important tasks; For this reason they halted the EMP
Perception (borrowers)	N/A – Programme not implemented, i.e. no borrowers	Respect – Borrowers were happy with the RCCMP and said the programme allowed them convenient and quick access to capital; they took the programme for granted as something that the RCC must provide	Indifference/apathy – Many other sources of credit were readily available (both formal and informal) in the township; most people thought the loans were time-consuming (particularly the training element) and represented a small amount of money

### **The PAMP**

The largest village at the centre of the DET was designated a provincial level poverty-stricken village, meaning that officially the average income was less than RMB 2,000 per year (JXPPAO, 2011). However, in reality, this was the wealthiest village that I encountered in the three townships, primarily due to the fact that it is centrally located along a main road connecting two urban centres, and is, therefore, a hub of commercial activity (see Chapter 3). Interviews with village and township officials confirmed that the ‘poverty-stricken’ village was, in actuality, the wealthiest village in the township despite being the only one to receive the designation.<sup>157</sup> Nevertheless, neither the village nor the township received any direct financial support, and were instead only provided with ‘technical support’ from the county PAO,<sup>158</sup> suggesting that the county kept a significant portion of the poverty alleviation funds transferred from the province for other projects. As such, as in the other two townships, the PAMP was not in operation, and village and township officials had never heard of the programme. Therefore, despite the fact that it is supposed to be a key component in the government’s flagship poverty alleviation programme, none of the local officials in these three townships were aware of the PAMP’s existence.<sup>159</sup>

### **The RCCMP**

The DET is located in one of the counties where the RCCMP was originally piloted, so the programme was initiated in 2001 after a visit from Jiang Zemin and officials from the central PBC. During this visit a meeting was held in the township with the high-ranking officials asking local people what kinds of services they required from the RCC.<sup>160</sup> Because the RCCMP pilot was considered a success and was expanded nationwide in 2003 (see section 4.1), the county has continued to prioritise the programme and officials even refer to it as their own county’s microcredit model, with the

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<sup>157</sup> Conversation 20; Interview 18. Again, this points to serious problems with the process of designating poverty-stricken villages.

<sup>158</sup> Interview 21. Despite further questioning on this matter, it never became clear what ‘technical support’ actually meant in this context.

<sup>159</sup> Conversation 20; Interview 18; Interview 21.

<sup>160</sup> Interview 19; Interview 60.

slogan: “guided by the central bank, led by the RCC, supervised by the local government, and lent to rural households.”<sup>161</sup>

According to local officials and employees in the DET RCC, over 5,000 households are provided with loans through the RCCMP each year – or approximately 80 per cent of total households in the township – which was much higher than the other two townships.<sup>162</sup> There was no form of security on these loans (i.e. no guarantor, collateral or credit rating required), and any first-time borrower could apply for a maximum of RMB 10,000. Borrowers were provided with a card that could be used to get a loan at any time, and as soon as a loan was successfully repaid it was possible to borrow again at a higher limit, with the maximum loan size set at RMB 200,000. However, if a borrower defaulted on a loan they were no longer eligible for the RCCMP, and there were no joint-liability loans available. The annual interest rate on the loans was 6.5 per cent, which is actually lower than the rate specified in the policy. In other words, aside from the lack of joint-liability lending, the RCCMP was being run in accordance with (or perhaps better than) national and provincial guidelines.<sup>163</sup>

The high rate of participation in the RCCMP in the township and the fact that implementation has closely followed the policy guidelines was, of course, mainly a result of the DET being one of the original pilot sites for the programme. Indeed, local implementers and officials in both the county and the township had pride in, and took ownership of, the programme and saw it as key to local development strategies. For instance, county officials have been quoted in national media discussing the programme’s success in helping rural people.<sup>164</sup> The RCCMP was also credited with improving the financial performance of the RCC by reducing non-performing loans from 25

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<sup>161</sup> Conversation 39.

<sup>162</sup> Conversation 39; Interview 18. This number was backed up by the high proportion of household interviewees who had taken out an RCCMP loan.

<sup>163</sup> Conversation 20; Conversation 39; Interview 54; Interview 55; Interview 56.

<sup>164</sup> These sources are not referenced here in order to maintain anonymity with regard to the township location.

per cent to just 2 per cent.<sup>165</sup> However, at the same time, township RCC employees were reluctant to discuss the programme with me, and the director of the township RCC actually refused an interview with the excuse that he did “not want too many people to find out about how good the programme is and then apply.”<sup>166</sup> While this may have been merely a bad excuse to avoid talking to me, it is also possible that the RCC was finding it increasingly difficult to achieve ‘financial sustainability’ while simultaneously providing such a high quantity of subsidised RCCMP loans. This theory is also backed up by conversations I had with township officials who said that over the year preceding my fieldwork, the county had significantly tightened the township’s budget and threatened them with layoffs if ‘financial sustainability’ was not achieved.<sup>167</sup>

Borrowers were largely happy with the RCCMP, and particularly those with small businesses said that the programme helped them get quick access to capital to purchase necessary supplies and materials.<sup>168</sup> As far as most borrowers were concerned, the RCCMP also represented a transition into a more equitable mode of operation for the RCC. For instance, one borrower said: “Before it was only possible to borrow from the RCC if you had social connections, and if you didn’t repay the loan it didn’t matter. Now anyone can borrow as long as they meet the conditions.”<sup>169</sup> However, they also seemed to take the programme for granted, and were surprised when I told them that the RCCMP was not operating in the same way in other townships. As far as the borrowers were concerned, the RCC had a duty to provide the RCCMP to any and all eligible borrowers.

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<sup>165</sup> Conversation 39. This was impossible to verify.

<sup>166</sup> Conversation 22.

<sup>167</sup> Conversation 33; Conversation 34.

<sup>168</sup> Interview 54; Interview 55; Interview 56; Interview 58; Interview 63.

<sup>169</sup> Interview 54. This statement also sheds light on why the RCCMP might have improved the RCC’s financial performance.

## The EMP

Similar to the other two townships, in the DET the EMP was initiated in 2008, but the county MoHRSS did not set any quota for the number of loans that should be provided, or designate a 'development' agenda for the programme, i.e. agriculture in the AT and economic development in the MWT. As in the MWT, the DET MoHRSS was controlled at the township level (i.e. a 'devolved work unit'); however, it had visibly more resources than its counterparts in the MWT or the AT (e.g. more staff, nicer work space and no evidence of 'hanging sign work units') and the officials responsible for the EMP were not pressured to ensure 100 per cent repayment rates by the county. Therefore, the township MoHRSS initially provided loans to anyone who was eligible, and in 2012 they accepted 52 loan applications for RMB 100,000 each, while also facilitating a loan of RMB 300,000 to the largest components factory in the township. Similar to the FC in the AT, this loan was, in fact, a number of smaller loans packaged together in order to receive the full subsidy from the central MoF, rather than a larger loan meant for companies 'promoting employment' as stipulated in the policy.<sup>170</sup>

The loan application process was essentially the same as the other two townships, with one important difference – in addition to all the other requirements, borrowers also needed to travel to the county seat to complete a week of training on how to effectively use their loans. This meant that the 52 loans represented a huge amount of administrative work, not only for the township officials, but also for county level MoHRSS officials (who needed to organise these trainings) and the financial institutions providing the loans (who needed to vet a larger number of township borrowers and guarantors). Therefore, in 2013 the EMP was 'temporarily' halted in the DET in order to better allocate scarce time and resources to other more 'useful' activities and services.<sup>171</sup> Ironically, the lack of a quota set by the county, which originally resulted in a larger number loans being provided than in the other two townships, ultimately became the justification for halting the EMP

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<sup>170</sup> Interview 19; Interview 20; Interview 53.

<sup>171</sup> Conversation 34; Interview 19; Interview 20. Although it was never explicitly stated during interviews or conversations, it seemed that 'temporarily' meant 'indefinitely' in this context.



altogether, as the township MoHRSS could exercise its discretion and simply decided that no one was eligible.<sup>172</sup>

In the DET, the prevailing attitude towards the EMP was slight annoyance on the part of local officials (although not as pronounced as in the MWT) and indifference on the part of would-be borrowers. For instance, one household head told me:

I know about the EMP because I saw the government propaganda about the programme, but I think it is too troublesome and complicated. First it is necessary to get proof of unemployment from the village, then apply to the county government. Very troublesome, I don't want it.<sup>173</sup>

The owner of the largest components factory did acknowledge that his loan of RMB 300,000 was of substantial help to his business, but also complained because he was required to secure nine guarantors, which he described as being very troublesome.<sup>174</sup> Township officials felt that the programme was unnecessary (and therefore a waste of time), and as soon as there was consent from the county it was halted. Most of the households I spoke to either did not know of the existence of the EMP, or, if they were aware of the programme, did not know that it had been halted. However, even those households that did know about the EMP and were considering applying for one of the microloans were not upset when they discovered that the programme was no longer running. This was mainly because of the prevalence of the RCCMP in the township, which was more attractive to many borrowers (despite the higher rates of interest) due to the fact that there was no application process, no need for guarantors and because loans were provided immediately. For instance, one household said:

The RCCMP is convenient because I have a card that I can use to borrow. The EMP needs two guarantors with connections to the government. The RCCMP doesn't need any guarantors, but there

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<sup>172</sup> Conversation 34; Interview 19.

<sup>173</sup> Interview 58.

<sup>174</sup> Interview 53. It should be noted, however, that this owner also used a portion of the EMP to lend to a friend at 12 per cent interest, just like in the MWT.

is a limit depending on the situation of the household. Some can borrow RMB 6,000 while others can borrow up to RMB 100,000.<sup>175</sup>

Moreover, because the DET is wealthier and relatively well connected to urban centres and regional production hubs (see Chapter 3), there was more capital available for informal lending. Unsurprisingly, most households would rather borrow from family or friends (usually at 0 per cent interest) than from institutions or microcredit programmes due to the convenience and lower transaction costs.<sup>176</sup>

### 4.3 Conclusion

Over the past three decades microcredit has undeniably become an important feature of the Chinese rural financial landscape. The rapid expansion of microcredit services in rural China has primarily been through the three government-run (and subsidised) programmes – the PAMP, RCCMP and EMP – which both draw on global narratives associated with the microfinance movement, while simultaneously being framed within Chinese rural development discourses and movements, such as Deng Xiaoping Theory, the Three Represents and attempts to create a Harmonious and Well-off Society. These programmes have also been co-opted by, and have formed essential components of, various rural development policy frameworks, such as the Poor Village Investment Programme, the XNCJS and the CXYTH. At the same time, they have been subjected to a general ideological shift towards neoliberal approaches to financial organisation, which prioritise ‘financial sustainability’ and profitability over the social welfare considerations usually associated with ‘development microcredit’. These varied ideological influences, and the fact that policy guidelines for the programmes are often vaguely formulated at both the central and provincial levels, has left significant room for interpretation, negotiation and discretion by local implementers. This means that, similar to other rural development interventions, government-subsidised microcredit programmes in China undergo processes of transformation as policy ‘travels

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<sup>175</sup> Interview 56.

<sup>176</sup> This general sentiment was widely expressed in interviews with both borrowers and non-borrowers across the three townships.

down' from the centre to the local, and therefore vary in how they are implemented across localities.

This chapter outlined the policy and practice of government microcredit programmes in rural China. It began by reviewing and synthesising primary policy documents formulated at both the central and provincial levels, followed by an analysis of the key areas/spaces left open to local discretion in the policies. The chapter then went on to detail the implementation realities of the three programmes in the three different townships, and illustrated the ways in which local implementers perceived the policies differently and took advantage of loopholes, resulting in significant transformation of the policies as they manifested themselves at the local level, and tremendous variation in the implementation of each of the programmes across the three townships. We now turn to Chapter 5 to analyse the key factors shaping the heterogeneous implementation outcomes of microcredit in the AT, the MWT and the DET.

## **Chapter 5**

### **Understanding Heterogeneity in the Implementation of the Microcredit Programmes**

The centre has policies, local areas have counter-policies (*shang you zhengce, xia you duice* 上有政策、下有对策).

- Old Chinese saying

Over the past half century there has been a general shift towards 'Neo-Newtonian' approaches in the social sciences which emphasise quantification, generalisability and replicability (Backhouse & Fontaine, 2010; Chambers, 2008). In the field of Development Studies, this has resulted in an increased focus on measurable results, and the popularisation of approaches that seek to evaluate the impact of development interventions through 'evidence-based decision-making', in order to determine 'best practice' and ensure programmes are 'cost effective' or providing 'value for money' (White, 2010). Impact assessment has become its own distinct area of research – incorporating academics, policy-makers and development practitioners – with most studies attempting to adhere to quantitative standards of 'rigour' by utilising sophisticated statistical analysis tools and avoiding selection bias through randomised control trials (RCTs). For the most part, this type of impact assessment research starts from the assumption that it is possible to attribute impact to causal 'determinants' and, in this way, identify the types of interventions that work best. Based on these determinations, successful development programmes are scaled up and standardised in an attempt to ensure uniform implementation (Center for Global Development, 2006; Hobbes, 2014; White, 2010). This focus on measurability sees development as inherently linear, and implies "some kind of step-by-step process whereby policy [is] formulated, implemented and then followed by certain results" (Long, 2001, p. 25).

This obsession with measuring impact is especially true with regard to microcredit, where the vast majority of research begins with a variant of the

question ‘does microcredit work?’<sup>177</sup> In many ways this is to be expected, considering the fact that the modern microfinance movement has been portrayed as the development intervention that will, in the future, relegate poverty to a museum.<sup>178</sup> This has resulted in a large number of ‘impact assessments’ being developed in an attempt to determine how microcredit programmes impact on ‘beneficiaries’. Some of these assessments utilise qualitative or participatory approaches to measure less quantifiable concepts, such as empowerment or well-being (Copestake, Johnson, & Wright, 2002). However, more often they are positivistic in nature and utilise quantitative methodologies to measure the usual development markers – such as income, expenditure, consumption, assets, etc. (Hulme, 2000). A subset of research also approaches microcredit impact assessment from a ‘financial systems approach’, and therefore defines beneficial impact in terms of financial sustainability, and the ability of programmes and MFIs to scale-up their activities, thus assuming that increased access to credit is inherently good (Yaron & Benjamin, 1997). Unsurprisingly, these different definitions and methods of assessing impact have resulted in a variety of conclusions, with some research finding positive impact (Holcombe, 1995; Khandker, 2005; Pitt, 2014; Pitt & Khandker, 1998); some research finding negative impact and/or fundamental flaws in the concept of microcredit as a development intervention and microcredit impact assessment itself (Bateman, 2013; Bateman & Chang, 2012; R. Montgomery, 1996; Rogaly, 1996; Wood & Sharrif, 1997); and still other research finding evidence of both positive and negative impact, minimal impact or determining that there is not enough evidence to make a clear determination one way or the other (Angelucci et al., 2013; Duvendack et al., 2011; Roodman, 2012) (see Chapter 1 for more on these debates). Based on these assessments of the effectiveness/ineffectiveness of microcredit as a development intervention, most research attempts to ‘work backwards’ in order to understand what went right/wrong in the design and implementation of the microcredit programmes, and then tends to outline ‘best practices’ to improve the policy

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<sup>177</sup> A Google search of the phrase ‘does microcredit work?’ yields half a million hits, and there are too many articles, books and reports that have some version of this question as part of their title to cite here.

<sup>178</sup> Muhammad Yunus, who is often described as the father of the modern microfinance movement, has made statements along these lines at various points over the last three and a half decades (see Chapter 1) (Bateman, 2010).

formulation and provision of microcredit in order to produce 'better impact' in the future (Hulme, 2000).<sup>179</sup> In this way policy formulation and implementation is perceived through a top-down structural functionalist lens (which is basically technocratic), where changes to programme design influence implementation and impact in a sequential causal chain of events, and assumes that standardisation can be achieved as long as 'best practices' are adhered to (Long, 2001).

At the same time, however, there has been a significant amount of critique of, and resistance to, these dominant ideas about impact assessment with regard to development interventions in general, and microcredit in particular – essentially arguing for a shift towards approaches situated in the 'Adaptive Pluralism' paradigm. Recent research has pointed out that much impact assessment is top-down, reductionist and prescriptive, and therefore fails to take into account political considerations and complex systems at various levels that fundamentally shape development interventions (Jones, 2012). For instance, Norman Long notes that that "this separation of 'policy', 'implementation' and 'outcomes' is a gross oversimplification of a much more complicated set of processes which involve the reinterpretation or transformation of policy during the implementation process" (Long, 2001, p. 25). This means that the formulation and implementation of policy/programmes cannot be standardised based on 'best practices' with the expectation of producing specific and uniform impacts, because development interventions are necessarily reconstituted in heterogeneous ways depending on the local context and people involved. This realisation has resulted in a shift in focus towards complexity (drawing on complexity science), chaos, local self-organisation and emergence, in an attempt to understand development more holistically as sets of locally embedded processes, rather than attempting to identify universal models to scale up and adopt globally (Chambers & Loubere, 2016; Escobar, 2004; Hobbes, 2014; Ramalingam, 2013). Implicit in this, is an actor-oriented understanding of development as inherently relational in nature (Mosse, Farrington, & Rew, 1998; Mosse & Kruckenberg, 2016), in that development processes are constituted by sets of interlinking relationships, which are characterised by social arenas where actors struggle over meaning and power, resulting in

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<sup>179</sup> Of course, studies that find microcredit to be fundamentally flawed outline alternatives rather than 'best practices'.

unpredictable outcomes (Long, 1999, 2001; Long & Long, 1992). In this way, the implementation of development interventions is more than mere execution, and instead should be perceived as complex, dynamic and co-produced pathways whose form and direction is continually under negotiation (Kruckenberg, 2015; Leach et al., 2010).

Interestingly, an implicitly actor-oriented relational focus has been relatively common in research on local politics and local development in China. This is primarily due to the common acknowledgement of the importance of interpersonal relationships and social connections (i.e. *guanxi* networks) in shaping social processes in Chinese contexts (Kipnis, 1997); and the widespread interest in the heterogeneous implementation of development interventions at the local level stemming from the fact that development policy is often left relatively open to interpretation and experimentation (Heilmann, 2008; Heilmann & Melton, 2013).<sup>180</sup> This has resulted in many studies taking the perspectives of local implementers as their point of departure and analysing the role that socio-political networks play in policy implementation, thus avoiding some of the mechanical top-down biases outlined above. Indeed, in-depth studies have explored processes of transformation and variation in provincial level development strategies (Donaldson, 2009), the campaign to Open Up the West (Goodman, 2004), the XNCJS (Ahlers & Schubert, 2013; Thøgersen, 2011), the New Cooperative Medical System (P. H. Brown et al., 2009), the abolition of agricultural taxes (L. C. Li, 2007), earmarked transfers from the central to local governments (Liu, Wang, Tao, & Murphy, 2009), the regulation of the FCs (Augustin-Jean & Xue, 2011) and agricultural industrialisation (Gao, 2011), just to name a few. What emerges from these studies is a picture of local implementers as ‘street level bureaucrats’, who are intimately involved in shaping, and even defining, development policy through their everyday decisions (Lipsky, 1980; Maynard-Moody & Musheno, 2003) – which is framed negatively as collusion (Tan, 2008; X. Zhou, 2010), or more

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<sup>180</sup> Interest in local discretion in implementation practices is not restricted to development policy/interventions. Due to China’s large size and the traditional divide between central and local authority, heterogeneous implementation has been a key focus of much research on a variety of different types of policies, and has been utilised as a means of better understanding the workings of local societies in Chinese contexts (Chung, 2000; Heilmann, 2008; Lampton, 1987; Manion, 1991; O’Brien & Li, 1999).

positively as strategic innovation and/or pragmatism (Ahlers & Schubert, 2013; Thøgersen, 2011). While this body of research does not go so far as to explicitly explore complexity, self-organising systems or emergence like the research outlined above – and, for the most part, still perceives development policy implementation as linear with local implementers responding to external pressures and incentives – it does provide us with an in-depth understanding of local implementation processes, and the functioning of socio-political networks consisting of policy-makers, implementers and ‘beneficiaries’ at various levels.

Surprisingly, microcredit schemes have been relatively overlooked in this large body of literature dedicated to shedding light on transformation and variation in the implementation of Chinese rural development policy. There has, of course, been some excellent research exploring the local workings of microcredit programmes, and exposing the ways in which their outcomes are negotiated by local actors and ultimately reflect heterogeneous local socio-political and socioeconomic contexts (Bislev, 2010, 2012; Tsai, 2004). However, as stated in Chapter 2, the vast majority of research on Chinese microcredit has been structuralist and top-down in orientation, and has, therefore, been more interested in policy formulation and institutional organisation than with the actual operation of providers or implementation of policy at the local level (X. Du, 2008a; He et al., 2009; OECD, 2003; T. Sun, 2008). When transformation/variation is discussed, it is often conceptualised negatively as ‘mission drift’ and/or government or elite ‘capture’ through the diversion and embezzlement of subsidised funds, causing the microcredit to be used ‘improperly’, which is invariably blamed on government ‘interference’ through market-distorting subsidies, and greedy officials/elites eager to take advantage of the programmes for individual gain (Hofmockel, 2005; OECD, 2003; L. Ong, 2011; Park & Ren, 2001). Implicit in these analyses is the view of microcredit as a ‘market-based’ development intervention that functions optimally when allowed to operate based on neoliberal market principles. What is missing, however, is an in-depth analysis of the different types of ‘interference’ that occur as microcredit policy ‘travels down’, becomes internalised in different localities and is reproduced locally in heterogeneous ways, which is ultimately vital to an in-depth understanding of the role that microcredit plays in local development and livelihoods at the local level.



For this reason, this chapter aims to situate research on the policy and practice of microcredit in China, within the rich body of literature on the transformation and heterogeneous implementation of development policy/intervention in rural China. At the same time, it seeks to deepen our understanding of the diverse factors influencing and shaping this implementation by drawing on the development studies research mentioned above, which depicts development processes as complex, self-organising and ultimately emergent from the interfaces of interaction between diverse actors, and, hence, inherently relational in nature and more than the sum of sets of easily identifiable variables and constants. The rest of the chapter is organised as follows. Section 5.1 outlines how differentiated financial landscapes create segmented financial markets resulting in microcredit 'slotting in' to different positions across (and within) the three townships, and causing the programmes to be interpreted in a variety of ways by local implementers and prospective borrowers. Section 5.2 explores the ways in which top-down pressures and incentives influence the implementation of the microcredit programmes and ultimately shape how microcredit fits into implementers' livelihood strategies. Section 5.3 examines how microcredit provision is ultimately negotiated at the interfaces of interaction between individuals and groups with asymmetrical amounts of power, diverse goals and objectives, and various understandings of the role that microcredit should play in local development. Section 5.4 shows how all these exogenous, endogenous and relational factors combine to produce complex and emergent implementation realities that are more than the sum of their parts and thus difficult to predict, but which, nevertheless, provide important insight into the workings of local society, politics and development. Section 5.5 concludes the chapter by setting the stage for the analysis of the differentiated roles that the microcredit programmes have played in local development and livelihoods across the research sites in Chapter 6 and Chapter 7.

### **5.1 Differentiated Financial Landscapes and Segmented Financial Markets**

One of the key reasons that development policy in China has historically been designed to allow for local discretion and experimentation is the acknowledgement of the country's size and contextual diversity by central policy-makers. This has led to policy being understood as flexible sets of

guidelines or frameworks to be adapted to local conditions rather than specific instructions meant to be followed exactly (Heilmann, 2008; PBC, 2001; State Council, 2008). The utility of creating space for local policy experimentation and modelling is evident in the AT, MWT and DET, as the three townships each represent distinct socioeconomic contexts, which have given rise to heterogeneous financial landscapes. These financial landscapes are differentiated in terms of their “physical financial infrastructure” (i.e. formal/informal financial service providers), and also vary in the ways in which “relations, norms, actions and processes” related to financial services are constructed and perceived by different actors (Bouman & Hospes, 1994, p. 1). This has resulted in financial markets that are differently segmented in terms of demand for, and access to, financial services, meaning that no one type of credit is universally desired or available (Hoff & Stiglitz, 1990; Tsai, 2004). Thus, different types of credit (and their respective availability and utility) are perceived in diverse ways by different individuals and groups (i.e. ‘market segments’). This means that microcredit programmes – as an external interventions – necessarily ‘slot in’ to different positions and serve different segments of the market in different contexts, and in some cases may even contribute or respond to the emergence of “new market segments” (Bislev, 2010; Harper, 2012, p. 565). In this way, the three microcredit programmes are necessarily demanded, accessed and understood in very different ways across the three localities, and even by different actors within each township, necessitating variation in implementation practice at the local level.

### **Demand for credit**

The different levels and types of demand for credit across/within the three townships is particularly evident. For instance, the AT is the most remote of the three townships and, because the township is flat and has a larger amount of good agricultural land, the main livelihood strategy has continued to be farming (see Chapter 3). In the words of one AT farmer:

After the reform and opening, there was large-scale economic development and many rural people went to do migrant work. However, because we [people in the township] have more land, we stayed in the village to farm.<sup>181</sup>

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<sup>181</sup> Interview 25.

This has led to widespread demand from many farming households for credit to support agricultural activities, such as purchasing inputs, purchasing/maintaining machinery, and the various costs related to supply and marketing. Additionally, since the ratification of the Land Rights and Transfer Agreement in 2008 – allowing rural people to rent land from each other – there has been demand for larger amounts of credit to scale-up agricultural production by renting unused farmland, particularly in neighbouring townships where many households have given up farming commercially. However, this demand has primarily been from wealthier households or groups who could be considered economic/political elites at the township and village levels, as poorer small-scale farmers do not have the means to scale-up their activities in this way.

Financial market segmentation in the MWT and DET, on the other hand, is significantly more complex, and consists of a variety of different levels and types of demand for credit from a diversified range of actors. For instance, in the MWT there has been very limited demand for loans from village households, as most receive remittances from family members who are engaged in migrant work in urban areas. The majority of these households do not see any purpose for borrowing, as they are not interested in farming commercially or setting up a business.<sup>182</sup> Migrant remittances have also become a source of credit in and of themselves, as some households informally pool their remittance funds in order to set up mutual support groups (similar to ROSCAs, see Chapter 2), and/or to invest in businesses either locally or outside the township. Therefore, demand for formal credit has further diminished, since the influx of capital from remittances allows for these types of informal arrangements, which are widely perceived to be more convenient than borrowing formally. That being said, there are also a variety of MWT businesses of varying sizes that require loans for day-to-day operation and expansion, and remittances or informal credit alone are often not sufficient (or sufficiently reliable), meaning that the owners also have a demand for formal credit services.<sup>183</sup> Indeed, the largest construction company in the MWT requires continuous large-scale financing from the

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<sup>182</sup> Interview 34; Interview 37; Interview 39; Interview 41; Interview 44. See Chapter 7 for more on self exclusion.

<sup>183</sup> Interview 40; Interview 46.

RCC, and the main reason it moved its headquarters to the township from the city was because of an informal agreement that the company would be able to secure at least 50 per cent of the RCC's lending capital.<sup>184</sup>

In the DET, demand for credit is more complicated still due to the township's wide range of socioeconomic activities, and also due to the fact that individuals and groups often employ multifaceted livelihood strategies. This means that some actors simultaneously demand different types of loans (both formal and informal) for different activities, and therefore represent multiple market segments at any one time, resulting in financial market segmentation that is both dynamic and complex. For instance, the largest components factory in the township accessed an EMP loan of RMB 300,000 that was used for both investment in the factory, and also to engage in informal onlending, which provided higher rates of return than the main business.<sup>185</sup> These multiple demands were not necessarily premeditated, but were instead flexible and responsive to the emergence of new opportunities. More commonly, households and businesses simultaneously accessed multiple sources of credit for a single project or consumption need. One household and operator of a microenterprise (a small bookstore) told me:

To help my son buy a house I borrowed more than RMB 10,000 from the PSBC. Friends and family also lent between RMB 20,000 and RMB 30,000, and my son also borrowed money himself from a variety of sources.<sup>186</sup>

Along the same lines, households and businesses also often demand loans to pay off other debts, which was referred to on a number of occasions as "destroying the west wall to build the east wall" (*chai xi qiang, bu dong qiang* 拆西墙，补东墙).<sup>187</sup> Therefore, the credit demands of DET households and

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<sup>184</sup> Interview 45.

<sup>185</sup> Interview 53. This was before the EMP was halted in 2013.

<sup>186</sup> Interview 58.

<sup>187</sup> This phrase was first mentioned in Interview 30 in the MWT, but also came up on other occasions in everyday conversation in the DET. Borrowing to repay other debts can obviously lead to destructive debt cycles (Taylor, 2012); however, in the DET most interviewees using this technique did not seem to be in danger of defaulting, but were instead balancing debts and

businesses often defied simple or static characterisations, making attempts to classify demand into a typology both difficult and ultimately meaningless.<sup>188</sup>

### **Credit supply and constraint**

Of course, the various types of demand outlined above are also linked to credit availability within and across the three localities. Credit has been particularly constrained in the AT, where the RCC is the only formal financial institution. This has resulted in a situation where only 20 per cent of the population has access to RCCMP loans, but over 40 per cent demand formal credit, meaning that the demand for farming activities outlined above has largely gone unmet.<sup>189</sup> Moreover, due to the township's lack of socioeconomic linkages with more prosperous urban areas (e.g. through migrant work), there has been little capital readily available for lending on informal markets. Additionally, since the AT is not home to any designated 'poverty-stricken villages' (despite being the poorest of the three townships), there has been no opportunity to utilise the PAMP as a means of meeting some of this demand. Of course, the EMP is in operation, and while it has been used to provide credit to normally excluded village actors, the scale is currently too small (i.e. 12 loans of RMB 50,000 each) to seriously alleviate the overall level of constraint in the township. This has meant that the supply of credit (and the implementation of the microcredit programmes) has been primarily mediated by socioeconomic status and *guanxi* networks, as only local elites (at the township or village levels) have been able to obtain the credit rating necessary to borrow from the RCCMP, and/or have friends/family with access to excess capital that can be used to provide informal loans on a consistent basis (see Section 5.3).

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time limits in order to minimise interest payments and gain access to needed capital at crucial moments (DET Contextual Observation Report).

<sup>188</sup> There were of course some basic needs which households (particularly poorer households) across the three townships demanded credit for, such as housing and education for children. Access to, and exclusion from, the microcredit programmes for these consumption purposes will be covered in more detail in Chapter 7.

<sup>189</sup> Interview 05.

In the other two townships there are a variety of sources of formal and informal credit available to meet the more diversified demands/needs outlined in the previous section. There are also a greater number of socioeconomic linkages with actors in urban and peri-urban areas with more credit options. As stated above, in the MWT there has been a significant amount of capital inflow from migrant remittances, leading to increased stocks of local capital that can be used for informal pooling/lending. Therefore, despite the fact that the RCC is the only financial institution in the MWT, and that it provides very little credit to households and microenterprises, there has not been the same general perception of widespread credit constraint as in the AT.

The DET also has a much more vibrant informal lending market, and most people utilise a combination of formal and informal credit when undertaking a project or making an investment.<sup>190</sup> At the same time, however, the DET is also home to formal lenders that are not present in the other two townships. For instance, the ABC provides loans for households and microenterprises secured by guarantors or joint-liability groups, but the loan process is relatively complicated and the interest rate is slightly higher than the RCCMP. This has made the ABC less popular with small-scale borrowers, so the bank primarily targets the medium/large business market segment that is excluded from the RCCMP.<sup>191</sup> Alternatively, the PSBC does not provide credit directly in the township, but does help prospective borrowers prepare application documents for submission at the county branch. Similar to the ABC, the interest is higher and the PSBC mainly targets larger-scale enterprises or projects.<sup>192</sup> In other words, formal and informal sources of credit have moved in to accommodate a number of the diverse market segments in the DET. That being said, poorer segments of the population with lower socioeconomic statuses have, nevertheless, continued to be excluded in the DET, as well as the other two townships (see Chapter 7).

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<sup>190</sup> Non-financial informal lending is also widespread in the DET, with many households borrowing labour and/or construction materials from each other when building new houses and repaying in kind or in cash (Interview 60).

<sup>191</sup> Conversation 36; Interview 55.

<sup>192</sup> Conversation 37.

### **Differentiated interpretations of microcredit function and utility**

These different types of demand and supply/constraint have meant that implementers, local businesses and households perceive the three microcredit programmes, determine their relative usefulness, and appropriate them (or choose to ignore them) within their own strategies for inducing development and reproducing livelihoods in different ways.<sup>193</sup> For instance, in the AT both implementers and borrowers immediately saw the EMP as an important source of capital in the context of severe credit constraint. This resulted in collaboration between officials (at the village, township and county levels), farmers (in the form of an FC) and financial institutions (at the township and county levels), in order to create a new model for EMP provision that would meet the needs of an underserved market segment (i.e. small-scale farmers) and simultaneously fit in with the primary development strategy of the township and county – to support and modernise agriculture. The RCCMP was also perceived as a method of channelling capital to agricultural activities in the AT by providing funds to larger-scale farmers wanting to expand and scale-up farming activities by renting unused agricultural land. However, due to the limited amount of lending capital available through the RCC, this was mainly reserved for a few township elites who were able to use their connections to get the necessary credit rating.<sup>194</sup> In other words, in both cases the RCCMP and EMP were perceived as a means of supporting agricultural development, but the programmes still ended up ‘slotting in’ to different market segments, with the RCCMP being appropriated by township elites and the EMP being incorporated into the development and livelihood strategies of officials at various levels and village level farmers who would have otherwise been excluded from the provision of formal credit.

The MWT, on the other hand, has similar credit constraints to the AT, but there is much less demand for formal credit due the fact that most households receive migrant remittances and there is more widespread

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<sup>193</sup> Of course, different actors also have different amounts of knowledge, and sometimes knowledge is purposefully withheld from certain segments of the population, which has the potential to dramatically change the ways in which microcredit is supplied, demanded and/or perceived. This is covered in more detail in Chapter 7.

<sup>194</sup> Interview 23.

access to informal sources of credit. Therefore, implementers have not considered households to be a target market segment for the microcredit programmes, and the RCCMP has mainly been directed towards larger-scale enterprises – which fits in with the township’s development strategy of maximising economic development. Meanwhile, the EMP and the PAMP were considered to be redundant and time-consuming, so rather than attempting to adapt the programmes to provide credit to underserved market segments, implementers simply interpreted their microcredit implementation duties in ways that reduced their time/work commitments. In the DET, the RCCMP has been perceived to be a key duty of the RCC due to the fact that the programme was initially piloted in the county/township. For this reason, 80 per cent of the township households borrow from the RCCMP, meaning that the programme effectively serves a variety of market segments. At the same time, there are a number of other sources of formal and informal credit available to households and businesses, which (as in the MWT) has resulted in the EMP and PAMP being perceived as unnecessary (i.e. having no place in the segmented market) by implementers and prospective borrowers alike, and neither were provided during the fieldwork period.<sup>195</sup>

Ultimately, it is clear that the differently segmented financial markets have played a role in shaping perceptions of how microcredit should ‘slot in’ to each of the townships’ financial landscapes. At the same time, the programmes were also often perceived within the context of local development strategies, such as agriculture in the AT and economic growth in the MWT. It is, however, also important to note that these landscapes and markets are dynamic, meaning that the types of demand and supply are in a constant state of flux. Therefore, due to the flexibility that is inherent in Chinese development policy, the microcredit programmes have the potential to be reinterpreted to serve different market segments and play different roles in local development, depending on shifting financial and developmental landscapes.

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<sup>195</sup> Despite the fact that the EMP has zero per cent interest, it still has a higher transaction cost, particularly due to the required training in the county (see Chapter 4).



## 5.2 Strategising and Rationalising Pressures and Incentives

The governor of the county has less power than one's direct supervisor (*xian guan buru xian guan* 县官不如现管).

- Old Chinese saying

The analysis in Section 5.1 details the ways in which differently segmented financial markets in the three localities have caused microcredit to be perceived in different ways by various local actors. This type of focus on the economic principles of supply and demand is common in much of the literature on microcredit in China (X. Du, 2008b; X. Li et al., 2011a; L. Xu, 2009; Y. Zhao, 2011), and, as the previous section demonstrates, certainly plays an important role in shaping the environmental conditions that microcredit programmes operate in at the local level – albeit in more complex and dynamic ways than usually acknowledged. However, as development interventions and government policies, the three programmes are not only shaped by markets, but also by political considerations, which fundamentally underpin the ways in which local implementers (i.e. government officials) understand the programmes and incorporate them into their own livelihood strategies. Indeed, much literature on policy implementation in china points to the pressures and incentives influencing implementers, and stresses the importance of ‘scientism’ and the ‘audit culture’ associated with the ‘scientific development concept’ (*kexue fazhan guan* 科学发展观), which is conceived of as incentivising local officials to prioritise policy goals that are easily measurable and used to determine career advancement (Chung, 2000; Donaldson, 2009; Heberer & Trappel, 2013; O’Brien & Li, 1999; S. Zhao, 2007). In the case of microcredit, there can be no doubt that these types of quantifiable exogenous and endogenous pressures and incentives have played an important role in influencing the implementation of the three programmes. However, as this section will illustrate, seemingly similar pressures and incentives have resulted in different outcomes across the three townships, meaning that they have not always been perceived in the same way. Moreover, local implementers demonstrated an ability to change their understandings of pressures and incentives over time.

## Quotas

For instance, local implementers have formulated different strategies to ensure that quotas imposed by higher levels of government are met in ways that limit time expenditure and risk, and fit into local development strategies. This is particularly evident with the EMP where quotas have been determined at the county level. In the AT, county and township implementers decided to provide the entire quota of 12 loans to a single borrower (the FC) with one guarantor (the township government). This saved time and hassle by eliminating the need to find one or more suitable guarantors for each individual loan, and also reduced monitoring costs and risks associated with having multiple guarantors. In the MWT, the township MoHRSS official limited time expenditure and risk by lending the entire quota to friends and family that he knew were able to find suitable guarantors and ultimately repay the loans without any problem. In the DET, meanwhile, the lack of a county-imposed quota was initially perceived as a mandate to provide the EMP to anyone who met the eligibility criteria; however, this understanding was later revised by local implementers to mean that the programme could be halted altogether, thus completely eliminating time expenditure and risk.

The central government mandate that RCCs should use 60 per cent of their lending capital for the RCCMP has also been interpreted differently in the three localities. The quota was followed in the AT, but since the township is relatively poor and there are less migrant remittances bolstering local savings, the township RCC has relatively less capital and was thus unable to meet the demand for RCCMP loans.<sup>196</sup> This meant that the RCC only provided loans to those with a high enough credit rating (i.e. high socioeconomic status and good connections), thus undermining one of the key principles of the programme – that all households should have the chance to borrow without the need for a guarantor and continue to borrow as long as they do not default. In the DET, on the other hand, this principle of (almost) universal provision of the RCCMP was upheld primarily because of a combination of top-down pressure and bottom-up expectations resulting from the fact that the DET was one of the initial pilot areas for the programme. This has meant that 80 per cent of the population borrows from the programme, which is possible, to a certain extent, because the DET is

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<sup>196</sup> Interview 05.

more wealthy and therefore has more savings capital than its counterpart in the AT. However, it is also likely that the RCC has been using more than the required 60 per cent of total lending capital to finance the widespread provision of the programme.<sup>197</sup> Finally, in the MWT the quota was met through a fundamental redefinition of the RCCMP as a programme aimed at large-scale enterprises rather than households, demonstrating the RCC manager's active (but subversive) imagination and ability to reinterpret the programme to function in a way that fit his goals and didn't conflict with other top-down pressures related to the RCC operating in a 'financially sustainable' way (see Chapter 4).<sup>198</sup> County officials in the MWT and DET similarly reinterpreted the meaning of the quotas associated with the PAMP so that the poverty alleviation funds could be directed towards other 'more productive' areas.<sup>199</sup>

### **Career advancement**

The role of policy implementation in influencing local officials' career prospects is another key exogenous pressure that is often cited in the literature. As Luigi Tomba points out, "the process of policy selection by the central government has relied heavily on experiments engineered at the local level... The success of such experiments traditionally makes or breaks the careers of local leaders" (Tomba, 2012, p. N/A). The potential for the microcredit programmes to 'make or break' the careers of local officials was evident in the three localities. However, implementers (again) perceived this potential in significantly different ways. For instance, since the EMP does not feature prominently in the performance targets associated with the 'cadre responsibility system' (*ganbu zeren zhidu* 干部责任制), or meet any of the four criteria in Graeme Smith's "matrix of rural cadre decision-making" (G.

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<sup>197</sup> This cannot be confirmed as RCC employees would not answer questions related to the total amount of capital used for the RCCMP; however, the attitude and comments of the director of the DET RCC during our brief conversation suggest that the RCCMP is particularly resource intensive (Conversation 22).

<sup>198</sup> Of course, this reinterpretation also required the tacit consent of officials and RCC employees at the county level.

<sup>199</sup> Interview 16.

Smith, 2013, p. 146),<sup>200</sup> it is unsurprising that the implementers in the MWT and DET saw the programme as a potential career speed bump and sought to mitigate the risks associated with its provision by focusing on achieving the most quantifiable element (i.e. repayment rates) or by cancelling the programme altogether. However, despite the programme not having an obvious or directly measurable benefit to their careers, county and township officials in the AT perceived the EMP as a means of creating their own 'model experience' (*dianxing jingyan* 典型经验) (Heilmann, 2008), which they hoped would improve their career prospects,<sup>201</sup> thus contradicting established theory on how and why implementers decide to devote time and energy to certain policies and not others in the Chinese context.

Similar to the EMP in the MWT and the DET, the RCCMP seems to be widely seen as a task that needs to be completed in order to avoid careers being adversely affected, rather than an opportunity for career advancement. In the AT, for instance, the RCC manager treated the RCCMP like a duty and simply followed the instructions of his superiors in the county.<sup>202</sup> In the DET, the RCCMP was already an established model, so there was significant pressure to maintain a certain implementation standard, but local implementers did not seem to perceive the programme as having the potential to provide for future career advancement in the same way that a new model/experiment may have.<sup>203</sup> In the MWT, career advancement for RCC employees was dependent on the institution operating in a 'financially sustainable' way based on market principles.<sup>204</sup> Moreover, the RCC manager had significant pressure from county and prefectural officials to provide large-scale loans to the largest construction company,<sup>205</sup> which

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<sup>200</sup> i.e. it is not particularly measurable, it does not raise revenue, it does not provide much benefit to local officials or the shadow state, and it is not conducive to mass mobilisation.

<sup>201</sup> Interview 04; Interview 07.

<sup>202</sup> Interview 07.

<sup>203</sup> DET Contextual Observation Report. For this reason local implementers often try to make their mark with a new model rather than by improving/strengthening existing policies (Conversation 34).

<sup>204</sup> Interview 10.

<sup>205</sup> Interview 45.

probably also had a significant influence on his future career advancement. Therefore, the RCCMP was reinterpreted to meet these top-down imperatives.

The PAMP was not perceived as a useful means of career advancement in either the MWT or DET. At the same time, it was not considered important enough to be detrimental to careers, and was thus ignored at the county level, and knowledge of the programme was not transmitted to township officials. This is, to a certain extent, understandable in the DET where the RCCMP dominates the financial landscape and serves multiple market segments (see above). However, it seems to show a lack of imagination in the MWT, where officials could have used the loans for infrastructure development – which is permitted in the policy and would have fit in well with the township’s stated development strategy – and the programme, therefore, could have served as a ‘model experience’ similar to the EMP in the AT.<sup>206</sup>

### **Powerful actors and tipping points**

The direct influence and/or imagined influence of powerful actors at higher levels also served as a potent exogenous pressure for local implementers. The implementation of the RCCMP in the DET is a particularly good example of this, as the programme pilot was initiated on the direct orders of Jiang Zemin and the governor of the PBC during a town hall meeting in the township.<sup>207</sup> This visit, which took place over a decade before my fieldwork, has remained fresh in the minds of local people, and was often brought up during interviews and conversations, with some people even showing pictures that they had saved from the event.<sup>208</sup> For this reason, this town hall meeting, and the powerful image of officials at the highest level directly sanctioning the programme, can be considered a ‘tipping point’, which led to quick and sudden change (Chambers & Loubere, 2016). From this visit

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<sup>206</sup> This may be due to the fact that the PAMP has been around much longer than the EMP, so local implementers may feel that the programme has ‘too much baggage’ and would not allow them to make their mark.

<sup>207</sup> Interview 60.

<sup>208</sup> DET Contextual Observation Report. There are too many interviews and conversation to cite here.

onwards, the programme instantly became a priority for county and township officials, and has now become normalised in the minds of local people as one of the RCC's primary duties. Indeed, everyone I spoke to in the DET knew about the RCCMP and it was discussed as something that local people took for granted.

To a lesser extent, the influence of powerful actors on RCCMP provision can also be seen in the MWT. Because the construction company is well connected with officials and RCC employees at the county and prefectural levels, and effectively moved to the township based on the promise of cheap large-scale loans,<sup>209</sup> the township RCC director has felt pressured to reinterpret the institution's primary role, both directly, from county level superiors, and indirectly, through the imagined high level *guanxi* of the construction company boss.<sup>210</sup> On the other hand, microcredit programmes in the AT seem to be less influenced by these types of powerful actors, and are instead shaped more directly by county and township implementers. That being said, if the provision of the EMP in the AT becomes a model that is replicated in other areas, the initial experimentation described in Chapter 4 has the potential to be a 'tipping point' leading to widespread and rapid change in the way that microcredit is understood in the township and elsewhere in the future.

### **Time and resource constraints**

Finally, resource constraints due to the 'hollowing out' of the townships through the elimination of revenue sources (e.g. the abolition of rural taxes and fees) and the 'soft centralisation' (from the township to the county) of income generating governmental departments (Mertha, 2005; G. Smith, 2010), also represented a distinct set of pressures that microcredit implementers and other local officials felt acutely in all three sites, but, again, perceived and reacted to in different ways. Officials at the township level generally consider their jobs to be especially challenging, with one official saying:

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<sup>209</sup> Interview 45.

<sup>210</sup> This reinterpretation is evident, since in the 1980s and 1990s there used to be small loans available for farming which have since been cancelled (Conversation 05; Interview 35).

We not only have to report to our superiors at higher levels, but we often have to deal with 'regular people' (*laobaixing* 老百姓) face-to-face as well. Sometimes regular people have problems and demands that are impossible to deal with, but higher level officials do not take this into consideration, they just think we are not doing a good job if the regular people complain. County officials just have to give us orders, they don't deal with people.<sup>211</sup>

Particularly in the MWT and DET, where the local MoHRSS offices are 'devolved work units' (i.e. controlled and funded at the township level; see Chapter 4), EMP implementers said that their workload is unrealistic. The EMP is just one of many programmes that they are responsible for, meaning that they have to make decisions about which tasks to prioritise and complete on a daily basis.<sup>212</sup> Similarly, the AT RCC has only four employees for the entire township, which ultimately makes it very difficult for the RCC to effectively serve the diverse needs of different market segments.<sup>213</sup> This situation of overworked local officials has been exacerbated in recent years as township governments have been pushed to become more 'financially sustainable' and seek out new sources of revenue in order to cover budgets (and salaries). For instance, in the MWT the main priority of every township official is seeking outside sources of investment, particularly from large companies seeking to relocate to the township.<sup>214</sup> In the DET this has been taken one step further, as the county government recently told township officials that if they did not bring in a certain amount of outside income annually they would face demotion and even layoffs.<sup>215</sup>

This situation has caused local implementers to creatively rationalise reasons for changing the provision of microcredit services in order to save valuable time and resources. Most obvious is the cancellation of the EMP in the DET after a 'reinterpretation' of the lack of a quota with the tacit

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<sup>211</sup> Conversation 34.

<sup>212</sup> Conversation 34; Interview 08.

<sup>213</sup> Interview 05.

<sup>214</sup> MWT Contextual Observation Report; Interview 14.

<sup>215</sup> Conversation 33. Township officials have also been told that they cannot have expensive meals or alcohol unless it is with a potential investor.

agreement of the county (see above),<sup>216</sup> and the provision of the entire RCCMP quota to a large enterprise in the MWT. But even the provision of the EMP in the AT was designed to save time, as one MoHRSS official pointed out: “This village is a model of innovative service provision that reduces the time involved in providing services. It is also more convenient [for implementers] and promotes collective development.”<sup>217</sup> The non-implementation of the PAMP was also an obvious attempt to save time and energy, and to divert funds to ‘more important’ development causes. Local implementers rationalised this by framing the PAMP as an ineffective programme that is not useful for, or desired by, the poor, as the loan amounts are too low and repayment too difficult.<sup>218</sup> This went hand in hand with the general narrative espoused by many local implementers that microcredit is not a productive use of resources for development promotion, and that microcredit funds should be channelled into larger local enterprises and/or infrastructure that has the potential to scale-up development and provide taxes to the township governments.<sup>219</sup> At the same time, local implementers also rationalised saving time and resources through service transformation and/or reduction by drawing on popular narratives of ‘Chinese exceptionalism’ or the uniqueness of China’s ‘national conditions’ (*guoqing jue ding* 国情决定), and by pointing out that ‘local conditions’ should shape implementation as stated in the policies (see Chapter 4).<sup>220</sup>

### **Local implementers as strategists**

The above examples and analysis illustrate that local implementers are subjected to a variety of exogenous pressures and incentives, usually emanating from more powerful actors or centres. However, it also shows that local implementers have not uniformly perceived these pressures and

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<sup>216</sup> Interview 19; Interview 20.

<sup>217</sup> Interview 07.

<sup>218</sup> Interview 12; Interview 16; Interview 21.

<sup>219</sup> These arguments are almost Keynesian in nature, and mirror some of the key arguments in the growing body of literature critiquing the fundamental underpinnings of the global microfinance movement (see Chapter 1) (Interview 12; Interview 16).

<sup>220</sup> Conversation 34.



incentives across the three localities. This, in many ways, confirms the findings from an increasing number of studies indicating that the personalities, attitudes and background experiences of front-line implementers (i.e. street-level bureaucrats) are perhaps the most important ‘variables’ shaping the final implementation of policy in China – often trumping top-down pressures and incentives – and emphasising the need to understand the diverse motivations underpinning the behaviour of local officials (Ahlers & Schubert, 2015; Bislev, 2010; Chung, 2000; Donaldson, 2009; Mood, 2005; G. Smith, 2013). Indeed, the highly differentiated interpretations of the benefits and risks associated with microcredit provision for implementer livelihoods across the three townships demonstrates that local implementers cannot be reduced to ‘homo economicus’, robotically responding to external stimuli to maximise personal gains, but should instead be understood as complicated individuals/groups with different personalities and life histories that shape the ways in which they understand microcredit as a means of facilitating development and other objectives.

This is clearly demonstrated in the provision of the EMP across the three localities. For instance, in the MWT and the DET, it is clear that the perspectives of local implementers were coloured by ‘numbness’ (*mamu* 麻木) resulting from being charged with too many tasks and having too few resources to accomplish them all (G. Smith, 2010, p. 611). The ‘success’ of the AT model, on the other hand, was credited to the “enthusiasm of energetic officials” at the county, township and village levels. In particular, the “development spirit” (Ahlers & Schubert, 2013, p. 16) of the county official who had the imagination and drive to attempt to create a new ‘model experience’ despite few direct incentives, and the ‘capability’ of the local leader of the FC (i.e. *nengren*), who was able to acquire and transmit new technical knowledge at the village level. Obviously, environmental and exogenous factors played key roles in shaping the ways in which the programmes were implemented in these examples, but it was ultimately the personalities and decisions (i.e. agency) of those directly involved in the implementation at the local level that made the largest contribution to implementation outcomes.

Therefore, the examples of microcredit provision outlined in this study contradict commonly held binary conceptions of local officials as either “principled agents” or (more nefariously) “wily defiers” (O’Brien & Li, 1999, p.

168), who are unable to resist the temptation to engage in corrupt activities in order to 'capture' subsidised credit or other development funds (L. Ong, 2011; Park & Ren, 2001). For instance, while the cancellation of the EMP in the DET and the provision of loans to friends and family in the MWT could be considered collusion, 'elite capture', and "shirking" as opposed to "working" (O'Brien & Li, 1999, pp. 181–182), the decision-making processes of the local officials in these two places could also be described as a "pragmatic strategy of resource allocation under the conditions of financial scarcity" (Ahlers & Schubert, 2013, p. 2), since local implementers ultimately innovated policy implementation to meet local developmental needs with the resources available. Additionally, local implementers in the AT 'colluded' in order to provide individual loans to the members of the FC rather than the larger group loan outlined in the policy, as the central MoF only covers 50 per cent of the interest payment for the larger loans. In other words, this represented the 'capture' of central funds in order to benefit local actors, and could therefore be perceived as either local corruption or beneficial strategising depending on one's perspective. Even the RCCMP in the MWT, which would widely be considered to be a classic case of local corruption and diversion of credit from households to elite large-scale business, could also be understood within the township's development strategy of attracting outside companies and investing in infrastructure in a local developmental state mode (Bateman, Duran Ortíz, & Maclean, 2011). In sum, while collusion and corruption at the local level undoubtedly exist and even widespread, it is certainly not always clear-cut or binary. Ultimately, the implementation of the three programmes has reflected the ways in which implementers perceive and understand microcredit as a development intervention, what microcredit means and, most importantly, how microcredit can be most effective in the promotion of different conceptions of development at the local level.

### **5.3 Interpersonal Relationships and Negotiations at the Interface**

Section 5.1 and Section 5.2 illustrate the ways in which local contexts/environments and exogenous pressures/incentives shape microcredit implementation at the local level. At the same time, the above analysis clearly demonstrates that the perceptions of different actors towards these external factors are highly differentiated both within and across

localities. These perceptions and interpretations are, to a certain extent, defined by the different personalities and backgrounds of the individuals involved in the microcredit programmes. Therefore, understanding these individuals' worldviews and personal objectives can go a long way in helping us to better understand how and why they choose to steer development programmes, such as microcredit, in certain directions. Ultimately, however, it is not individuals who determine the final implementation outcomes of development interventions. Rather, implementation realities are co-produced by groups consisting of diverse individuals, often with different worldviews and understandings of development. Therefore, underpinning the different types of heterogeneous implementation outlined above are discontinuities, struggles and negotiations that take place at the interfaces of interaction between diverse actors at various levels. In the words of Norman Long, these inherently relational interfaces of interaction are where actors become engaged in each other's projects and "locked into struggles over the attribution of social meanings to particular events, actions and ideas," and, despite dramatic power asymmetries, "all actors exercise some kind of 'power', leverage or room for manoeuvre, even those in highly subordinate positions" (Long, 2001, p. 17).

### ***Guanxi* interfaces in the Chinese context**

In the context of rural China, these interfaces of interaction are largely understood as being the product of, or mediated by, overlapping networks of interpersonal relationships (*guanxi wang* 关系网). These networks have traditionally been based on lineage groups and rooted in local areas, but are increasingly incorporating larger groups of family, friends and other social contacts extending regionally and beyond – primarily due to rural-urban migration and other processes related to globalisation (Gold, Guthrie, & Wank, 2002; C. Wang, Ye, & Franco, 2014). Particularly in rural China, much research on local society focuses on how the formation/production of social relationships (*guanxi*) – and the associated concepts of 'human feeling' (*ganqing* 感情) and 'reciprocity' (*bao* 报)<sup>221</sup> that underpin and give

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<sup>221</sup> Reciprocity is key to *guanxi* production, as actors continually engage in reciprocal and mutually beneficial actions, which is also referred to as *lishang wanglai* (礼尚往来). However, this does not simply imply material repayment, but is rooted in a philosophical tradition that understands the world as having balance and being based on the rules of cause and effect –

these relationships meaning – is central to social, economic and political life (Gold et al., 2002; Kipnis, 1997; Y. Yan, 1996). In other words, Chinese society (and particularly rural society) can be conceptualised as being composed of overlapping and interconnecting ‘particularistic ties’ between individuals and groups, which are both instrumental in nature, but also reliant on reciprocal actions grounded in ‘human feeling’ in order to be maintained and remain operational (C. Wang et al., 2014).<sup>222</sup>

This understanding of society as being the product of overlapping relationships is strikingly similar to Norman Long’s conceptions of ‘actor interfaces’ and ‘social arenas’ described above and in Chapter 3. For instance, Fei Xiaotong – who is often referred to as the father of Chinese sociology – coined the term the ‘differential mode of association’ (*chaxu geju* 差序格局) to liken the structure of Chinese society to “ripples formed from a stone thrown into a lake; each circle spreading out from the centre becomes more distant and at the same time more insignificant” (Fei, 1992, p. 65). In this way, in any given social situation, the proximity of relationships (ripples) to the central ego, where these relationships overlap, and, of course, the relative power of the different actors in different situations, ultimately determines the nature of social reality and structures societal arrangements. However, Fei and other Chinese theorists take the social constructivism underpinning Long’s conception of actor-interface analysis one step further by pointing out that – in the Chinese context – even seemingly durable concepts such as morality or logic are contextually defined at these interfaces/arenas, meaning that all social interaction (including the processes involved in determining policy implementation) is invariably the product of relationships between implementers and other actors (both locally and non-locally). However, these relationships are not static, but are instead continuously being renegotiated. Therefore, social reality is inherently relational and context specific (i.e. dependant on who is involved), and in a continuous state of dynamic flux (Fei, 1992; Liang, 1963).

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with every action having an appropriate reaction (X. Chang, 2010; L.-S. Yang, 1957; Y. Yan, 1996).

<sup>222</sup> This element of instrumentality is one of the reasons that socio-political/socioeconomic activities are so often framed as collusion and/or corruption, particularly with regard to local officials (see Section 5.2).

This means that, while local implementers can be considered strategists (as outlined in Section 5.2), they should not necessarily be considered 'rational' or 'utilitarian' strategists acting in a 'homo economicus' mode or abiding by 'western' conceptions of static morality and logic. Instead, these *guanxi* relations at the interfaces of interaction can influence implementation in ways that are defined by different 'logics' that emerge from relationships, and trump considerations related simply to personal gain and/or development imperatives (C. Wang et al., 2014). Therefore, in order to analyse development policy implementation in-depth, it becomes necessary to expand on common conceptualisations of local government organisation in post-reform China, such as 'local state corporatism' and the 'entrepreneurial state' (Duckett, 2001; Oi, 1992), which, for the most part, depict local governments as unitary actors with singular strategies for increasing access to resources and promoting uncontested versions of development. This is not to say that these theories do not provide useful ways of understanding local governmental operation and behaviour, but rather that by incorporating actor-oriented approaches and interrogating the relationships and negotiations between diverse actors that underpin and shape everyday politics (C. Wang et al., 2014), it becomes possible to better understand why the operation/behaviour of local governments and officials results in specific (often unexpected) implementation outcomes.

### **Negotiating local constellations of power**

The fundamental importance of these social networks and interfaces of interaction in dictating the implementation outcomes of the three microcredit programmes can be seen on a number of levels. For instance, even a seemingly structural/environmental factor – such as the township development strategies that shape local understandings of microcredit as a development intervention – are not uniform or uncontested, but rather formulated through negotiations and struggles between different actors at the local and non-local levels. Therefore, even if one understands the formal hierarchies that supposedly determine relative levels of power, there are often hidden interests, social connections and reservoirs of power that are not immediately observable (and are usually unquantifiable and relationally constituted), making it very difficult to truly determine where power and leverage lie in any given negotiation (C. Wang et al., 2014).

For instance, officials in the DET told me that, formally, the township party secretary is the highest-ranking local official, and therefore should have the most say when formulating local development strategies and priorities. However, in reality, the township people's congress and the township mayor have a closer relationship with each other than either have with the party secretary, and are able to join forces in ways that marginalise the party secretary during decision-making processes.<sup>223</sup> To make things more complicated, seemingly less powerful actors may have social connections at higher levels or be integrated into social networks that endow them with unexpected leverage in certain situations. For instance, in the DET there were a few student cadres (*daxuesheng cun guan* 大学生村官)<sup>224</sup> working in the village and township governments, one of whom had family connections with high level provincial officials. For this reason, township officials saw him as both potentially dangerous and as a potentially good future connection, and gave him more respect and autonomy than would be expected for a position so low in the official hierarchy. Because he was especially interested in issues related to socioeconomic development, he was even allowed to participate in negotiations over the township's development strategy. Therefore, the party secretary's voice was effectively silenced, and the current set of development priorities were largely determined by a group including the township head, the people's congress and the student cadre, among others.<sup>225</sup> Of course, this one example only provides a superficial view of one set of complex negotiations that determine how development policy is interpreted and implemented at the local level, but it does illustrate that local development strategy, which shapes how microcredit is understood by local implementers, is ultimately the outcome of negotiations at the interfaces of interaction between individuals and groups. However, it also shows that it is not always clear who has the most power or leverage in

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<sup>223</sup> Conversation 34.

<sup>224</sup> Student cadres are recent university graduates who are posted to a village or township to work as a local cadre for one or two years in order to learn about local government before becoming a full cadre, often at higher levels.

<sup>225</sup> DET Contextual Observation Report; Conversation 23; Conversation 33; Conversation 34. This lack of a powerful unitary vision may be the reason that the DET does not have a clearly defined development strategy.

any given situation, what is feeding reservoirs of power, or the ultimate long-term goals of those involved in negotiations.<sup>226</sup>

### **Negotiating microcredit provision**

With regard to microcredit implementation specifically, the provision of the EMP and RCCMP loans were the direct result of social networks and negotiations between implementers and other actors, some of whom were located outside the townships and wielded considerable amounts of power. For instance, the provision of the RCCMP (or at least the funds earmarked for the RCCMP) in the MWT was determined through negotiations between actors at the prefectural, county and township levels. This is because the construction company was able to leverage its connections with officials and RCC employees in the city and the county, and therefore entered into negotiations with the township RCC from a position of significant power. At the same time, by agreeing to provide the loans to the construction company, the township RCC manager effectively integrated himself into the company's powerful *guanxi* network, which increased his local socio-political status.<sup>227</sup> Ultimately, this allowed the company to secure large-scale loans that should have been set-aside for households, thus redefining the RCCMP in ways that were fundamentally contradictory to the programme's goals. Nevertheless, despite coming from a dominant power position, the owner of the company was still required to observe the norms surrounding the local production of *guanxi* by inviting local officials and RCC employees to meals and offering gifts, which ultimately cost approximately 10 per cent of the loan total.<sup>228</sup> Similarly, in the DET the owner of the largest components factory told me how his connections with the county government provided significant leverage in local negotiations, saying:

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<sup>226</sup> For detailed examples of how negotiations and struggles over power and resources at various levels of government can influence policy implementation in unpredictable ways, see (C. Wang, Ye, & Franco, 2014).

<sup>227</sup> The RCC manager in the MWT seemed to have a higher status than other township officials. For instance, he was smoking cigarettes that were far more expensive than those of the township officials, and he spoke to the vice-director of the township like a subordinate (MWT Contextual Observation Report).

<sup>228</sup> Interview 45. Also see Chapter 4.

Politically the government has helped a lot. For instance, my wife is now a representative in the county people's congress, and I am a member of the people's political consultative conference and the vice-president of the county business federation. This has given the company a better platform for development.<sup>229</sup>

In particular, these connections helped him to negotiate access to the EMP before the programme was halted. However, as with the construction company in the MWT, this required the maintenance of *guanxi*, which was both time and resource intensive.

In other cases implementation outcomes were determined by negotiations at the very lowest levels. For instance, the provision of the RCCMP in the AT was based on credit scores, which were decided by village committees. Therefore, in order to be eligible to apply for loans in the township, prospective borrowers needed to have good connections with village officials, imbuing these local actors with significantly more power than their counterparts in the MWT or DET. Negotiations also took place between individuals and groups at different levels in the hierarchy with seemingly very different amounts of power. For instance, the provision of the EMP in the AT was the product of negotiations between county officials, township officials, the township RCC and local farmers. Because the farmers had formed an FC, they were more visible and had collective bargaining power, which allowed them to enter into negotiation with the more powerful county officials on more equal terms – albeit still from a clientelistic position of weakness – and gain access to a valuable resource that would not have been available to them individually. Finally, the provision of the EMP in the MWT is the most obvious example of *guanxi* dictating microcredit implementation, as the loans were only provided to those with close personal ties to the implementer. However, in this situation the operationalisation of *guanxi* networks was not for corrupt purposes, but instead represented trust, demonstrating that the concepts of 'human feeling' and 'reciprocity' that underpin these types of social relations are often more important considerations than the stated goals of development policy or even short-term individual gain, i.e. 'capturing' subsidised funds for personal use.

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<sup>229</sup> Interview 53.



Ultimately, the commonality (or constant) across the microcredit programmes in all three localities is that implementation outcomes were forged by negotiations between a variety of different actors, which were defined by *guanxi* networks and were, therefore, relational in nature. Instrumentality was a key feature of these relationships, as actors approached the negotiations over programme implementation with their own interests at heart. However, these interests were diverse and not always based solely on short-term material gains (i.e. as would be expected by the classic 'homo economicus'), but were instead intricately linked to wider relational considerations involved in the maintenance of social connections, and underpinned by reciprocity and 'human feeling'. For this reason, Fei Xiaotong's concept of the 'differential mode of association' provides a useful way to understand microcredit implementation, since the interpretation and perception of microcredit as a development intervention generally, and the role of the programmes in each locality specifically, emerged from particularistic relationships, rather than from a static implementation logic or morality dictating how provision 'should' occur and how development 'should' proceed (Fei, 1992). This means that, while we do understand the basic social frameworks structuring implementation behaviour, it is still nearly impossible to accurately predict what form implementation will take in different situations because the relational dynamics are not based on durable principles, but are instead in constant states of flux.

#### **5.4 Emergence and Complexity in Implementation Outcomes**

In other words, the inherently relational nature of microcredit implementation outlined above, resulting in unpredictable outcomes, essentially confirms David Mosse's statement that conventional understandings of policy implementation processes and impact assessment are "nonsense" because they are "based on a very mechanical notion of pulleys and levers" (Mosse & Kruckenberg, 2016, p. N/A), rather than on an understanding of development interventions as facilitating the creation of diverse and dynamic development pathways (Kruckenberg, 2015; Leach et al., 2010). This is because top-down linear conceptions of development and impact (outlined in the introduction of this chapter) do not take into account "messy partnerships and relationships" (Chambers, 2008, p. 174) at different levels, which ultimately define implementation realities. Therefore, it becomes clear that actor-oriented perspectives that recognise "the central role played by human

action and consciousness” (Long, 2001, p. 13), and allow us to “deconstruct the concept of planned intervention so that it is seen for what it is – namely, an on-going, socially constructed and negotiated process, not simply the execution of an already-specified plan of action with expected outcomes” (Long, 1999, p. 4), are the most appropriate means of gaining an in-depth understanding of heterogeneous development policy implementation outcomes at the local level.

Specifically, actor-oriented approaches, allow us to avoid analysis based on simplistic linear conceptions that identify a limited number of key causal variables/determinants and static constants, and instead to understand development interventions as being co-produced and reconstituted at the local level, and, therefore, the result of complex, diverse and dynamic social processes that are inherently relational in nature. Indeed, the previous sections outline a large number of ‘variables’ and ‘determinants’, each contributing (to varying extents) to the heterogeneous implementation outcomes of the microcredit programmes, but which, at the same time, are largely context specific in that they were the product of specific times, places and people that were in states of continual and rapid dynamic change. Therefore, rather than starting at the top (i.e. central policy formulation) and working down in an attempt to understand all the ways in which policy implementation (and its associated ‘impact’) is influenced along the way, actor-oriented approaches prompt us to start from the bottom and conceptualise development interventions as “self-organising systems on the edge of chaos” that are being forged in zones “of diverse, self-organising and emergent complexity which lies between top-down rigidity and random chaos” (Chambers, 2008, p. 174). In this way, development programmes/policies do not really ‘travel down’ from the centre to the local level, getting ‘distorted’ along the way – but are instead necessarily locally produced, meaning that implementation outcomes are not simply the sum of their parts, but are emergent in nature and can only be understood by observing the bottom-up processes from which they originate. Therefore, the idea of assessing impact in order to outline ‘best practice’ is inherently flawed as these processes are not linear, durable or reproducible, but rather take different forms each time. In the words of Robert Chambers, “it’s Heraclitus, you can’t step in the same river twice” (Chambers & Loubere, 2016, p. N/A).

As stated in Section 5.3, this understanding of development policy implementation as emergent from interface negotiations in complex and dynamic ways, mirrors established theories of the structure of Chinese society (particularly rural society), which depict social reality in China as being composed of interlinking and overlapping social relationships and networks (Fei, 1992; Liang, 1963; Y. Yan, 1996). This relational policy implementation is evident in all three of the microcredit programmes, but is particularly obvious in the provision of the EMP in the AT. In this case, two key individuals – the head of the FC and the head of the county MoHRSS – were the primary actors engaged in negotiation over how the programme would be implemented at the local level. In other words, these two actors effectively served as ‘linchpins’ in the emergent social process of implementation, in that without their involvement the implementation and associated outcomes would have surely transpired much differently. However, it is not just their individual agency, or ‘development spirit’ (Ahlers & Schubert, 2013), which was responsible for the creation of the AT model of EMP provision. Rather, it was the relational bonds that these actors formed with each other and others, creating new *guanxi* networks both locally and non-locally and forming the arenas for negotiations based on various understandings of development and microcredit, which ultimately resulted in the implementation of the EMP in the township. Therefore, only by focusing on these relational dynamics and acknowledging the role of self-organising complexity in producing emergent outcomes – while also acknowledging the importance of environmental and exogenous factors in shaping these processes – is it possible to gain an in-depth understanding of how and why microcredit programmes (or development programmes more generally) are implemented at the local level in China and elsewhere.

Of course, by focusing on actors themselves and rapidly shifting social networks, interfaces and arenas – making generalisation about, or prediction for, implementation becomes a much more difficult (perhaps even impossible) task. Moreover, impact assessment and determinations of ‘best practice’ become meaningless as uniform impact gives way to multidimensional impacts, and multiple understandings of impact by different actors. As Norman Long points out, at the local level there are “‘multiple realities’, which imply potentially conflicting social and normative interests, and diverse and discontinuous configurations of knowledge” (Long, 2001, p. 19). This means that, rather than understanding heterogeneous

implementation in binary terms as a “danger or a blessing” (Thøgersen, 2011, pp. 183–184), it is instead necessary to acknowledge that development policy implementation is usually simultaneously beneficial and detrimental (albeit to different degrees) depending on the focus of analysis and the perceptions of the actors involved (Lu & Lora-Wainwright, 2014). Indeed, the implementation processes and outcomes of the microcredit programmes in the three townships were perceived as actively contributing to rural development and diverse livelihoods by some, while others saw the programmes as useless or even detrimental to their livelihoods and understandings of how development should be promoted at the local level. Therefore, by analysing these different understandings, processes and impacts involved in, and emanating from, the microcredit programmes, it becomes possible to shed light on the ways in which development manifests itself at the local level, and, ultimately, what this means for the structure of local society.

## 5.5 Conclusion

This chapter has explored the key factors leading to the heterogeneous implementation of the EMP, RCCMP and PAMP in the three townships. Section 5.1 outlined how the different socioeconomic, socio-political and geographical conditions led to the formation of differentiated financial landscapes in the three localities. This resulted in the microcredit programmes ‘slotting in’ to different positions within segmented financial markets and being interpreted differently by a variety of local actors. Section 5.2 detailed the different types of exogenous top-down pressures and incentives that local implementers have been subjected to, and the diverse ways that these seemingly similar pressures/incentives have been perceived across the localities, thus shaping the ways in which microcredit has been understood by frontline implementers and incorporated into their development and livelihood strategies. Section 5.3 began by showing how actor-oriented approaches to understanding policy implementation both mirror and complement classic conceptions of the structure of rural Chinese society. It then went on to show how microcredit implementation outcomes were ultimately the result of negotiations at the interfaces of overlapping and interlinking *guanxi* networks. Finally, Section 5.4 served as a discussion of how all these factors combined to produce complex and emergent outcomes at the local level.

Based on the above, the chapter concludes that the heterogeneous implementation of the microcredit programmes in the three townships has been influenced by a number of exogenous, endogenous and environmental factors, which have shaped the ways that programmes have been internalised by diverse actors and reconstituted at the local level through processes of negotiation. This has resulted in implementation outcomes that are complex, emergent and highly unpredictable, as they are more than the sum of their parts, and inherently relational in nature. For this reason, the quote at the beginning of the chapter is slightly misleading. While local implementers certainly have their ways of reacting to top-down policies and, in some cases, even formulating 'counter-policies', these responses are not necessarily coherent or 'rational', but are actually complex outcomes emerging from self-organising processes and negotiations at the local level. This means that it is often not possible to determine or predict singular linear/causal 'impact' or prescribe a certain set of 'best practices' for development-oriented microcredit programmes in rural China, because the programmes themselves are understood and internalised differently by different actors in different contexts. For this reason, the chapter turns to actor-oriented analyses of policy implementation that focus on complexity and emergence. These types of actor-oriented approaches provide a novel and effective way to analyse the implementation of development policy/interventions (such as microcredit) in China and beyond, as they do not ignore structural/environmental factors or the fact that implementers are embedded within local contexts, but instead link these factors to the importance of personalities and networks of interpersonal relationships. Actor-oriented approaches also go beyond simplistic characterisations of implementer and other local actor behaviour as similar to that of 'homo economicus' – i.e. merely attempting to maximise material gains – and instead acknowledge the ways in which agency, morality and logic are relationally determined at the interfaces of interaction and negotiation, resulting in multiple realities, multiple impacts, and the complex emergent outcomes discussed above. We now turn to Chapter 6 and Chapter 7, which, through a focus on actors, interfaces and negotiations, analyse the ways in which the three microcredit programmes have simultaneously held different meanings for different actors, and have, therefore, played multiple and sometimes contradictory roles in local livelihood strategies and the facilitation of socioeconomic development at the local level.

## **Chapter 6**

### **Taking Credit for Development: Microcredit as Modernisation and De-marginalisation**

The key to ending extreme poverty is to enable the poorest of the poor to get their foot on the ladder of development... the poorest of the poor are stuck beneath it. They lack the minimum amount of capital necessary to get a foothold, and therefore need a boost up to the first rung.

- Jeffrey Sachs

The aim of this dictatorship is to protect all our people so that they can devote themselves to peaceful labour and build China into a socialist country with a modern industry, agriculture, science and culture.

- Mao Zedong

The conceptualisation of development as something that can be instigated through external intervention (such as microcredit) is firmly embedded within a 'linear progression development paradigm' that sees society as moving from a traditional (less developed) to modern (more developed) state of existence. Within this paradigm, poor rural areas and their inhabitants are usually depicted as being positioned on the margins of society – far away from the developed centres. Because of this separation and distance from these centres of modernity, the rural is seen as 'backward' and therefore representing a lower stage on the evolutionary developmental ladder. Rural development interventions, therefore, aim to de-marginalise rural areas by bringing them closer to the centres where development emanates from. In particular, microcredit seeks to facilitate this type of development by providing the capital necessary to allow those marginalised places and people to enter the 'modern' world through integration into regional, national and global markets, and, in this way, cast off their 'traditional' modes of socioeconomic organisation. This market-oriented (neoliberal) version of the linear progression development paradigm was undoubtedly the main philosophy underpinning each of the microcredit programmes studied in this dissertation. Indeed, despite their different targets (and the highly

heterogeneous implementation), all three of the programmes implicitly sought to extend the 'benefits' of the modern financial industry to excluded rural areas, thereby incorporating the rural population into the wider market system operating in contemporary China in an attempt to reduce the dichotomous and unequal relationship between urban and rural areas and people.

This chapter explores the ways in which the microcredit programmes have – in certain cases and for certain actors – managed to achieve this market-oriented de-marginalising imperative, albeit in various (and often unpredictable) ways and to different extents due to the complex and emergent implementation outcomes outlined in Chapters 4 and 5. The rest of this chapter is organised as follows. Section 6.1 begins by providing a background of the 'linear progression development paradigm'. The section then goes on to illustrate how contemporary Chinese visions of development – while being ideologically diverse – have adopted discourses that emphasise the need to de-marginalise rural areas through social and economic transformation and modernisation. Section 6.2 looks at the ways in which this imperative to develop through de-marginalisation has been variously interpreted at the local level, resulting in diverse local understandings of how development should proceed, which have shaped the role that microcredit has played in facilitating de-marginalisation across the three townships. Section 6.3, Section 6.4 and Section 6.5 go on to outline how the microcredit programmes have been successful in de-marginalising the townships and certain segments of the local populations based on the market-oriented linear progressive version of development – namely through transfers of capital and knowledge from central to local areas; the formation of new socioeconomic and socio-political linkages between rural and non-rural regions and people; and the promotion of local cooperation, new forms of employment and increased 'financial inclusion'. Section 6.6 then turns to analyse the ways in which these forms of de-marginalisation have influenced the livelihood strategies and outcomes of implementers and borrowers in the three localities. Section 6.7 concludes the chapter.

## 6.1 The Linear Progression Development Paradigm

While contemporary understandings of ‘global development’ have their roots in classical theories of political economy and colonial economics (primarily from the 1800s), it was in the aftermath of the Second World War – with the worldwide economic rebuilding effort, widespread de-colonisation, and the division of the world into ideological camps composed of nominally sovereign nation states – that the idea of ‘underdevelopment’ (or the ‘third world’) in relation to the ‘developed’ west took hold, and what can be referred to as a ‘linear progression development paradigm’ was firmly established as the dominant method of defining what international development means and how it occurs. In this context, underdevelopment became a fundamental problem for countries and regions to tackle – especially in post-colonial areas – and was perceived by local leaders and the international community alike to be a policy priority. In particular, regardless of the political ideology, the underdeveloped were prompted to promote economic growth through industrialisation and technological modernisation in order to facilitate beneficial socioeconomic progression along predetermined ‘stages of development’ (Escobar, 1995; Nederveen Pieterse, 2010).<sup>230</sup> In the words of Norman Long, this linear progression development paradigm:

visualises development in terms of a progressive movement towards technologically and institutionally more complex and integrated forms of ‘modern’ society... through a series of interventions involving the transfer of technology, knowledge, resources and organisational forms from the more ‘developed’ world or sector of a country to the less ‘developed’ parts. In this way, ‘traditional’ society is propelled into the modern world... (Long, 2001, p. 10)

Perceptions of how this linear development process does and should play out (and who benefits from it) have been ideologically varied, but are nevertheless primarily based on different strands of ‘western’ (i.e. European and North American) political economic theory, such as (neo)classical

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<sup>230</sup> For explicit examples of development being broken down into inevitable ‘stages’ that the underdeveloped must progress along, see (Rostow, 1960; Wallerstein, 2004).



economics, capitalist growth, Keynesianism, and various (neo)Marxist theories (e.g. dependency theory). Moreover, in the capitalist bloc development was essentially conflated with 'westernisation' through the replication of North American and Western European models (Escobar, 1995; Long, 2001). In this way, the linear progression development paradigm has served to dichotomously divide the contemporary world into sets of 'imaginative geographies' (Said, 1979) consisting of socio-political and socioeconomic spaces defined as developed and underdeveloped. These spaces correspond with centres and margins/peripheries, thus assigning developmental identities to places and people, and delineating development within shifting boundaries that, for the most part, still shape how the socioeconomic ordering of the world is understood today (Escobar, 1995).

Over the past few decades, and particularly since the 1990s with the fall of the Soviet bloc, the linear progression development paradigm has been increasingly dominated by capitalist (and particularly neoliberal) ideology. This has meant that development and modernisation have come to be associated with a version of globalisation that requires the standardisation of the world economy by imposing "neoclassical economics on the south, [and] applying western standards of policy and systems of accounting to align economies and financial and credit regimes" (Nederveen Pieterse, 2010, p. 5). This (almost) wholesale adoption of a neoliberal version of the linear progressive development paradigm has resulted in the creation of modern cosmopolitan centres that are integrally interconnected with world society, but are, nevertheless, situated within marginal regions and countries. Unsurprisingly, in most of the 'underdeveloped world' this has served to reinforce the dichotomous distinction between urban centres and the peripheral rural margins – which are then depicted as the embodiment of economic and social 'backwardness'. In this way, rural areas are identified as being the culprits of wider national underdevelopment in relation to the western world, and, thus, rural development through their de-marginalisation becomes a chief development priority. This de-marginalisation entails integrating the peripheral rural sectors into the 'modern' market economy, and in so doing commoditising rural society. In the words of a World Bank report from the 1970s, "rural development is concerned with the modernisation and monetisation of rural society, and with its transition from traditional isolation to integration with the national economy" (Long, 2001,

pp. 250–251). In other words, the neoliberal ideological turn over the past three decades and more has reinforced an understanding of the linear progression development paradigm which depicts rural areas and people as occupying a lower rung on the evolutionary ladder of development. This has prompted regions, countries and the international community to devise various types of intervention, such as microcredit, in order to allow marginal spaces and people to help themselves ‘catch up’ with more developed centres through integration into the world economy.

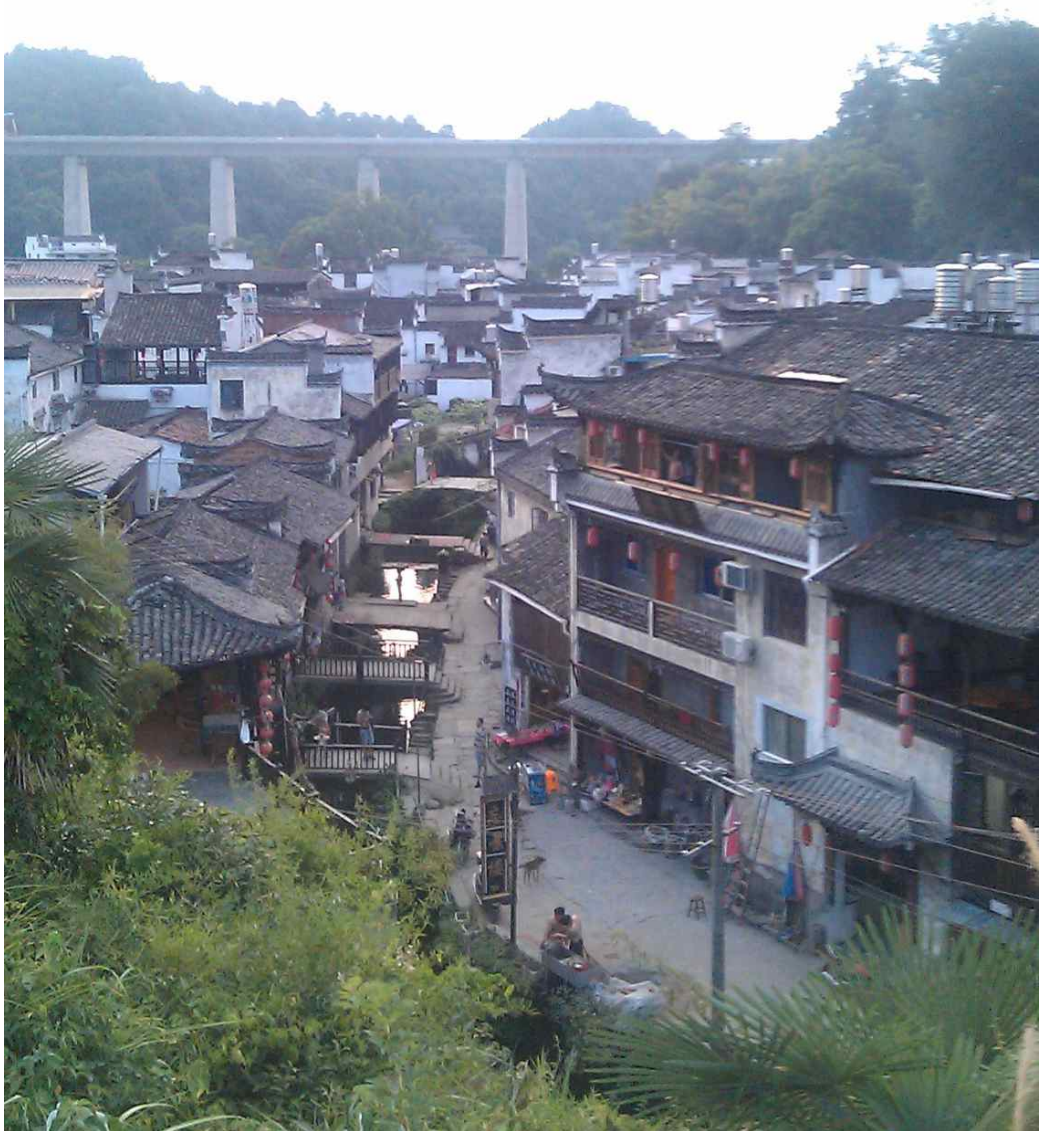
This perception of development “as an inevitable, evolutionary trajectory” (Barabantseva, 2012, p. 66) towards a modernised end state has dominated the way that government, intellectuals and the populace as a whole have understood China’s socioeconomic situation and position in the world since the 19<sup>th</sup> century (Tong, 2000; Wheeler, 2005). Indeed, China’s perceived embarrassment on the international stage during the ‘century of humiliation’ (*bainian guochi* 百年国耻) – beginning after the Opium Wars in the 1800s – served to embed a persistent discourse within the national imagination emphasising the need to abandon the ‘traditional’ weak China and develop towards a ‘modern’ and strong Chinese state able to take back its rightful place at the centre, rather than on the margins, of world society (Barabantseva, 2012; Tong, 2000).<sup>231</sup> The fixation on achieving modernity, development and de-marginalisation has been the primary motivation for Chinese leaders across the political spectrum, and Chinese development history over the past century and a half can be seen as a series of top-down interventions, admittedly shaped by different ideologies and modelled on different examples, but nevertheless all aimed at eliminating underdevelopment domestically in an effort to produce a strong China on the international stage. Indeed, in the first half of the 20<sup>th</sup> century the Nationalist government desired to remove the country’s shackles of ‘traditional weakness’, and, since the establishment of the PRC, successive governments with different ideological leanings (i.e. Mao Zedong vs. Deng Xiaoping) have sought to instigate the ‘Four Modernisations’ (*sige xiandaihua* 四个现代化) – i.e. industry, agriculture, national defence, and science and technology – but have taken different approaches to achieve

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<sup>231</sup> In other words, allow China to once again live up to the literal translation of its name – ‘centre country’ (*Zhongguo* 中国).

this goal (Barabantseva, 2012; A. Ong, 1996; Sanders et al., 2007; N. R. Smith, 2015; H. Wang, 2011; Wen, 2007; M. Yang, 1996).

**Figure 6.1:** Traditional Village Intersected by a Modern High-speed Railway Line



Of course, after the reform and opening, China's development goals were reframed within a market-oriented approach – i.e. the 'socialist market economy' (*shehui zhuyi shichang jingji* 社会主义市场经济) – which mirrored (and emulated) the dominant global neoliberal turn outlined above (Barabantseva, 2012). This shift towards market-orientation adopted a 'trickle-down' economic approach that prioritised first developing certain

areas, sectors and people based on the promise of more widespread development in the future, and which brought about rapid, but unequal, economic growth (H. X. Zhang & Sanders, 2007).<sup>232</sup> At the same time, the Chinese government emphasised the need to adopt a quantitative and scientific approach that sought to de-politicise and standardise development through the removal of ‘subjective factors’ (N. R. Smith, 2015). Therefore, Chinese development has increasingly been portrayed in quantifiable terms, such as increasing economic growth (particularly GDP growth), joining international (primarily neoliberal) organisations – such as the World Trade Organisation – and moving up the global rankings of various socioeconomic indicators, e.g. the World Bank’s Country Income Groups indicator (Barabantseva, 2009). The dominance of this quantitative and neoliberal version of the linear progression development paradigm is evident in policy and academia, and in some cases scientism is taken to the ridiculous extreme. For instance, a recent National Development and Reform Commission (*guojia fagaiwei* 国家发改委) study determined that China has now reached 62 per cent of some quantifiable developmental end-point obviously modelled on a Westernised conception of what development entails (Zhong, 2012). The necessity of measurable ‘progression’ (based on neoliberal ideals) has also embedded itself within the public imagination, and people in the townships where I did fieldwork articulated the need for continuous forward movement by saying things like:

Everyone needs to progress every day. Take business for example – every year a business needs to earn money. If you don’t earn money and don’t lose money, a year has still past, so it is really a loss. So every day we must progress or else we will fall further and further behind others.<sup>233</sup>

In other words, while China’s development ideology has changed from socialist to (predominantly) capitalist, post-reform China has remained embedded within the linear progression development paradigm, and

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<sup>232</sup> The most obvious espousal of this transition to ‘trickle-down’ economics is Deng Xiaoping’s famous quote – “let some people get rich first” (*rang yibufen ren xian fu qilai* 让一部分人先富起来) – which is covered in more detail in Chapter 7.

<sup>233</sup> Interview 40.

therefore still seeks to achieve a modern and developed society through advances in technology and industrialisation. That being said, this development obsession has taken on increased significance since the reform and opening, as these goals have shifted to become the main policy priority through the de-politicisation of development, in contrast to the explicitly political goals of revolution or class struggle in the pre-reform era (Barabantseva, 2009; N. R. Smith, 2015).<sup>234</sup>

Ultimately, therefore, this continued adherence to the linear progression development paradigm has resulted in Chinese development being defined as “a series of dichotomies and oppositions” (Barabantseva, 2012, p. 64) – both as a country in relation to the rest of the world, and domestically, with certain areas and groups being classified as developed or underdeveloped in relation to each other. The most obvious of these internal ‘development dichotomies’ is the one between China’s emerging modern cosmopolitan urban centres, and the ‘backward’/‘traditional’ rural areas that are seen to be disconnected from the modern world. Of course, this dichotomy between rural and urban China is not just a contemporary phenomenon, and rural and urban spaces and people have historically been defined in opposition to each other (Murphy, 2004).<sup>235</sup> But it has only been since the republican era at the beginning of the 20<sup>th</sup> century that this rural-urban dichotomy began to be perceived as ‘holding China back’. In this way, rural areas were explicitly situated in subordination to cities, resulting in concerted external intervention efforts in an attempt to bring the countryside and ‘peasants’ in line with a modernising China (N. R. Smith, 2015).

Particularly in the post-reform era, due to the rapidly increasing development gap between rural and urban areas, the marginal nature of rural China has come to be perceived as not only detrimental to China’s development and

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<sup>234</sup> There has been much research framing the ‘Chinese model’ of development as exceptional, and even suggesting that it represents a paradigm shift. However, while the Chinese experience does represent a unique development trajectory, it is, nevertheless, still firmly embedded within the linear progression development paradigm (Hsu, 2015).

<sup>235</sup> Indeed, Fei Xiaotong depicted rural society as being based on rituals and customs (*lisu* 礼俗), which are fundamentally at odds with the emerging ‘modern’ society grounded in law and reason (*fali* 法理) (Fei, 1992).

modernisation goals, but also potentially dangerous for social and political stability (Hsu, 2015). Therefore, rural marginalisation has come to be conceptualised as a set of problems (i.e. the *sannong wenti*) that need to be solved through large-scale intervention (Day, 2008, 2013). For this reason, especially since the early 2000s, undoing the historical development dichotomy between rural and urban China has become a key policy priority, and has been pivotal to the government's Number One Central Documents, 5-year plans, and National Economic and Social Development Plans (Day & Hale, 2007; Fan, 2006; National Development and Reform Commission, 2015; State Council, 2004, 2014). This has given rise to the overarching policy frameworks of the XNCJS and the CXYTH discussed earlier in this dissertation, which have emphasised the need to modernise agriculture, increase consumption and extend modern (urban) amenities to rural areas – such as pensions, healthcare, education and (most importantly) financial services (Ahlers, 2014; P. H. Brown et al., 2009; Harwood, 2013; N. R. Smith, 2015; State Council, 2006).

**Figure 6.2:** Slogan for the XNCJS in the DET



At its core, this renewed policy attempt to break down the rural-urban dichotomy is a call to bring the *sannong* in from the margins and create a more uniform development landscape across the country by accelerating rural China's progression up the developmental ladder. In this way, these development efforts seek to de-marginalise rural places and their inhabitants in three key interlinking ways. First they aim to *spatially de-marginalise* geographically remote and unconnected areas and people by increasing physical and economic linkages through infrastructure development, increased trade, etc. Second, policy seeks to *materially de-marginalise* the rural by increasing basic consumption, and access to the types of 'modern'



commodities, services and technology enjoyed by the urban citizenry (i.e. the trappings of a modern life). Third, interventions have been formulated to *temporally de-marginalise* rural China by eliminating ‘backward’ modes of socioeconomic organisation through the improvement of the rural population’s ‘quality’ (*suzhi* 素质), ‘consciousness’ (*yishi* 意识), ‘ability’ (*nengli* 能力) and ‘mentality’ (*xinli* 心理) (Barabantseva, 2012; Murphy, 2004). In other words, contemporary Chinese rural development strategies essentially aim to make rural China more like urban China (H. Yan & Chen, 2013), and in this way bring an end to the traditional ‘peasant’ society whose existence at the peripheral margins has been perceived as holding the country back from achieving modern development (Day, 2013).

**Figure 6.3:** Slogan Calling for the Civilisation of the Peasantry in the DET



## 6.2 Local Interpretations of Microcredit as a Means of De-marginalisation

In the context of this imperative to incorporate rural China into the ‘modern’ (urban) market-based economic system, the three microcredit programmes have been conceptualised as policy tools to facilitate spatial, material and temporal de-marginalisation in line with the overarching development strategies and plans outlined above (e.g. XNCJS, CXYTH, etc.). In particular, the PAMP – as an integral part of early poverty alleviation efforts,

the 8-7 National Poverty Reduction Programme and the Poor Village Investment Programme – represents an attempt to increase consumption and the material well-being of the poorest and most marginalised rural areas and people (JXPPAO et al., 2006; Park & Ren, 2001; Park & Wang, 2010). The EMP, on the other hand, has been designed to de-marginalise areas spatially, by incentivising migrant workers to return to their rural origins and engage in entrepreneurial activities, thus providing investment and creating new linkages between rural and urban areas. At the same time, the EMP is also seen as a means of de-marginalising rural areas temporally by re-integrating migrant workers who have learned ‘modern’ skills and values in the cities (i.e. ‘quality’, ‘consciousness’, ‘ability’ and ‘mentality’) back into ‘traditional’ rural areas (JXPPG, 2009; State Council, 2014). Finally, the RCCMP aims to achieve comprehensive spatial, material and temporal de-marginalisation by promoting ‘financial inclusion’ through the expansion of financial infrastructure and services to rural areas. This ‘inclusive finance’ is perceived as having the ability to increase consumption and allow microentrepreneurs to scale up their activities through widened access to financial capital, and as a means of promoting the development of a modern type of ‘financial consciousness’ in rural areas that can replace traditional forms of financial organisation (He et al., 2009; PBC, 2001; Sparreboom & Duflos, 2012; State Council, 2003).

However, despite the paradigmatic coherence framing microcredit’s role in facilitating de-marginalisation based on China’s linear progressive understanding of development, perceptions of how de-marginalisation should be promoted by the microcredit programmes were shaped by negotiations over meaning between actors at various levels, and were, therefore, diverse. Indeed, while everyone I spoke to who was involved in microcredit at the local level agreed that the programmes’ main role was to de-marginalise rural areas and people, the ways in which microcredit was perceived as a catalyst for de-marginalisation differed markedly across the three townships, resulting in the complex and heterogeneous implementation outlined in Chapter 4 and Chapter 5. In other words, the complexity and emergence in the implementation of the programmes can be understood as representing ‘multiple developmentalisms’ (A. Ong, 1996), which are, nevertheless, still bounded by the overarching linear progression development paradigm. In practical terms, this means that the microcredit programmes have played significantly differentiated ‘developmental roles’



across and within the townships – and, thus, facilitated spatial, material and temporal de-marginalisation in a variety of ways (or not at all).

In general, the ways in which the programmes were successful in producing de-marginalising outcomes often aligned with local development strategies, which were ultimately shaped by local socioeconomic contexts and understandings of development. In the AT, for instance, local development was largely defined in terms of de-marginalising farmers and agriculture through technological improvements, scaling up production and increasing market access,<sup>236</sup> and the microcredit programmes were, therefore, mobilised to meet these goals. In the MWT, on the other hand, farming was considered to be a ‘backward’ livelihood strategy. For instance, one resident told me that “young people who have not developed well and the elderly stay in the village to farm. Most intelligent young people do migrant work outside or do business in the township.”<sup>237</sup> Therefore, industrialisation, external investment and improving transportation infrastructure were perceived to be the best methods of achieving socioeconomic development and de-marginalising the township by bringing in taxes and expertise from ‘more developed’ areas and actors.<sup>238</sup> For this reason, the microcredit programmes were reformulated to meet the needs of larger-scale business and development projects. In contrast, because of the high level of socioeconomic diversity in the DET, perceptions of how development should occur were less uniform than in the other two townships. For this reason, different actors understood de-marginalisation as emanating from a combination of investment in large- and small-scale businesses (of varying types), farming, and/or the formation of political and economic linkages with outside regions and people.<sup>239</sup> Therefore, microcredit was perceived more flexibly as having a variety of de-marginalising potentials.

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<sup>236</sup> Conversation 01; Interview 03; Interview 05; interview 07.

<sup>237</sup> Interview 09.

<sup>238</sup> Interview 08; interview 10; Interview 14.

<sup>239</sup> Conversation 24; Conversation 34; Interview 53; Interview 62; Interview 65; Interview 66.

To summarise, microcredit 'slotted in' to diverse understandings of development and de-marginalisation at the local level, which were, nevertheless, still embedded within a neoliberal version of the linear progression development paradigm. We now turn to examine the ways in which these differentiated 'developmentalisms' reflected in the heterogeneously implemented microcredit programmes were able to 'successfully' facilitate different processes of de-marginalisation in the three townships.

### **6.3 Microcredit as De-marginalisation Through Capital, Knowledge and Technology Transfers**

One of the primary ways that local actors depicted microcredit as promoting de-marginalisation was by pointing to the programmes' ability to facilitate flows of capital, knowledge and technology from 'more developed' (often urban) areas to the townships and villages. In this way, the programmes were seen as reducing development inequalities by reallocating resources and expertise to the peripheral margins that had previously been retained in economic and political centres. In line with the neoliberal version of the linear progression development paradigm, these flows were usually framed within a 'trickle-down' economics narrative, which characterised rural areas as the beneficiaries of more rapid development in other parts of the country.

In particular, the formulation of the three microcredit programmes represents a concerted effort to transfer financial capital to rural areas in order to counter the notorious 'scissors gap' (rural-urban capital outflow) – i.e. the historical regime of extracting rural surpluses (e.g. savings) and transferring them to urban areas where there are more profitable investment opportunities (Feng et al., 2013; Tang, 2006; Tsai, 2004, p. 1503). Therefore, the three microcredit programmes were each successful in redistributing financial capital to the margins, or retaining resources that had previously been extracted from rural areas, albeit in various ways for actors at different levels. For example, despite the fact that the PAMP was not implemented in either the MWT or the DET, funds earmarked for the programme were, nevertheless, transferred from the province to the counties. These funds were then used for county level development projects and infrastructure, thus directly de-marginalising county governments

materially (in relation to the more prosperous provincial governments) by alleviating budget shortfalls.<sup>240</sup> At the same time, these development projects have the potential to produce further indirect de-marginalisation for other local actors at the county, township and village levels.<sup>241</sup>

The EMP also facilitated capital flows from the centre to the margins through direct transfers from the central MoF to county level financial institutions to cover interest payments (see Chapter 4). At the same time, it also spatially and materially de-marginalised rural residents who would not normally be considered eligible for formal credit. This is due to the fact that the county institutions providing the EMP loans are usually uninterested in lending to those with a rural household registration because their houses are located on collectively-owned rural land and, therefore, cannot easily be used as collateral.<sup>242</sup> In the AT, these flows of capital covering interest and facilitating increased access to loans allowed the members of the FC to increase their incomes through the sale of profitable vegetables. In the DET, before the programme was halted, the EMP allowed local households and enterprises to gain access to extra capital for projects – including ‘consumption’ projects, such as investment in improved housing. In other words, the EMP was successful in de-marginalising county financial institutions through capital transfers, and the programme also de-marginalised rural actors in relation to the county financial institutions by providing expanded access to investment capital.

The RCCMP, on the other hand, does not facilitate capital flows from the centre to the local (as there is no central subsidy), but instead serves to block capital from exiting rural areas through the mandate that at least 60 per cent of RCC loans must go to local actors, which is a major change from the situation in the 1980s and 1990s where a majority of RCC deposits were invested in urban areas by the ABC and PBC (see Chapter 2 and Chapter

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<sup>240</sup> While county governments have not been suffering the same kind of budgetary crises that ‘hollow out’ township governments (G. Smith, 2010), their financial situation has, nevertheless, worsened in recent years (Interview 16).

<sup>241</sup> Interview 12; Interview 13; Interview 15; Interview 16; Interview 21.

<sup>242</sup> Interview 01; Interview 07.

4). In the AT, this retention of local capital for lending has allowed local 'elite' farmers – who are rich in comparison with other farmers in the township, but still marginal in comparison to county or prefectural level actors – to use the RCCMP to rent large tracts of farmland both in the AT and in neighbouring townships/counties (200,000 *mu* in total). This has allowed them to substantially scale up and mechanise their agricultural activities. At the same time, it has positioned the AT at the centre of a larger agricultural system, thus de-marginalising the township as a whole. Indeed, despite the fact that only the relatively wealthy farmers were able to take advantage of the RCCMP in this way, even some excluded actors perceived the programme as contributing to local de-marginalisation, with the head of one non-borrowing household saying: "Giving loans to large-scale farming households so they can earn more money is a good thing because they can promote the overall development of the village."<sup>243</sup>

In the MWT, the RCCMP loans were packaged together. Therefore, rather than de-marginalising a number of smaller actors, the entire amount allocated to the programme (RMB 50,000,000) was provided to the largest construction company, which had moved to the township due to the exclusion and marginalisation that it had faced as a 'small fish in a big pond' in the city.<sup>244</sup> Therefore, the retention of capital through the RCCMP allowed the construction company to, paradoxically, become de-marginalised by moving to a more marginal location. In contrast, in the DET the RCCMP was utilised by households and microenterprises for a wide range of de-marginalising activities, including 'productive' investments and consumption spending. For instance, the RCCMP was used by some poorer households to send their children to university, which they would not have been able to afford otherwise. These children then often found jobs in urban areas where the universities were located, and were able to send remittances back to their families, thus spatially and materially de-marginalising their households (and the township more generally) through the creation of new socioeconomic linkages (see Section 6.4) and increasing household income.<sup>245</sup> One rural resident emphasised the importance of this by saying:

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<sup>243</sup> Interview 23.

<sup>244</sup> Interview 45.

<sup>245</sup> Interview 55; Interview 57; Interview 60.

“If my children receive a good education, they can go out to work and in the future they can return and build a house for me.”<sup>246</sup> Indirectly, the increased access to formal finance provided by the RCCMP also resulted in increased amounts of informal finance available, often at no interest, for friends and family members of eligible borrowers in emergencies, which helped prevent exacerbated marginalisation that often occurs during and after crises.<sup>247</sup>

The programmes also managed to facilitate temporal de-marginalisation through the transfer of knowledge, technology and expertise to the three townships from areas that were perceived to be ‘more developed’. For instance, in the MWT the RCCMP funds were used to lure the largest construction company to the township. This relocation brought knowledge and expertise of new and ‘more sophisticated’ construction techniques and materials from the city. While the company itself only engaged in a few projects in the townships itself, these projects did influence the ways in which other smaller construction companies operated, effectively diffusing (to a certain extent) new types of knowledge, which changed the way that real estate and infrastructure were developed locally.<sup>248</sup> Similarly, in the DET the EMP was used to fund the largest components factory, which represented a transfer of manufacturing/logistical technology and knowledge from the ‘more developed’ manufacturing centres in eastern Zhejiang Province to rural Jiangxi Province.<sup>249</sup>

In the AT, the EMP was also specifically utilised for temporal de-marginalisation by transferring the knowledge of agricultural technology (i.e. vegetable greenhouses) gained by the village secretary during a ‘model tourism’ trip to the ‘more developed’ Jiangsu Province to local members of the FC. This knowledge/technology transfer was significantly different from the examples in the MWT and DET outlined above, in that it was not initiated by outside business interests seeking to establish a presence in the township. Instead, the adoption of new agricultural technology was initiated

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<sup>246</sup> Interview 58.

<sup>247</sup> Interview 29; Interview 54.

<sup>248</sup> Interview 45.

<sup>249</sup> Interview 53.

by local people themselves based on what they felt would be most useful and beneficial. Therefore, the transfer of technology was more horizontal and egalitarian (at least amongst the members of the FC) and reflected local perceptions and needs, rather than being based on an intervention imposed by powerful external actors, which can often be unsuitable and result in unexpected outcomes causing more harm than good (Harriss-White, 2011). Indeed, other research has shown that new agricultural technologies (and vegetable greenhouses in particular) have the potential to spread much more quickly through this type of horizontal transfer of information (also referred to as 'farmer innovation circles'), creating a de-marginalising domino effect (B. Wu & Pretty, 2004). This literature is backed up by my observation of the rapid adoption of the vegetable greenhouse technology by the members of the FC. Moreover, the fact that the FC's use of the EMP has been designated as a model by the county and prefectural branches of the MoHRSS, means that this type of locally-led technology diffusion network might become a pilot programme that is encouraged and supported by local governments in other areas, thus facilitating wider 'sustainable' de-marginalisation through the transfer of agricultural technologies to the surrounding townships and counties (B. Wu & Zhang, 2013).

**Figure 6.4:** Rural Modernisation Through New Vegetable Greenhouse Technology in the AT



#### **6.4 Microcredit as De-marginalisation Through the Formation of New Socio-political and Socioeconomic Linkages**

In addition to facilitating (and reversing) flows of capital and knowledge, the microcredit programmes have also aided in the creation of new socio-political and socioeconomic linkages between the townships (and their inhabitants) and 'more developed' areas through the formation of new *guanxi* networks. These linkages and networks have the potential to help integrate the relatively marginal areas and actors into the expanding 'modern' capitalist system – e.g. production networks, supply chains, etc. – thus de-marginalising them spatially. At the same time, this spatial de-marginalisation has made certain township actors more visible to the political establishment at higher levels, thus providing new types of access to, and influence in, reservoirs of power that were previously off-limits or unattainable due to their marginal status.

For instance, the use of the RCCMP to attract the largest construction company to the MWT not only resulted in flows of capital and knowledge from the city to the township, but also represented the formation of new business and political networks between rural and urban areas. Indeed, by moving the company headquarters to the township, the construction company created a business centre in a previously marginal space that became a hub connecting suppliers, manufacturers and clients across the region, while also setting up new supply chain relationships with other township actors. In this way, the construction company changed the nature of the development landscape, and increased connectivity between the township actors and the wider market. At the same time, the largest construction company also linked the township and certain local actors into its extensive (and expansive) *guanxi* network, spanning officials and businesses at the national, provincial, prefectural and county levels. This was particularly significant for the manager of the township RCC, who was able to integrate into this network through the provision of the large RCCMP loan and thus effectively increase his importance and power in relation to other officials locally.<sup>250</sup> In other words, the case of the largest construction

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<sup>250</sup> Interview 10; Interview 45.

company in the MWT represents multifaceted de-marginalisation on a number of levels for various actors. On the one hand, the company itself becomes (paradoxically) de-marginalised by moving to the more marginal township (see Section 6.3). At the same time the company de-marginalises the township by locating it at the centre of a business with tens of branches across Jiangxi Province and Guangdong Province. Finally, it also de-marginalises low level officials by integrating them into wider political networks.

In the DET, RCCMP loans were used by small components factories and other micro/small enterprises to create business linkages regionally and with the manufacturing centres in Zhejiang Province, thus connecting the township with wider economic networks.<sup>251</sup> Additionally, the largest components factory moved to the DET in order to reduce the cost of labour (i.e. DET labour is 1/3<sup>rd</sup> the cost of Zhejiang labour)<sup>252</sup> and, like the construction company in the MWT, to become a less marginal actor itself, with the owner saying: “because labour and rent in Yiwu are so expensive, there was little profit. Also, because it is easy to enter the market there, competition was fierce, so I left Yiwu.”<sup>253</sup> Once the largest components factory de-marginalised itself by establishing its headquarters in the DET, it then used local loans, including the EMP, to form a network of branches of smaller factories across the county, and in this way created a diffused network of connections between marginal areas regionally and the ‘more developed’ centres in the east of the country. Additionally, both the factory owner and his wife were able to leverage their economic position and connections to gain influence in the county government, thus creating new socio-political connections between the township and the county (see Chapter 5).<sup>254</sup>

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<sup>251</sup> Conversation 24; Interview 55; Interview 56; Interview 63; Interview 71; Interview 74; Interview 78.

<sup>252</sup> Conversation 29; Conversation 31; Interview 53.

<sup>253</sup> Interview 53.

<sup>254</sup> Interview 53.



The use of the EMP to fund the FC in the AT also played an important role in producing new socioeconomic and socio-political linkages between actors at different levels. For one, as a 'model experience', the EMP-funded vegetable greenhouses created new ties between officials and RCC employees at the village, township and county levels, and also brought the work of these officials to the attention of the prefectural MoHRSS. In addition to generally de-marginalising the implementers by connecting them to higher levels of government, these new connections and the perceived 'success' of the 'AT model' has the potential to improve the job prospects of everyone involved by helping them progress up the career development ladder through promotion to less marginal areas in the future (e.g. from the county to the prefecture). At the same time, the members of the FC were able to utilise new socioeconomic networks to sell their vegetables in previously untapped urban markets, thus expanding their *guanxi* networks and effectively integrating themselves into the urban market economy, thereby transforming themselves into non-marginal actors within a marginal space.<sup>255</sup>

Ultimately, these new socioeconomic and socio-political linkages initiated by the microcredit programmes served to de-marginalise the townships and certain inhabitants spatially, materially and temporally through increased connectivity between marginal and non-marginal spaces and actors. This was accomplished through new or strengthened connections between governments and financial institutions at different levels, through linkages between local actors and urban markets and/or suppliers, and by attracting large enterprises from non-marginal areas to the townships, thus co-opting their *guanxi* networks and also bringing much needed tax revenue to local governments with severe budgetary shortfalls. In other words, by facilitating the formation of new socioeconomic and socio-political linkages the microcredit programmes were successful in de-marginalising the townships in certain ways. However, the de-marginalising effects were not uniform across the three localities, and the actors involved varied substantially.

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<sup>255</sup> Conversation 01; Interview 02; Interview 03; Interview 04; Interview 06; Interview 07; Interview 24; Interview 25.

## 6.5 Microcredit as De-marginalisation Through Employment, Local Cooperation and 'Financial Inclusion'

It is also important to point out that the microcredit programmes have played a role in temporally de-marginalising the three townships by transforming local 'traditional' socioeconomic structures and modes of organisation. For instance, by attracting and supporting businesses to relocate from urban centres to the townships, the programmes have promoted new forms of 'modern' employment that replace or complement agriculture (which is considered to be 'backward') and migrant work (which extracts talent from the townships). Indeed, both the construction company in the MWT and the largest components factory in the DET have created over 200 jobs in their respective localities. These jobs have been popular with local residents, and have also attracted some migrant workers from even more marginal nearby areas to relocate to the townships. This is because this type of wage employment pays up to RMB 100 per day,<sup>256</sup> which is significantly more than the income from farming or from running most microenterprises – particularly small shops.<sup>257</sup> At the same time, the RCCMP in the DET has also allowed for the establishment of a variety of smaller components factories and other businesses by returning migrant workers. These returning entrepreneurs often emulated the 'modern' modes of employment they experienced while working in the city, and their enterprises usually paid workers between RMB 10 to RMB 100 per day.<sup>258</sup> In general, the working conditions were better than rice farming, which is gruelling work, and the local wage employment allowed families to stay together by reducing the necessity for migrant work.<sup>259</sup>

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<sup>256</sup> Construction work generally pays RMB 100 per day, while the components factory pay is based on the amount of work done, which can also be around RMB 100 per day if working quickly/efficiently and for long hours.

<sup>257</sup> Interview 45; Interview 53; Interview 61.

<sup>258</sup> Conversation 29; Conversation 31; Interview 61; Interview 63.

<sup>259</sup> DET Contextual Observation Report; Interview 24; Interview 61. It should be noted, however, that the air quality and safety standards in some of the smaller components factories were questionable at best.

In addition to facilitating material de-marginalisation through higher incomes, these new types of employment also had a temporal de-marginalising effect by providing workers with new types of freedom and inclusion in the labour market. In particular, the components factories tended to hire women and the elderly, many of whom were not previously engaged in wage income earning activities due to local customs dictating the role of different family members within the household unit. Some of the component factories even allowed women and the elderly to work out of their own houses (albeit at a reduced salary), meaning that they could earn income while simultaneously carrying out their 'traditional' duties, such as caring for children, cooking, cleaning, etc.<sup>260</sup> In this way, the new forms of employment effectively transformed women and the elderly into 'modern' citizens with an income, thereby integrating them into the wider capitalist system, and changing their socioeconomic role and status in relation to the household unit and local society more generally. The owner of the largest components factory proudly explained how the jobs provided by his factory benefited local people and the economy by drawing on wider narratives – both contemporary and traditional – of 'harmonious society' and 'harmonious familial relations' (*jia he wanshi xing* 家和万事兴):

My factory has a good impact on local society. For instance, some old people have no money. If their children don't give them any money, then the family might not be happy. Now people in their 60s and 70s can work in my factory and earn RMB 500 to 600 per month, which lets them buy things for their grandchildren, so the familial relationship will be more harmonious. It can also have a good impact on the relationship between husbands and wives, because originally only the man was working, so the wife would usually play majiang, wasting time and money... In terms of economic impact, my factory has also increased income. These good impacts are the result of government support by providing loans with no interest.<sup>261</sup>

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<sup>260</sup> Conversation 24; Interview 60; Interview 70; Interview 78.

<sup>261</sup> Interview 53. RMB 500-600 per month assumes that the elderly are working slowly from their own homes while also taking care of the grandchildren.

In contrast to the new forms of employment outlined above, which played a role in transforming local society, microcredit also facilitated de-marginalisation by actively strengthening pre-existing social cohesion and local modes of socioeconomic organisation. The most striking example of this is the EMP in the AT, which provided RMB 1,100,000 to the 12-member FC to undertake a large project involving both group coordination and individual responsibility, and hinging on group dynamics to spread risk.<sup>262</sup> This enabled the FC, which is an organisation originally based on a local kinship group, to substantially scale-up a project that had been previously initiated through group/communal pooling and savings arrangements, thus magnifying existing cooperative organisation, cohesion and action.<sup>263</sup> In the DET the RCCMP also promoted local cooperation, as groups of households composed of friends and family were able to pool their loans together in order to mobilise substantial lump sums to fund larger projects, such as building a new house or investing in a business. Of course, in addition to the RCCMP loans, households often mobilised other types of capital to achieve their goals, such as savings, informal loans from other sources, and non-financial loans of materials and labour.<sup>264</sup> In this way, the formal RCCMP loans were incorporated into, and magnified, informal modes of financial organisation similar to 'traditional' ROSCAs.

Therefore, in both the AT and the DET the microcredit programmes provided extra capital that allowed groups and their individual members to scale up projects, thus increasing income and improving livelihoods. However, this represented more than just material de-marginalisation, as it also gave the groups increased visibility and leverage with more powerful (and less marginal) actors. For instance, through the process of successfully applying for the EMP loans, the FC in the AT became visible to government officials

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<sup>262</sup> In the words of one FC member: "Every household borrows RMB 50,000 and the total amount is transferred to the FC. The FC coordinates the use of the money and each household is issued with their own farming responsibilities" (Interview 25).

<sup>263</sup> Interview 23; Interview 25. Research on microcredit often points to the potential for programmes to facilitate local cooperation, particularly with regard to women's groups, thus empowering marginalised individuals (Sanyal, 2014).

<sup>264</sup> Interview 55; Interview 57.

and financial institutions at the township, county and prefectural levels, and ultimately became the centre of a proposed pilot programme, thus investing others in their success. This form of empowerment has significantly spatially de-marginalised the FC, and has also allowed the group to assert a form of collective bargaining to gain access to resources that would not have been available to them individually (or even to the group as a whole) without the existence of the EMP.

Of course, underpinning the socioeconomic transformations and strengthening of local forms of cooperation outlined above is the idea that increased inclusion into the financial system not only has the ability to facilitate local development, but that providing credit access to excluded segments of the society is inherently de-marginalising in and of itself (Sparreboom & Duflos, 2012). Based on this, the programmes were successful in facilitating de-marginalisation by increasing ‘financial inclusion’ in all three of the townships, albeit in different ways for different actors. For instance, as stated above, the programmes have indirectly instigated increased ‘financial inclusion’ by adding capital to the informal financial market – as EMP loans were used for onlending and RCCMP borrowers frequently informally pooled their funds.<sup>265</sup> This increase in ‘curb market’ activity is consistent with Kellee Tsai’s observation that sometimes “the scale of informal finance actually increases in communities that have been targeted for a greater supply of official credit” (Tsai, 2004, p. 1488). It can also be perceived as a beneficial development, as informal financing is viewed as necessary by the vast majority of rural people, and was used by well over 90 per cent of interviewees. Of course, the programmes also promoted ‘financial inclusion’ more directly through the general increase in access to formal credit across the three townships. For instance, in the AT the EMP provided the FC with access to formal credit that was previously unavailable, and the RCCMP provided increased access to loans for large-scale farmers. In the MWT, the RCCMP was used to provide a large amount of capital to the construction company that had been excluded by financial institutions in the city. Most notably, in the DET 80 per cent of the population was included in the formal financial system thanks to the RCCMP. This is because any household (even poor households) that were able to meet the

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<sup>265</sup> Interview 30; Interview 53.

basic requirements could borrow, whereas in the past households had to rely on good *guanxi* with RCC employees in order to get loans.<sup>266</sup>

This increased formal ‘financial inclusion’ was perceived as temporally de-marginalising borrowers by instilling in them a modern ‘credit consciousness’ based on ‘law’ and ‘reason’ rather than ‘traditional’ *guanxi*-based understandings of credit grounded in local customs.<sup>267</sup> This new sense of ‘credit consciousness’ was praised as beneficial progression for rural people, transforming them from ‘backward’ peasants into ‘modern’ citizens with a higher level of ‘quality’. For instance, the RCC director in the AT said: “The biggest change has been in the local farmers’ mind-set. Before they just focused on saving, now they also think about borrowing.”<sup>268</sup> This understanding of formal credit was also equated with other beneficial traits associated with modernity, such as ‘creditworthiness’, which were then ascribed to groups and communities, thus depicting them as more ‘modern’ and ‘developed’ than their more marginal counterparts in other places. For instance, the director of the MoHRSS in the AT attributed the success of the RCCMP to a uniform localised ‘modern’ culture by saying: “The township has been able to lend out so much money each year because of the local customs and culture. Local farmers in this township are trustworthy.”<sup>269</sup>

The increased use of formal credit was also seen as facilitating wider temporal de-marginalisation by spreading knowledge of other formal financial services, thus fostering a wider ‘financial consciousness’ amongst the marginal rural population. For instance, in the 1980s and 1990s rural residents often hid money in their homes (e.g. in closets, walls, beds, etc.), which was sometimes stolen or lost – e.g. money sometimes went rotten after floods, or was eaten by insects.<sup>270</sup> However, after using formal credit

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<sup>266</sup> Interview 18; Interview 54; Interview 55.

<sup>267</sup> See the explanation of Fei Xiaotong’s conceptions of *lisu* and *fali* above (Fei, 1992).

<sup>268</sup> Interview 05.

<sup>269</sup> Conversation 01.

<sup>270</sup> In the MWT I was told a story about a household that had saved RMB 60,000 to pay for their child’s future wedding. They hid the money in the

services rural people often gained a greater appreciation for, and trust in, local financial institutions and their ability to provide a more secure method of saving financial capital.<sup>271</sup> In this way, through a change in 'mentality' rural people shifted from using insecure 'traditional' methods of saving, to safe 'modern' formal accounts in the RCC. This transition into formal savings also allowed the RCC to mobilise local deposits for investment and increased lending locally. Similarly, formal loans also introduced local actors to the RCC remittances service, which provides households with the ability to send money within the province free of charge. In the past, residents would often use the PSRB (which became the PSBC after 2006) to remit money. However, the service was slow and relatively expensive, so some migrants would informally remit their earnings by bringing large amounts of cash with them when they returned home to visit their families.<sup>272</sup> Obviously, this was a very dangerous proposition, particularly during festival periods when many people are travelling, and there have been some high profile cases of migrants losing huge amounts of savings (Anon., 2013). Therefore, the RCC remittances service provides increased security for migrant workers sending money home through the 'modern' financial network for consumption purposes or for local investment that has the potential to diversify and improve local economies (i.e. countering the 'scissors gap' discussed above).<sup>273</sup> Unsurprisingly, the DET had the highest level of this type of formal 'financial consciousness', most likely due to the prevalence and wide coverage of the RCCMP.<sup>274</sup>

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walls, but one night it was stolen and the culprit was never caught (Conversation 18).

<sup>271</sup> Interview 05; Interview 31; Interview 32; Interview 48; Interview 56; Interview 70.

<sup>272</sup> Interview 07; Interview 38; Interview 41; Interview 48; Interview 56; Interview 74; Interview 76.

<sup>273</sup> Interview 40; Interview 53.

<sup>274</sup> DET Contextual Observation Report. That being said, I still encountered many households that refused to use 'modern' financial and insurance services because they did not trust or understand them. Even one jewellery shop with over RMB 1,000,000 worth of merchandise purchased a safe rather than insurance (Interview 26; Interview 39; Interview 47; Interview 51; Interview 71).

## 6.6 Microcredit and Local Livelihood Improvement

Of course, by facilitating the different types of de-marginalisation outlined above, the microcredit programmes were also credited with playing a beneficial role in the (re)production of local livelihood strategies and outcomes. In particular, microcredit helped shape the ways in which rural actors went about acquiring and securing consumption/economic necessities, how they coped with challenges and responded to opportunities, and their values and identities, which, crucially, defined “individual belonging and... aspirations for social and economic transformation” (Christiansen, 2010, p. 141; Long, 1997). Of course, due to the heterogeneous implementation of the programmes and the varying perspectives of what constitutes beneficial linear progressive development, livelihood transformation manifested itself in diverse and unpredictable ways for different actors in different localities.

For instance, in some cases the microcredit programmes played an important role in the livelihood strategies of local implementers – paving the way for easier access to economic resources and allowing implementers to take advantage of opportunities that would not have been possible without the programmes. Most obviously, EMP implementers in the AT were able to utilise the programme in order to become more visible to their superiors at higher levels of government, and, in this way, shape new livelihood trajectories that were integrally linked to taking advantage of the opportunity to create a successful policy pilot/model. Similarly, in the MWT the director of the township RCC was able to package the RCCMP into one large loan for the construction company in order to take advantage of the opportunity to link into wider socioeconomic networks at the county and prefectural levels, thereby increasing his power in relation to other officials at the township level. In other words, in both of these cases the microcredit programmes made it possible for local implementers to improve their job prospects and potentially increase their incomes and access to financial, social and political resources. At the same time, the programmes also played a more profound role in the identity formation of the implementers in both the AT and MWT. Indeed, in both cases implementers proudly identified themselves as effective leaders and/or policy innovators. They also perceived themselves as being leading contributors to the rapid and beneficial development and



de-marginalisation of rural China through its integration into the urban-based market system.<sup>275</sup> This identity based on a capitalist vision of rural development and de-marginalisation, in turn, shaped how these actors perceived opportunities (for themselves and for other local actors) and went about acquiring livelihood resources.

Of course, the programmes had their most visible de-marginalising ‘impact’ by improving borrower livelihoods, albeit again in diverse ways for different types of borrowers. For instance, in the DET the RCCMP (and the EMP before its cancellation) helped local inhabitants (especially returning migrant workers) to take advantage of the opportunity to open businesses, thus increasing income and access to livelihood resources. In the words of one local entrepreneur: “The EMP has had a big impact on our household, it solved the issue of my wife’s employment and improved our economic situation... If we didn’t get the EMP we couldn’t have opened our shop.”<sup>276</sup> Microcredit also allowed existing local microenterprises in the township to take advantage of investments and business opportunities that would have been impossible without the fast access to capital. One such example was an aquaculture microenterprise that used the RCCMP loans to pay for the expenses involved in making business connections with customers in neighbouring Zhejiang Province, thereby spatially de-marginalising the business by linking it into regional supply chains.<sup>277</sup>

In the MWT, the EMP did not obviously contribute to borrower livelihood improvement, as the loans were often perceived as redundant sources of capital. However, in some cases households did increase income through onlending,<sup>278</sup> and other households used the loans for investment in urban-based stock markets. While this was ultimately a risky use of the credit, it did de-marginalise the households (in a neoliberal sense) by allowing them to

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<sup>275</sup> See Chapter 4. For instance, the director of the RCC in the MWT was proud that the institution was ‘financially sustainable’ unlike RCCs in other areas (Interview 10).

<sup>276</sup> Interview 56.

<sup>277</sup> Interview 78.

<sup>278</sup> Interview 30.

participate in the 'modern' financial market in a way that was not possible for much of the rural population.<sup>279</sup>

Of course, the EMP in the AT was the most obvious example of a microcredit programme playing a beneficial role in the livelihoods of borrowers by allowing the members of the FC to take advantage of the opportunity to invest in the vegetable greenhouses. Not only did this investment make the borrowers' lives easier, as vegetable farming is significantly less gruelling than rice farming, it was also extremely profitable, as the vegetable greenhouses allowed the FC members to grow more profitable 'cash crops' (chilli peppers and *Artemisia*), which could earn RMB 6,000-7,000 per *mu* per year – as opposed to the RMB 600-700 per *mu* per year for rice farming. This meant that some members of the FC were able to earn over RMB 80,000 per year, and even spatially de-marginalise themselves by using the extra income to invest in valuable property in the city.<sup>280</sup> Overall, the EMP was described as helping the members of the FC to achieve the next step in a linear progression of self development and livelihood improvement in the context of rural China's perceived inevitable march towards a 'developed' endpoint with better conditions for its inhabitants. In the words of one member of the FC:

The 1970s were very difficult, sometimes we even didn't have food and farming was very hard. With the beginning of the household responsibility system in the 1980s life got better year on year, but farming was still difficult. In recent years, since we have been using the vegetable greenhouses, life has gotten much better.<sup>281</sup>

In addition to generally improving borrower access to consumption and economic necessities, the programmes also permitted borrowers to take advantage of opportunities to diversify and secure livelihoods, which is vital to the sustainable (re)production of livelihood strategies (Hospes & Lont, 2004). In particular, by investing in vegetable greenhouses, the members of

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<sup>279</sup> Interview 38.

<sup>280</sup> Interview 23; Interview 24; Interview 25.

<sup>281</sup> Interview 25.

the FC in the AT transitioned from single-crop farming (rice) to multiple crops, thus diversifying their sources of income and reducing the risks of crop failure.<sup>282</sup> In the DET, the RCCMP allowed households to open microenterprises that contributed to multifaceted livelihood strategies including farming, migrant work, and even wage income in the local components factories, thus making households more resilient to shocks and crises.<sup>283</sup> More generally, the loans also had the potential to help microenterprises ‘smooth over’ periods when business was slow, and allowed households to diversify their future livelihood strategies through investment in necessary consumption activities and ‘human capital’, such as building houses or paying for their children’s education, while maintaining savings for emergencies.<sup>284</sup> In other words, by allowing households and businesses to take advantage of opportunities to diversify income sources and become more financially secure, the microcredit programmes helped borrowers to ‘help themselves’ overcome structural constraints that had previously marginalised them.

These tangible livelihood benefits outlined above had a very real (and important) impact on how borrowing households constructed their identities and defined themselves within the wider development landscape. For instance, as stated in Chapter 4, the members of the FC in the AT were proud that they were utilising modern agricultural technologies, and, like the EMP implementers, perceived themselves as being at the forefront of rural China’s rapid development. When asked why others were not able to get loans, many of the FC members drew on neoliberal discourses and narratives – such as Deng Xiaoping’s famous quote “let some people get rich first” – that justified and framed their privileged status as necessary for rural China’s ultimate future ascension to a state of ‘development’. In this way, they identified themselves as the rural elite whose role it was to lead the way to de-marginalisation through ‘positive’ actions (based on a neoliberal ideology), such as astutely noticing and exploiting entrepreneurial opportunities, and being willing to take risks.<sup>285</sup> At the same time, they

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<sup>282</sup> Interview 23; Interview 24; Interview 25.

<sup>283</sup> Interview 55; Interview 56; Interview 58; Interview 61; Interview 66.

<sup>284</sup> Interview 22; Interview 38; Interview 57; Interview 78.

<sup>285</sup> Conversation 01; Interview 25.

placed the blame for the exclusion of others from the microcredit programmes squarely on the shoulders of the excluded themselves, with statements like: “The wealthy are courageous people who dare to take risks and intelligent people who are ready to innovate. The poor are generally complacent and lazy. They envy the rich people, but also can recognise their own incompetence.”<sup>286</sup> These borrowers also continually pointed out that successful de-marginalisation required hard work, and that the poor and marginalised should not blame the government – saying things like:

In the past the emperors levied agricultural taxes to pay for the army. Now the Party’s policy is good, they have eliminated agricultural taxes and introduced agricultural subsidies, so we are very satisfied. However, the income gap continues to widen, even within rural areas. The main reason is because people do not want to work.<sup>287</sup>

Similarly, in the MWT, households that were able to borrow from the EMP or the RCC stressed that the poor had no one to blame but themselves, and prescribed more individual effort as the route to de-marginalisation,<sup>288</sup> with one borrower saying: “Through their own efforts they should improve their social standing, and also ensure that they have the ability to repay the loans.”<sup>289</sup> The owner of the largest construction company also justified his ‘capture’ of the RCCMP by saying that most of the residents in the MWT did not have ‘credit consciousness’ and therefore did not deserve loans because they were not as trustworthy as his company.<sup>290</sup> Of course, due to the easier access to the RCCMP in the DET, this discourse of individual responsibility for exclusion was even more widespread, with most households saying that only the untrustworthy were not allowed to borrow. Ultimately, therefore, inclusion into the programmes played a key role in borrowers constructing identities as local social and economic elites, positioned at a higher (i.e. superior) stage of linear development than non-borrowers, which, of course,

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<sup>286</sup> Interview 04.

<sup>287</sup> Interview 25.

<sup>288</sup> Interview 09; Interview 32.

<sup>289</sup> Interview 29.

<sup>290</sup> Interview 45.

shaped the ways in which they (re)produced their livelihood strategies going forward.

In other words, the microcredit programmes have – in some cases and for certain actors – ‘improved’ livelihoods by allowing implementers and borrowers to gain access to resources, diversify livelihood strategies and take advantage of opportunities, thereby enhancing career prospects, scaling up businesses, allowing for house construction and access to education, and providing a financial buffer for investments and emergencies – all of which have had substantial de-marginalising effects. Moreover, the programmes have been utilised by implementers and borrowers alike as a means of increasing and strengthening social networks, which has been identified by other research as a key element in improving sustainable livelihoods and facilitating local development (Ye, Wang, & Long, 2009). Microcredit has also allowed actors to identify themselves as successful members of the ‘winning’ cohort, contributing to the modernisation and development of rural China, albeit based on a neoliberal version of the linear progression development paradigm. Therefore, all of these ‘improvements’ are perceived as being symptomatic of ‘modern’ livelihoods, which are increasingly standardised based on ‘developed’ (urban) modes of existence, and positioned in contrast to traditional livelihood modes, which are then depicted as being ‘backward’ and ‘uncultured’ (*meiyou wenhua* 没有文化).

## 6.7 Conclusion

This chapter begins by showing how the three microcredit programmes have been framed within a neoliberal version of the linear progression development paradigm, which depicts rural areas and people as being backward and peripheral, and therefore in need of modernisation and de-marginalisation through integration into the wider market economy. This is in-line with the general global discourse of development, and also reflects contemporary Chinese understandings of development as technological progression, modernity and de-marginalisation (both domestically and on the world stage). Within these paradigmatic confines, it is clear that in all three townships, microcredit has successfully facilitated de-marginalisation and livelihood improvement for certain actors and in certain ways. Indeed, this

chapter illustrates how the microcredit programmes have contributed<sup>291</sup> to spatial, material and temporal de-marginalisation by initiating flows of capital, knowledge and technology from central (urban) areas to the three townships; by facilitating the creation of new socioeconomic and socio-political linkages between marginal and non-marginal areas/actors; and by 'modernising' employment, providing platforms for local cooperative action and expanding financial inclusion.

However, despite the paradigmatic coherence, the nature of this de-marginalisation varied significantly across the three localities for two key reasons. First, as with all rural development interventions (particularly in the Chinese context), implementation at the local level was highly heterogeneous and emergent from complex negotiations at the interfaces of interaction between diverse actors (see Chapter 5). Second, while rural development itself was uniformly understood as the need to spatially, materially and temporally de-marginalise rural areas and people – there was little consensus on how these processes of de-marginalisation should proceed, with different localities (and actors within these localities) prioritising different sectors and people to be the recipients of the de-marginalising efforts. Therefore, each of the programmes in each of the townships can be considered to have produced de-marginalisation, just in different ways. Even the programmes that would widely be considered to have 'failed' – such as the non-implementation of the PAMP in the MWT and DET, and the 'capture' of the RCCMP in the MWT – still resulted in de-marginalisation for certain actors. Therefore, this chapter challenges the assumption that top-down 'best practice' to ensure a specific type of de-marginalisation can be identified, as the de-marginalisation outcomes were ultimately reflections of local perceptions of what rural development means, and which development paths should be followed in order to reach the 'next stage' of linear development.

In this way – because de-marginalisation was not uniform, but instead benefited certain areas and actors – the microcredit programmes also

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<sup>291</sup> It is important to note that we cannot attribute causation here, but instead should recognise that the programmes contributed to de-marginalisation within the wider developmental landscape.

played a role in widening the gap between the newly de-marginalised and the still marginal, usually based on existing social, economic and political segmentation at the local level. Rather than being a flaw in the formulation or implementation of the microcredit programmes, this is a fundamental feature of the linear progression development paradigm, particularly in its neoliberal form. Ultimately, therefore, the concepts of development, modernisation and de-marginalisation are relational in nature, meaning that the linear progression development paradigm produces the very divisions between 'developed' and 'underdeveloped' that it seeks to eliminate, thereby "concealing the fact that both exist within unequal relations between centre and periphery—relations that involve domination and subordination" (H. Wang, 2011, p. 95). Therefore, while microcredit has successfully instigated some processes of de-marginalisation, it has simultaneously contributed to deepening various local discontinuities and has exacerbated exclusion, inequality and distress in various ways for different actors. We now turn to Chapter 7 to explore these undercurrents of marginalisation in more depth.

## **Chapter 7**

### **Indebted to Development: Microcredit, Precarious Livelihoods and Undercurrents of Marginalisation**

Microfinance does not simply smooth over contemporary processes of agrarian change. Rather, it tends to reflect and reproduce their central contradictions and power dynamics.

- Marcus Taylor

Deng Xiaoping said 'let some people get rich first'. The clever will get rich first and the lazy will fall behind. Everyone's situation is different and more conservative people will usually be left behind.

- Interview 29

The shift towards a neoliberal-oriented rural development strategy in China since the reform and opening (i.e. the adoption of a 'socialist market economy'), has meant that 'beneficial' progression along the linear path towards a higher stage of development has increasingly been understood as coinciding with integration into the wider market system. This market-based development ideology sees rural de-marginalisation as resulting from the promotion of entrepreneurial activity and 'beneficial' competition at the local level.<sup>292</sup> As the most recent National Development and Reform Commission report states, the Chinese government's development policy now seeks "to establish a sound, unified, and open nationwide market system that ensures orderly competition, puts forward more reform measures to invigorate the market, and turns the new benefits of reform into a new driving force for development." (National Development and Reform Commission, 2015, p. 18). While it is acknowledged that this type of competition results in increased inequality through the creation of 'winners' and 'losers', this

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<sup>292</sup> Entrepreneurial activity can, of course, be perceived in very different ways. For instance, in the AT the FC was considered to be entrepreneurial for building greenhouses, while in the MWT, migrant work was considered an entrepreneurial pursuit.



situation is depicted as a necessary and inevitable side-effect of development, and something that is accepted by society at large – even the segments of the population that are not directly benefiting. In the words of one wealthy household in the MWT:

The income gap has been increasing. Before we were all farming and none of us had any money. Now some people go out to earn money and some stay in the village to farm, so the gap is growing. However, this increasing gap does not affect the relationship between the rich and poor villagers. The poor acknowledge the rich villagers' achievements.<sup>293</sup>

Of course, as stated earlier, microcredit as a development intervention – and particularly microcredit based on the 'financial systems approach' – mirrors this understanding of development and de-marginalisation as emerging from individual entrepreneurial effort at the local level leading to increased economic integration. For this reason, microcredit programmes seek to include the previously excluded marginal areas and actors into the 'modern' financial system, and provide the capital necessary to produce the type of entrepreneurial activity that is seen as allowing rural people to 'develop themselves' through engagement with the wider market economy and contemporary urban-based cosmopolitan society. In this way, proponents of microcredit (in China and globally) envision microloans, and the ensuing local entrepreneurship, as playing an important role in improving local economies by lifting entire communities out of their 'underdeveloped' and 'backward' modes of existence, thereby de-marginalising them spatially, materially and temporally. For this reason, microcredit is seen as allowing the benefits of 'modern' capitalist society to 'trickle-down' to marginal rural areas and actors, and, thus, justifying uneven development as necessary in order to instigate the type of progress that will eventually benefit everyone (i.e. 'a rising tide lifts all boats').

However, by depicting underdevelopment and marginalisation as simply symptoms of disconnection with the wider market economy (i.e. separation from development), both microcredit specifically, and neoliberal understandings of the linear progression development paradigm more

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<sup>293</sup> Interview 43.

generally, ignore (or obscure) the ways in which developed/central and underdeveloped/marginal spaces and people are dichotomously co-produced and mutually constituted in relation to each other (i.e. already integrally connected) within development landscapes that are fundamentally shaped by unequal relationships of power and subordination (Weber, 2006). Therefore, while microcredit (and other top-down neoliberal interventions) does have the ability to facilitate rapid development and de-marginalisation for certain areas, groups and individuals (see Chapter 6), it simultaneously reflects – and often reproduces and/or exacerbates – inequalities and patterns of marginalisation at various levels that characterise the relationship between the marginal and non-marginal in China and other ‘developing contexts’ worldwide.

This chapter aims to outline these varied undercurrents of marginalisation that accompanied, and were intimately related to, the de-marginalising outcomes recorded and analysed in Chapter 6. In this way, this chapter (and the continued discussion in Chapter 8) represents a critique of the role that microcredit can, and should, play in local development strategies and the (re)production of livelihoods in rural China and beyond. The rest of the chapter is organised as follows. Section 7.1 outlines the literature critiquing the linear progression development paradigm, and illustrates how the paradigm itself actively produces the underdevelopment and marginality that it purportedly seeks to eliminate. The section then goes on to show how marginalisation needs to be understood as sets of unequal and mutually constituted dichotomous relationships (i.e. ‘relational marginality’), rather than reified as a ‘backward’ mode of existence that can simply be eliminated through external intervention aimed at instigating ‘progress’. Section 7.2 analyses how this concept of ‘relational marginality’ has characterised the development landscape in rural China, and shows how development interventions, such as microcredit, have shifted and sometimes transformed relationships of marginalisation, but, ultimately, have done little to change the underlying causes and conditions of marginality itself. Section 7.3, Section 7.4 and Section 7.5 outline the heterogeneous and complex ways in which the microcredit programmes have produced undercurrents of marginalisation in the three townships. In particular, the sections show how microcredit has facilitated the diversion and extraction of rural resources, excluded certain actors and areas from development opportunities, and aggravated various types of risk, distress and social strife at the local level –

all of which have had significant negative impacts on the ways in which local actors (re)produce their livelihood strategies and form their livelihood identities. Section 7.6 concludes and leads into the final chapter of the dissertation.

## **7.1 The Unequal Foundations of Development and Relational Marginality**

As stated in Chapter 6, contemporary definitions of the concept of development have invariably been grounded in the linear progression development paradigm, which depicts cultures and societies, countries and regions, as moving – step by step – from a marginal traditional ('backward') state of existence to a more modern ('civilised') one. The work of those involved in the field of global development has, therefore, been to assist the 'underdeveloped' places and people to adopt policies and modes of societal organisation that will best facilitate this transition. However, while the linear progression development paradigm has undoubtedly maintained its position as the dominant way of understanding and attempting to instigate development in China and globally, in recent decades it has come under increasingly strong critique – both for its perceived failure, and for being conceptually and theoretically unsound. In particular, critics have pointed to the fact that the global development project has not lived up to its promise to reduce the stark developmental gaps between the 'developed world' and the 'global south'. Indeed, regardless of how progressive development is defined or measured, inequalities have persisted worldwide – narrowing in some places and expanding in others – and there is little consensus on whether even basic 'progress' towards a standard level of development, such as through the reduction of global poverty, has been achieved (Kirk, Brewer, & Hickel, 2015; Nederveen Pieterse, 2010; Reddy & Minoiu, 2007). The perceived failure of development is seen to have become more acute with the rise of the neoliberal version of the linear progression development paradigm since the 1980s, as the logic of unfettered free market capitalism as a means of promoting development has "resulted in systems in which the few benefit at the expense of the many" (Escobar, 2004, pp. 349–350), primarily through the "dispossession, confiscation or privatisation of crucial livelihood resources" (Mosse, 2010, p. 1171), thus pushing disadvantaged groups and people further to the margins of the economy and society (Hickel, Brewer, & Kirk, 2015).

In addition to the empirical failure of the global development project, recent research on 'alternative development' has increasingly pointed out that the conceptualisation of linear progressive development itself is, at best, problematic. This is primarily due to the fact that it is grounded in teleological thinking and, rather than allowing for the emergence of complex and multiple non-uniform modernities, produces a falsely dichotomous relationship between 'traditional' and 'modern' modes of existence, which are then normatively framed as negative/inferior and positive/superior in relation to each other based on western-centric socioeconomic and socio-cultural forms (Barabantseva, 2012; de Sousa Santos, 2004; Gibson-Graham, 2005; Long, 2001; Tipps, 1973; Wheeler, 2005). Fundamental to this critique is the observation that the knowledge underpinning the concept of development – i.e. the ability to define what development actually means – is a social construct that has been produced within regimes marked by unequal structures of power. In the words of Arturo Escobar: "development has relied exclusively on one knowledge system, namely, the modern Western one. The dominance of this knowledge system has dictated the marginalisation and disqualification of non-Western knowledge systems" (Escobar, 1995, p. 13). In this way, development has essentially entailed the replication/adoption of 'western' social, economic, political and cultural modes, which is often unfeasible, unsuitable and/or undesirable for 'underdeveloped' places and people, thus perpetuating the creation of areas and populations that are deemed to be spatially, materially and temporally marginalised in relation to the more powerful centres where development knowledge is produced (Escobar, 1995; Wen, 2007). In other words, by controlling the knowledge that defines the binary oppositions underpinning the concept of development – e.g. margin vs. centre, traditional vs. modern, uncivilised vs. civilised, etc. – the linear progression development paradigm actively produces the underdevelopment that it purportedly seeks to eliminate, by systematically ignoring and repressing multiple forms of development and change that emerge from actors and areas with less power. In this way, it is the very concept of 'development' itself that is responsible for instigating the further marginalisation and disempowerment of the 'underdeveloped world' (Escobar, 1995, 2004; Long, 2001).<sup>294</sup>

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<sup>294</sup> This situation has resulted in widespread movements both globally and in China, often termed 'alternative development', which seek to opt out of the

Ultimately, therefore, development and underdevelopment are mutually constituted through the (re)production of 'development dichotomies'. These dichotomies are, in turn, composed of sets of interlinking unequal relationships at different levels, which produce the patterns of spatial, material and temporal marginalisation that characterise the development landscape in China and beyond. Indeed, development and underdevelopment – and their corollaries wealth and poverty – are “created by people... one cannot be separated from the other” (Hickel et al., 2015). In the same vein, Charles Tilly coined the term 'durable inequalities' to refer to the most persistent unequal social and historical relationships between individuals, groups and areas, showing that these inequalities are the result of the “institutionalization of categorical pairs,” such as minority/majority race, male/female, citizen/non-citizen, and – most importantly for this dissertation – urban/rural (Tilly, 1998, p. 8). Consequently, marginalisation (as the result of inequality) cannot be detached from the social and historical contexts which have given rise to its existence, but instead must be conceptualised as a form of 'relational marginality' emerging from these unequal dichotomous relationships, and thereby defined in relation to non-marginal and developed centres. In this way, marginality or “remoteness is not simply a static condition found somewhere out there beyond the pale; rather, it is always being made, unmade, and transformed... edges and remote spaces are intimately bound up in the construction of centres” (Harms et al., 2014, pp. 362, 365). Simply put, a centre can only exist in relation to the margins, just as development can only be understood in relation to underdevelopment, hence, de-marginalisation will implicitly require the shifting and reformulation of interlinking marginal relationships, thereby causing increased marginalisation elsewhere (Mosse, 2010; Pfaff-Czarnecka & Kruckenberg, 2016).<sup>295</sup>

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linear progression development paradigm by adopting multiple and 'sustainable' forms of development based on local practices and cultures. See, for instance, (Day, 2013; de Sousa Santos, 2004; Escobar, 2004; Gibson-Graham, 2005; Hale, 2013; Wen, 2007).

<sup>295</sup> For more on the 'zero-sum' nature of de-marginalisation efforts based on the linear progression development paradigm see the discussion in Chapter 8.

It is, of course, important to note that these interlinking marginal relationships exist at different levels of analysis. For instance, rural areas are marginal in relation to the city just as a poor village household is marginal in relation to a local elite, or a disempowered family member is marginal in relation to the head of the household. Moreover, these marginal relationships are “situated in dynamic fields of power” (Harms et al., 2014, p. 364), which are constantly being contested but are, at the same time, shaped by the persistence of historical power imbalances represented by longstanding durable inequalities embedded within sociocultural contexts (Tilly, 1998).<sup>296</sup> Consequently, marginal places and people are characterised by their relative lack of power. This results in their exploitation and exclusion from opportunities and access to resources by elites – referred to by Tilly as ‘opportunity hoarding’ (Tilly, 1998) – which has obvious implications for the ways in which identities are formed and society is structured – i.e. the processes that underpin the (re)production of development landscapes and livelihoods at different levels. Of course, top-down (external) development interventions seek to eliminate the various types of exploitation and exclusion resulting from marginalisation. However, the formulation and implementation of these interventions is invariably shaped by the same sociocultural and socioeconomic conditions and relationships that give rise to the very inequalities and imbalances that produce the marginalisation in the first place. In other words, they are embedded within a development paradigm which has given rise to global and local ‘development dichotomies’, and are thus constituted within (and play a role in creating) a system that is responsible for (re)producing the ‘third world’ (Escobar, 1995).

This is particularly evident with interventions that are grounded in a neoliberal version of the linear progression development paradigm – such as microcredit – as they perceive marginalisation and underdevelopment as conditions that arise from a lack of connection with markets located in non-marginal centres. In this way, marginalisation is detached from the sets of interlinking unequal relationships (and underlying constellations of power) that have given rise to (and sustained) it, and the condition of marginality is

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<sup>296</sup> Indeed, power is of fundamental importance to marginalisation and future research would do well to deepen our understanding of relational marginality by explicitly exploring the role of multidimensional power in its formation. Unfortunately, this is beyond the scope of this dissertation, but potential directions for future research are discussed in more detail in Chapter 8.

reified and 'localised' by attributing its existence to the inherent characteristics of the people and places that are afflicted with it (Appadurai, 1997; Barabantseva, 2009). Simply put, marginality is de-historicised and de-contextualised – it is depicted as existing in a vacuum and responsibility for its existence is shifted to the marginalised themselves, implying that marginal existences can be eliminated by merely transforming the 'backward' nature of the afflicted and strengthening the connections with the very centres that have produced their marginalisation in the first place. Indeed, as stated above, in the case of microcredit, marginality has been framed as the result of disconnection with the wider market economy, and the remedy is perceived to be including marginal areas and actors into the formal financial system by issuing them with formal credit (and debt), thus attending to certain symptoms of marginalisation, while ignoring the underlying causes (Weber, 2006). Therefore, it should be no surprise that attempts to de-marginalise rural areas, groups and individuals through microcredit (or other neoliberal interventions) simply shift marginalisation around – reducing it in some places and exacerbating it in others – without actually eliminating it (i.e. rearranging the deck chairs on the Titanic).

## **7.2 The Rural-Urban Dichotomy and Relational Marginality in the Chinese Context**

As stated in Chapter 6, rural and urban areas in China have historically (but particularly since the mid-1800s) had a dichotomous relationship based on an unequal distribution of power and resources, which has resulted in rural areas being socially and economically constructed as the marginal periphery, while urban areas have been positioned as the modern centres. This durably marginal relationship between rural and urban areas has persisted in paradoxical ways despite being nominally subjected to ideologically diverse external attempts to eliminate it over the past century. For instance, throughout the Mao period rural society was subjected to radical restructuring efforts aimed at creating a 'modern' peasantry, rural industry and industrialised agriculture. However, at the same time, surpluses were extracted from rural areas in order to facilitate a more ambitious modernisation development agenda in urban areas in order to 'catch up' with the cities of the 'developed world' (see Chapter 2) (J. Brown, 2012; Sanders et al., 2007; N. R. Smith, 2015; H. X. Zhang & Loubere, 2015). In the post-reform era, on the other hand, the adoption of market-based approaches to

economic management has resulted in rapid but extremely unequal economic growth, which has allowed for the transformation of China's urban areas into 'modern' cosmopolitan centres that are integrally connected to the world economy. However, this has often been at the expense of rural areas that are 'left behind' and sometimes pushed even further into impoverishment and marginalisation due to their inability to gain access to, or retain, development resources.

Of course, much research has pointed to the liberalisation and marketisation of the rural economy as driving rural development and improving the lives of the peasantry, particularly through the reduction of absolute poverty (S. Wang, 2013; Yao, 2000; K. X. Zhou, 1996). Moreover, the majority (but not all) of the people I spoke to during fieldwork said that their lives had improved over the past three decades, particularly pointing to the fact that rural diets had been enhanced with meat being more readily available, whereas in the pre-reform era it was a luxury. That being said, my respondents also uniformly pointed out that the gap between rural and urban areas, and between the rich and the poor locally, had grown at an astounding rate since the reform and opening, ultimately illustrating that the neoliberalisation of the Chinese development model has left rural China and its population in a more tenuous position in relation to the rapidly developing cities, thereby actively exacerbating the historical marginal relationship between rural and urban areas for a number of reasons (albeit to different extents in different places). For one, the encouragement of market-based competition and the application of financialised organisational systems emphasising efficiency and profit over social goals have pushed rural resources (e.g. savings) and people (e.g. migrant workers) to flow to more profitable urban areas or risk 'failing' at the margins (Loubere & Zhang, 2015; Sanders et al., 2007). Moreover, local governments have been systematically defunded in favour of governments at higher levels (i.e. 'hollowed out'), while also coming under increased pressure to achieve 'financial sustainability' and even profitability, thereby reducing their capacity to provide rural areas and people with basic and necessary services (G. Smith, 2010; Wen, 2005). At the same time, macro level historical institutional and structural inequalities and patterns of marginalisation have been maintained or strengthened – such as the dichotomous division of household registration documents into rural and urban – which disadvantages rural actors through various types of policy discrimination,



particularly in terms of work, benefits, resources and services (G. Chen & Chun, 2004; Sanders et al., 2007; L. Zhang, 2007).<sup>297</sup> This has resulted in a solidified and more durable unequal relationship between marginal and non-marginal China, which is best represented by what Wen Tiejun refers to as the ‘three big disparities’ – between regions, income and urban/rural areas (Wen, 2007). At their most extreme, these disparities manifest themselves as seemingly intractable rural impoverishment, and by the early 2000s some nine per cent of the rural population was living in a type of absolute poverty that had become “increasingly impervious to change” (Sanders et al., 2007, p. 30).

Of course, neoliberal development has not only made the rural more marginal in relation to the urban, it has also served to exacerbate local inequality within rural areas themselves. For instance, the widespread privatisation movement in the 1990s and early 2000s has allowed managers and other local elites to buy out (or appropriate) the profitable TVEs that played a vital role in rural China’s industrialisation throughout the 1980s and early 1990s (Herrmann-Pillath, 2009a), thereby transferring nominally public resources to private hands and creating a class of wealthy rural business elites, often with strong ties to local government.<sup>298</sup> At the same time, *in situ* urbanisation, or ‘townisation’ (Guldin, 2001), and increased transportation and communication linkages between rural and urban areas have resulted in many rural spaces having a type of ‘remote proximity’ to urban centres (Harms et al., 2014). While this would seem to break down rural-urban dichotomies and reduce marginalisation, in reality the dichotomies shift, but persist, resulting in the rural being both less and more marginalised. This is because only some rural actors are able to link into centres and access certain elements of urban modernity, while others cannot make these

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<sup>297</sup> The reformulation of the rural as a subaltern and marginal space that is lower on the evolutionary scale can also be seen in popular discourse, with terms such as the ‘left behind’ women, children and elderly being used to depict rural areas as undesirable places only home to those with no escape (Lin, Yin, & Loubere, 2014; Ye, Wang, & Zhang, 2010).

<sup>298</sup> For example, the previous manager of the only natural gas station in the MWT is now its owner and one of the richest people in the township with an annual income of over RMB 1,000,000. He is also the village head of the largest village in the MWT, and has good connections with officials in the township and county (Interview 32).

connections and are thus 'left-behind', becoming even more marginal in relation to other rural actors and the rapidly developing cities.<sup>299</sup> This situation has both reinforced existing local unequal relationships – e.g. between elite and poor households, farmers and businesses, etc. – and has also formed new marginal relationships that were not present before the shift to a neoliberal approach that necessitates and encourages the formation of inequality. Ultimately, therefore, marginal and non-marginal actors and spaces have been increasingly positioned in close proximity to each other, making the rise of extreme inequality more visible and obvious. At the same time, the transition towards a neoliberal mind-set has shifted the responsibility for the unequal nature of these relationships of marginality to the marginal actors themselves, framing them as 'lazy', 'stupid' or 'without ability', and prompting them to 'work harder' and to be more 'clever' in order to escape from their marginal state.<sup>300</sup>

The embeddedness and recent exacerbation of the unequal relationship between rural and urban areas was evident during fieldwork, and, despite the formation of new socioeconomic and socio-political connections with urban areas (see Chapter 6), it was clear that the townships' historical marginal positions in relation to the nearby cities had become more entrenched. For instance, township officials in the DET expressed their desire for urban benefits and services to be extended to rural areas in order to reduce the growing rural-urban development gap, but they conceded that townships and villages now receive less support from higher levels of government than before, making their jobs much harder. They ultimately concluded that programmes like the CXYTH are futile because there are too many rural areas that are very poor, and as urban China gets richer more people will want to move and/or invest there, making it impossible to overcome the historical divide between rural and urban areas.<sup>301</sup> Poor households were also acutely aware of how urban living standards had been improving rapidly in relation to the living standards of those at the margins,

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<sup>299</sup> At the same time, marginal zones have increasingly emerged in non-marginal urban areas, resulting in slums and the emergence of 'urban villages' (*chengzhongcun* 城中村).

<sup>300</sup> Conversation 01; Interview 25; Interview 26; Interview 29.

<sup>301</sup> Conversation 34.

and the head of one household expressed his frustration at the extremity of this discrepancy by pointing out that rural people are even marginal in relation to animals in urban areas, saying:

On the TV I often see people [in the city] spending lots of money to raise dogs and cats as pets, but I think they should use this money to help poor people. So many people are very poor and have hard lives; people are more important than animals! If I could get some help I could finish building my house and rent it to increase my income.<sup>302</sup>

At the same time, as stated above, it was uniformly acknowledged that the gap between the rich and the poor had been increasing within all three townships, with interviewees making statements like:

The income gap has been growing. Now there is labour freedom and freedom to earn money. Those with money can earn more money, and those without money will not earn much. The rich get richer and the poor get poorer.<sup>303</sup>

Of course, these local inequalities were often simply exacerbated versions of longstanding marginal relationships based on historical hierarchies and structures of power at the local level. Indeed, local socioeconomic stratification was reflected in the division of land after the initiation of the household responsibility system, as marginal households received farmland of poorer quality and in worse locations.<sup>304</sup> Additionally, township residents with non-local household registration documents were systematically marginalised through exclusion from local services, such as access to healthcare and formal financial institutions.<sup>305</sup> That being said, the neoliberal-orientation of rural economic management and development strategies has exacerbated this local relational marginality in the three townships in a number of ways. For one, costs have risen across the board

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<sup>302</sup> Interview 59.

<sup>303</sup> Interview 57.

<sup>304</sup> Conversation 07; Interview 17; Interview 33.

<sup>305</sup> Interview 64.

while the income of poor households has stagnated.<sup>306</sup> In particular, the cost of food has increased, causing some poor households to have less food security than during the pre-reform period. Additionally, the fees associated with education have risen substantially, making it difficult for poor households to provide for their children's future success, thus creating the conditions for the continuation of relational marginality into the future.<sup>307</sup> One rural resident in the AT explained how the increasing costs had marginalised his household:

How can we improve our living standards? My grandchildren are now in school and I need to pay the tuition fees for them. Next year my grandson will attend high school in the county where the fees will be higher... We don't spend much on food. We mainly eat what we grow and sometimes buy some meat for our grandchildren. Our main expense has been the schooling fees. Before it was for my children, now for my grandchildren. But now it is too expensive so my granddaughter cannot attend high school.<sup>308</sup>

In addition to food and education, poor households also pointed to housing as a visible indicator of marginality, complaining that their houses were shabby (and sometimes unliveable) in relation to the wealthy segments of society who had all built new houses within the past decade. Even when marginal households were able to get together useful lump sums of capital in order to invest in housing, they were often unable to get permission to build or fix their houses due to their lack of social connections.<sup>309</sup> This situation led the head of one class 4 household in the MWT to ask: "We are all supposed

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<sup>306</sup> Rural people often refer to the cost of pork as an indicator of rising living costs and inflation. In 1958 one *jin* (*jin* 斤; 0.5 kilograms) of pork cost 0.7 *jiao* (*jiao* 角; 0.1 RMB); during fieldwork the price for one *jin* was RMB 12 (Interview 27).

<sup>307</sup> Conversation 34; Interview 26; Interview 51; Interview 76.

<sup>308</sup> Interview 28. It is important to note the durable gender inequality implicit in this statement, as the little money that is available is utilised to provide the grandson, rather than the granddaughter, with an education.

<sup>309</sup> Conversation 38; Interview 33; Interview 52.

to have a 'Xiaokang' life now, but how is this possible if we don't even have adequate housing?"<sup>310</sup>

This local relational marginality was most pronounced in the inequality between farmers and the emerging class of rural entrepreneurs, often with government connections and funded with remittances from migrant work. In the words of one local entrepreneur: "The inequality gap in rural areas is widening because some people have businesses, which earn much more money than farming. Farmers have the lowest status, the hardest lives and earn the least amount of money."<sup>311</sup> To give a specific example of this socioeconomic disparity, one rural resident in the MWT said:

Since the reform and opening the average income in the village has increased by over 10 times. Now people do not want to farm because farming even one *mu* is very hard work and it can only earn RMB 300 [per month]. In the township the average wage for one day of work is RMB 120-130. My son has opened a roast duck restaurant in Shanxi and in one day he can earn RMB 700-800 – some days he even earns RMB 1,000! Doing business is the best way to earn money.<sup>312</sup>

In other words, households who were not able (or willing) to engage in migrant work or open a business have quickly become severely marginalised in relation to those who could.<sup>313</sup> Moreover, the farmers' position has become more precarious since the neoliberal reforms of the 1990s led to the closure of the Agricultural Technology Extension Stations (*nongye jishu zhan* 农业技术站) and the Grain Management Offices (*liangguan suo* 粮管所), which has forced agricultural producers to deal with middle-men on the open market, thereby pushing up the price of agricultural inputs (e.g. seed, fertiliser and pesticides) and pushing down the price of rice.<sup>314</sup> Ultimately, the vast majority of interviewees agreed that farming is

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<sup>310</sup> Interview 36.

<sup>311</sup> Interview 30.

<sup>312</sup> Interview 17

<sup>313</sup> Interview 60; Interview 66; Interview 70; Interview 78.

<sup>314</sup> Interview 58; Interview 74.

hard, risky, backbreaking work, with low remuneration and no security (e.g. health benefits or a pension), and farmers are left in a very tenuous situation in the long term as their health invariably fails due to the gruelling nature of the job.

Of course, as stated above, top-down development interventions aim to reduce these growing inequalities between rural and urban areas, and within rural areas themselves, in order to alleviate some of the most damaging side effects of market liberalisation. However, due to the embeddedness and durability of these development dichotomies at different levels, external interventions have often served to reproduce and strengthen relational marginality rather than eliminate it. Indeed, even basic welfare interventions not based on market-oriented rationalities that explicitly targeted the poor in an attempt to reduce absolute poverty and create a standard level of development were, inevitably, incorporated into sets of unequal marginal relationships. For instance, the Minimum Living Standard Guarantee Programme, which aims to provide a basic level of income for very poor rural households, did not reach its target group in any of the three townships, and instead was distributed to relatively rich households based on existing socioeconomic networks.<sup>315</sup> In the words of one poor household: “We don’t know any officials and have no connections, so we cannot get the minimum living standard guarantee. However, many households that have money and connections are able to get it even though they don’t need it.”<sup>316</sup> Unsurprisingly, therefore, Microcredit, as a neoliberal intervention that necessitates the creation of ‘winners’ and ‘losers’, played an even more explicit role in reproducing marginal relationships, both between rural and urban areas, and within townships – ultimately increasing risk, distress and destabilising the livelihoods of marginal actors in a variety of ways. We now turn to look at how these undercurrents of marginalisation manifested themselves in heterogeneous ways across the three townships.

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<sup>315</sup> AT Contextual Observation Report; MWT Contextual Observation Report; DET Contextual Observation Report; Interview 17; Interview 21; Interview 33; Interview 34; Interview 37; Interview 44; Interview 52.

<sup>316</sup> Interview 51.

### 7.3 Microcredit as Resource Diversion and Extraction

To begin with, it is important to point out that microcredit has actively facilitated the transfer of resources from the marginal to the non-marginal. Of course, Chapter 6 illustrates how the three programmes played different roles in countering the notorious 'scissors gap' by instigating flows of capital, knowledge and technology from central to marginal areas. However, because the programmes were embedded within the wider market-oriented financial system that encourages investment in profitable and secure urban areas over less profitable and risky rural ones, and due to the fact that their implementation was shaped by unequal structures of power at the local level, the PAMP, EMP and RCCMP also facilitated the diversion of resources to local non-marginal actors (often depicted as 'elite capture'), and the extraction of resources from the villages/townships to urban areas. Ultimately, these processes of diversion and extraction undermined much of the de-marginalisation outlined in Chapter 6.

For instance, while it is true that the PAMP in the MWT and the DET represented an inward flow of financial capital from the more central provincial MoF to the relatively marginal county governments, the funds were originally intended to be disbursed to even more severely marginal poor households. Therefore, the PAMP was effectively diverted from the very marginal to a relatively non-marginal (and actually quite powerful) local actor. Similarly, the EMP facilitated capital transfers from the central MoF to local financial institutions in order to pay the interest payments on loans to marginal actors. However, while this de-marginalising goal was accomplished, in all three townships the EMP required that borrowers have guarantors with connections to the local governments, thus ensuring that only the relatively well-connected and non-marginal local actors would be able to get loans. For instance, in the MWT the EMP was only provided to actors with close connections to the township MoHRSS official in charge of implementation and a sufficient amount of savings to ensure repayment. In the AT the FC was composed of the elite village households, including the village secretary. Additionally, the use of the EMP for onlending in the MWT and DET – primarily to those excluded from the formal financial system – represented the transfer (or 'capture') of capital from the marginal (and often desperate, see Section 7.5) to the less marginal through the payment of high interest rates on loans that were originally interest free.

The RCCMP, on the other hand, has (nominally) served to slow down the direct rural to urban capital outflow of RCC deposits that occurred in the 1980s and 1990s by mandating that RCCs lend at least 60 per cent of their savings within the township (see Chapter 2).<sup>317</sup> However, with the exception of the DET (to a certain extent), the RCCMP funds have largely been funnelled to relatively non-marginal actors, primarily due to the neoliberal imperative pushing the RCCs to achieve ‘financial sustainability’. In the AT, for instance, RCCMP borrowers were required to have a good credit score and the approval of RCC employees. This meant that only (relatively) rich farmers with substantial resources at their disposal and good local connections were able to get the loans in order to scale-up their activities. In the MWT, on the other hand, the entire amount earmarked for the RCCMP was diverted to the largest construction company. While this did serve to de-marginalise both the company and the RCC manager (see Chapter 6), it also represented a diversion of financial capital meant for rural households and small enterprises, to the largest and least marginal business in the township.<sup>318</sup> This has substantially changed the role of the RCCs, as in the 1980s and 1990s farmers were able to get small RCC loans in order to buy seed and fertiliser.<sup>319</sup> One poor household described the situation by saying: “Only the rich who don't need loans can get them but the poor who need them cannot.”<sup>320</sup> And the owner of the MWT construction company conceded that, due to the focus on ‘financial sustainability’, the RCC is now

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<sup>317</sup> The policy clearly states that 60 per cent of local deposits should be lent through the RCCMP. However, one county level official pointed out that the restructuring of the financial system has put RCCs under the administration of county and provincial unions, saying: “All branches of the RCC are part of the same system, so the county can mobilise township savings and redeposit them in a higher level branch... This is not a great help for rural development” (Interview 07). For more on this restructuring and the de-localisation of the RCCs, see (Loubere & Zhang, 2015).

<sup>318</sup> It should be noted that the RCCMP in the MWT also fed into local corruption, as the company was required to spend approximately 10 per cent of the entire loan capital in ‘entertainment’ costs in order to ensure continued receipt of the credit (Interview 45).

<sup>319</sup> Interview 17; Interview 32; Interview 34; Interview 35; Interview 36; Interview 51.

<sup>320</sup> Interview 33.



“Suspicious of the poor but loves the rich” (*xianpin aifu* 嫌贫爱富).<sup>321</sup> Ultimately, therefore, while the three programmes undoubtedly managed to de-marginalise certain local actors in relation to less marginal actors at higher levels, these same beneficiaries could also be considered non-marginal in relation to other more marginal actors, many of whom were the original stated targets of microcredit. Simply put, the microcredit programmes diverted funds towards local ‘winners’, which allowed them to continue to accumulate resources and solidify their local elite status, and, in this way, the programmes served to reproduce certain marginal relationships, e.g. county vs. household, elite vs. non-elite, business vs. farmer, etc., rather than eliminate them.<sup>322</sup>

In addition to exacerbating local relational marginality through the diversion of microcredit funds, the programmes have also served to aggravate the unequal relationship between the townships and urban areas by facilitating the outflow of valuable resources. For instance, while the largest construction company in the MWT has invested in some local infrastructure projects, thus promoting local employment, the vast majority of its business is conducted outside the township, often in more urbanised areas with higher returns on investment. Moreover, the company primarily invests in speculative infrastructure, such as commercial real estate, rather than more ‘productive’ transportation or communications infrastructure. In other words, the company essentially takes local capital (primarily local household deposits) and transfers them to less marginal areas in search of quick

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<sup>321</sup> Interview 45.

<sup>322</sup> As stated in earlier chapters, this is widely depicted as systemic ‘elite capture’ of subsidised credit (L. Ong, 2011; Park & Ren, 2001). However, this is misleading for a couple of reasons. First, the elites ‘capturing’ the microcredit are different in each locality, therefore the suggestion of a uniform local elite class does not really exist. Second, these local elites can also be considered to be marginal in relation to actors at higher levels, and since the programmes are designed to be implemented flexibly, they are often just as eligible (if not more so) to receive the credit than more marginal actors, even if they are not the original stated targets. Therefore, ‘elite capture’ cannot be blamed solely on local corruption or poor implementation, but instead should be understood as a reflection of relational marginality at different levels that are a fundamental feature of the neoliberal orientation of microcredit.

profit.<sup>323</sup> This trend of investing the loans and/or profit made through the loans outside the townships, often in more profitable urban areas, was common across the programmes and localities. For instance, in the AT some members of the FC used their earnings from the vegetable greenhouses to purchase urban investment properties and RCCMP borrowers used the loans to rent land in neighbouring townships. Meanwhile, in the MWT EMP borrowers often used the loans to invest in businesses outside the township, with some even using the funds to 'play' the stock markets in Shenzhen and Shanghai.<sup>324</sup>

Moreover, even the forms of de-marginalisation resulting from increased socioeconomic and socio-political interconnectedness between the townships and urban centres/markets outlined in Chapter 6 are not necessarily durable or sustainable. For instance, the owner of the largest components factory in the DET said that his profits have been decreasing due to competition and rising costs, and indicated that in the future he may opt to move to an even more marginal area with lower costs,<sup>325</sup> thus eliminating jobs that local people have come to rely on and extracting the investment that was made possible through local deposits and subsidies. The owner of the construction company in the MWT also complained about the 'grey' costs of gaining access to the loans (i.e. bribes and 'entertaining'), and did not rule out moving in the future if a better opportunity arose elsewhere.<sup>326</sup> More troublingly, it was not clear from the interview whether or not the construction company actually repays the entire loan at the end of each loan term, or if it simply pays the interest and indefinitely postpones the repayment of the loan capital as so often happens with RCC loans to large industry and local governments (L. Ong, 2006). Therefore, the diversion of the funds earmarked for the RCCMP to the construction company ultimately represents a low return on investment of local deposits (because of the

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<sup>323</sup> Interview 45.

<sup>324</sup> Interview 23; Interview 25; Interview 31; Interview 32; Interview 38. The RCCMP in the DET is probably the best example of microcredit retention due to the more dynamic local business atmosphere.

<sup>325</sup> Interview 53.

<sup>326</sup> Interview 45.

below market interest rate of five per cent) that may not even be fully repaid and is, for the most part, not reinvested into the local economy.<sup>327</sup>

Additionally, while the microcredit programmes did facilitate certain types of knowledge and technology transfers from 'more developed' areas to the townships (see Chapter 6), they also indirectly facilitated the extraction of local talent and associated resources. Indeed, children's education was a priority for households across the three townships and paying for school fees and materials often necessitated borrowing money, either from microcredit or informal sources. However, none of the three townships had a high school, meaning that children needed to move to the county in order to study, and attending university obviously entailed moving to the city. Therefore, in order to ensure a high quality education for their children, rural households were required to transfer large amounts of financial capital to urban and peri-urban areas to pay for fees, materials and living expenses (which are significantly higher than living expenses in the township). More importantly, this situation resulted in the most accomplished rural students leaving the township (at least those who could afford to) and often permanently relocating to urban areas for work. While this may have been good for individuals and their households, it also resulted in the extraction of human resources from rural areas, thus further marginalising the townships more generally. Moreover, while some successful children were able to get good jobs and remit financial capital back to the townships, more often entire rural households and extended families needed to continue to send money to the children to help pay for oppressively expensive housing in the cities, which was seen as a family investment and a necessity in order for the children to find a spouse.<sup>328</sup> In other words, while the loans did aid in the 'self improvement' (i.e. 'self de-marginalisation') of local actors through increased

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<sup>327</sup> Better examples of sustainable local investment through large companies were the SOE farm in the MWT and the large tea company in the DET, both of which borrowed from urban banks for large-scale investment at the local level (Conversation 11; Interview 49; Interview 75). However, even these examples also have their own undercurrents of marginalisation in the form of severe pollution, which ruins the health and livelihoods of local farmers, as well as coercive practices employed by the companies in collusion with local governments to push farmers off their land without sufficient compensation (Conversation 06; Conversation 07).

<sup>328</sup> Interview 60.

access to education, they also facilitated the extraction of money, energy and skills from the townships to non-rural areas.

Ultimately, therefore, the programmes reflected some of the fundamental characteristics of a neoliberal version of the linear progression development paradigm. Namely, that more resources should be distributed to local 'winners' so that they can continue to push forward development through further integration into the market system; and that resources should flow to urban areas where investments are more secure and profitable. In this way, microcredit was a facilitator of flows of capital and knowledge from the centres to the margins, but only within a logic that necessitated the ultimate repatriation of the original resources back to the centre along with additional valuable resources that had previously been held at the local level, resulting in overall exacerbation of the marginal relationship between rural and urban areas.

#### **7.4 Microcredit as Exclusion**

At the heart of these processes of diversion and extraction are shifting patterns of socioeconomic inclusion/exclusion at the macro, meso and local levels that are implicit in the phenomenon of relational marginality. With regard to microcredit in the three townships, this meant that, while certain actors were 'financially included' and thus de-marginalised through the formation of new socioeconomic/socio-political linkages and integration into the wider market system (see Chapter 6), other actors were simultaneously marginalised due to their exclusion. This inclusion in, or exclusion from, the microcredit programmes often reflected both longstanding durable inequalities and more dynamic unequal relationships based on local contexts and political economies.

For instance, microcredit implementation was embedded in the unequal relationship between different levels of government, with higher-level (more urban) governments often having the ability to dictate inclusion and exclusion from the programmes. Most obviously, the non-implementation of the PAMP in the MWT and DET represents the countywide exclusion of both the township's PAOs, which should have been responsible for the funds – as well as the poor rural households, who should have been the recipients of

the credit. County PAO officials justified this inclusion of the non-marginal county at the expense of the exclusion of the more marginal township and village actors by saying that the microcredit funds would be wasted on the poor/marginalised households in the poverty-stricken villages because they did not believe microcredit was an effective development strategy. Instead, they advocated consolidating the microcredit funds at the 'more developed' county in order to fund development projects whose benefits would 'trickle-down' to the marginal areas/actors in the long term (see Chapter 4). The unequal relationship between business and farming was also reflected in exclusion from the programmes. This is because farming is an inherently risky activity with relatively low returns on investment. This means that it is difficult for farmers to predict if or when they will be able to repay loans, rendering them unattractive borrowers for officials and financial institutions increasingly pressured to operate in a 'financially sustainable' way. Businesses (particularly larger businesses), on the other hand, are both more profitable and more able to predict future cash flows, and are thus a safe bet for financial institutions lending based on market logic and requiring repayments on a strict schedule. Finally, non-locals were also systematically excluded from the programmes, as township or county financial institutions required local household registration documents for all loan applications.<sup>329</sup> Therefore, in order to engage in entrepreneurial activities, 'outsiders' either needed to borrow from the financial institutions in their hometowns, or borrow informally at higher rates of interest.<sup>330</sup>

Gender was also an important point of exclusion, as the vast majority of loans were taken out by household heads who were invariably male.<sup>331</sup> This was primarily due to the fact that the institution of the household in rural

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<sup>329</sup> Of course, this requirement was conspicuously absent with regard to large or wealthy actors, such as the non-local construction company in the MWT or the components factory in the DET.

<sup>330</sup> Conversation 12; Interview 48; Interview 62; Interview 64. Often, it is also difficult for non-locals to borrow informally, as they do not usually have large *guanxi* networks and are thus considered to be untrustworthy.

<sup>331</sup> This is in contrast to the global microfinance movement that overwhelmingly targets women operating in joint-liability loan groups in an attempt to promote female empowerment and challenge the durable inequality between the genders (Maclean, 2013; Marr, 2012; Sanyal, 2014) (see Chapter 1).

China, and its formalisation through the household registration system, “is patriarchal, patrilineal and virilocal” (Jacka, 2013, p. 1001), as marriage requires a female to leave her family and join her husband’s family, both physically (often in a different township) and legally (by joining the husband’s household registration documents).<sup>332</sup> Since the household registration documents were used to apply for microcredit (or any other loan), the vast majority of loans were disbursed to the head of the household, who was a male. Technically, of course, females could apply for loans themselves, as long as they had a local household registration and met all the requirements. However, in practice, 90 per cent of all loans went to males.<sup>333</sup> Indeed, the subordinate (and marginal) position of the female within this system is clearly demonstrated by the fact that if a local woman marries an outsider and brings him to live in the township, neither of them can access formal sources of credit locally because they would have a non-local household registration.<sup>334</sup> Moreover, if one member of the household defaults on a loan, then no one else with the same household registration can borrow. This adversely affects females, especially those who are separated from their husbands but not officially divorced.<sup>335</sup>

Of course, inclusion in the programmes was also highly dependent on socioeconomic status, and almost everyone I spoke to confirmed that without *guanxi* it is impossible to get any kind of credit, particularly subsidised microcredit. One household in the AT described this need for social connections to get the RCCMP by saying:

Borrowing from the RCC is very difficult. It is necessary to have a guarantor, and if you want to borrow smoothly you should also have a good relationship with the workers in the RCC. The RCC charges interest, but in addition it is necessary to provide a ‘commission’ [i.e. a bribe]. The amount of the ‘commission’

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<sup>332</sup> Interview 26; Interview 39.

<sup>333</sup> Conversation 34; Interview 07; Interview 10.

<sup>334</sup> Interview 62.

<sup>335</sup> Interview 61. More importantly than losing the right to credit, separated or divorced women often lose their rights to joint property, which is, again, often solely in the name of the head of the household (Conversation 23; Interview 42).

depends on the amount of the loan... most households cannot meet the conditions to get a loan.<sup>336</sup>

While the ability to utilise socioeconomic status to get loans often coincided with material wealth, even relatively well-off households were excluded from borrowing if they did not have connections with the right people.<sup>337</sup> For instance, the owners of the largest village shop in the AT did not have good connections with the village or township governments, so they were forced to borrow from financial institutions in the county at higher rates of interest and using their car as collateral. When asked if they wanted to access the EMP or RCCMP they said:

Of course we wish we could get this type of microcredit! If we had easy access we could use this money to restock our store and the loans could also be used to purchase pesticides and fertilisers for farming... However, we haven't even applied because we have no money, don't know people, and have no *guanxi*, so they will not accept our application... if the process was more open and fair we would apply for the EMP.<sup>338</sup>

On the other hand, households with good connections but who did not actually meet the loan criteria were often still included. One such borrower explained this situation by saying:

To apply for the EMP it is necessary to have a laid-off worker certificate. I have no formal employment in a company, and I have a rural household registration, so I could get the certificate, as they didn't know that I have a small shop. It is also necessary to have a guarantor with a formal job whose salary comes from the MoF [i.e. related to the government]... My guarantor is the head of family planning in the township. He is a good friend, we often go out drinking together.<sup>339</sup>

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<sup>336</sup> Interview 24.

<sup>337</sup> This mirror's Ane Bislev's findings (Bislev, 2010).

<sup>338</sup> Interview 27.

<sup>339</sup> Interview 30. And sometimes those with good connections do not even need to repay, with one household saying: "Those with good *guanxi* can borrow money from the RCC and never repay because they know the RCC director. RCC directors usually stay for four years, so these people can just

Ultimately, therefore, these forms of exclusion both reflected and reinforced local structures of power and pre-existing marginal relationships, while also facilitating the creation and strengthening of linkages between local political/economic elites and individuals/groups at higher levels, thereby making local inequalities more durable and further marginalising the unconnected through exclusion from credit and from social networks.

At their core, of course, the different patterns of inclusion/exclusion outlined above were characterised by differentiated amounts and types of knowledge. Indeed, excluded groups and individuals were often unaware of the existence of microcredit, or other formal financial services for that matter.<sup>340</sup> At the same time, knowledge about the microcredit programmes was often carefully managed by relatively non-marginal actors, and in some cases this knowledge was clearly considered to be a resource worth protecting. For instance, members of the FC in the AT withheld information about the EMP and their involvement in the programme from other villagers, and one member of the FC even lied to my research assistant and me about his investment in vegetable greenhouses.<sup>341</sup> In the DET, on the other hand, the RCC manager refused to speak with me about the RCCMP because he “did not want too many people to find out about how good the programme is and then apply.”<sup>342</sup> For this reason, only certain actors with the right connections (albeit different actors in each township) were able to gain knowledge about the different programmes and gain access.<sup>343</sup> In the words of one excluded and knowledgeless actor in the AT: “I don’t know about any microcredit projects. Only the village leaders know about this and they do not publicise it in the village – they will not declare it.”<sup>344</sup>

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wait until the director has gone and then they forget about the loans” (Interview 76).

<sup>340</sup> Conversation 09; Conversation 12; Interview 28; Interview 36; Interview 39; Interview 44.

<sup>341</sup> AT Contextual Observation Report; Interview 04.

<sup>342</sup> Conversation 22.

<sup>343</sup> Interview 35; Interview 39.

<sup>344</sup> Interview 28.



At the same time, even when they were aware of the programmes' existence, the excluded often lacked the types of 'modern' knowledge necessary to take advantage of microcredit or the formal financial system more generally. Indeed, even non-borrowing households with sophisticated understandings of how to use formal finance found the microloan application process to be complex and confusing, with one local entrepreneur in the MWT saying:

The application process [for microcredit] is complicated. You need to provide a business license, bank account information, your identification card, household registration, and other documents. You would think this would allow you to borrow RMB 400,000 - 500,000, but actually it is only for RMB 100,000. Of course, for wealthy people these conditions will be relaxed.<sup>345</sup>

Therefore, marginal households without this type of 'modern' knowledge often dismissed the idea of applying for loans out of hand, saying things like: "We don't have any education, so we don't understand anything."<sup>346</sup> This resulted in many of the local poor avoiding the formal financial system altogether and operating primarily in cash, as long-term savings and borrowing with set repayment dates did not fit their lifestyle.<sup>347</sup> For example, in the DET there was a migrant family of Hui ethnicity (*huizu* 回族) operating a small restaurant. All the family members were illiterate, making it difficult for them to keep track of finances in a 'modern' way and nearly impossible for them to utilise formal financial services. Therefore, rather than save or borrow from formal institutions, they lived day-to-day without a systematic method of accounting. When members of their wider social network (many of whom lived in nearby cities and counties) needed money, they transferred what they could to them. Similarly, when they needed larger lump sums they relied on their social network. However, this was not recorded in a financialised way and, as Muslims, they did not charge or pay interest on these 'loans'. Instead, financial capital was seen as a relatively uncountable resource that existed within the network rather than being owned exclusively by individuals or households.<sup>348</sup> While this form of social and economic

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<sup>345</sup> Interview 40.

<sup>346</sup> Conversation 17.

<sup>347</sup> Conversation 09; Interview 33; Interview 36; Interview 52.

<sup>348</sup> Interview 64.

organisation suited the Hui household, it was obviously not conducive to borrowing from a formal financial institution.

In other words, the excluded were perceived to be temporally marginalised and 'backward' due to their lack of 'financial consciousness', and the types of knowledge they did possess were considered undeveloped and not useful for inducing a neoliberal version of linear progressive development. Ultimately, therefore, local society in the three townships was segmented based on differentiated understandings of 'modern' financial services, with some actors having sophisticated knowledge of how to mobilise resources through the formal financial system (i.e. some even had credit cards from urban banks),<sup>349</sup> while others have maintained 'traditional' modes of communal financial organisation that are not conducive to participation in the new 'developed' market economy. In this way, knowledge of the existence of (and how to access) microcredit programmes specifically, and the formal financial system more generally, has divided rural areas into 'haves' and 'have-nots' (roughly corresponding with the 'winners' and 'losers' that have emerged from marketisation), thus facilitating the further de-marginalisation of local elites at the expense of, and in relation to, the relatively powerless and knowledgeable marginal segments of local society.

Of course, lack of knowledge was not the only reason for exclusion from the programmes, and plenty of local actors were aware of the existence of microcredit and had the 'modern' knowledge necessary to apply, but were either directly excluded through rejection or indirectly excluded in more subtle ways. In particular, similar to Ane Bislev's findings with regard to NGO microcredit programmes and the PAMP in the early 2000s (Bislev, 2010, 2012), much of the exclusion in the three townships was the result of actors excluding themselves (i.e. self-exclusion) from even applying for microcredit (particularly middle-income households). In many cases, this was because households relied on remittances and had no use for loans, as they were not engaged in entrepreneurial activities.<sup>350</sup> In the words of one small-scale farming household in the AT: "We don't need the loan because we are just

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<sup>349</sup> Interview 50.

<sup>350</sup> Interview 17; Interview 23; Interview 31; Interview 34; Interview 39; Interview 41; Interview 44.

farmers. We don't want to run a business, so the loan is unnecessary."<sup>351</sup> Others excluded themselves because the application process for the microcredit programmes was perceived to be too troublesome and time-consuming, and informal sources of credit were easier to access and had lower transaction costs. Two self-excluded local actors in the DET and MWT expressed this sentiment by saying:

I know about the EMP because I saw the government propaganda about the programme, but I think it is too annoying and complicated. First it is necessary to get proof of unemployment from the village, then apply to the county government. Very troublesome, I don't want it.<sup>352</sup>

And:

Now there are not many people who borrow money from the bank, unless they want to do business. No one borrows money for living expenses. Currently, if you work hard you can survive independently... We don't do business so we don't need a loan. Borrowing from the RCC is very troublesome, I prefer to save my energy and borrow from other sources. It is too annoying and complicated to provide collateral or get a guarantor... If I need money urgently, I won't go to the bank, I will borrow from my friends or family.<sup>353</sup>

Indeed, many households pooled financial resources within their social networks (i.e. variations on the traditional ROSCA), and in this way provided and accessed informal sources of credit without interest or delay during times of need, but in more 'modern' financialised ways than the Hui migrants mentioned above.<sup>354</sup> Additionally, it is important to mention that many rural households were uninterested in borrowing formally because they did not want to go into debt, which they perceived as risky and potentially

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<sup>351</sup> Interview 28.

<sup>352</sup> Interview 58.

<sup>353</sup> Interview 39.

<sup>354</sup> Interview 34; Interview 41; Interview 44; Interview 47; Interview 66. Some local actors did point out, however, that informal loans come with their own transaction costs related to returning the favour, sometimes at inopportune moments (Interview 50; Interview 60).

dangerous. Households were especially wary of using their houses as collateral, as losing their homes would undoubtedly result in future marginalisation.<sup>355</sup>

Of course, as stated above, other households did want to borrow but decided against applying for loans because they knew their applications would be unsuccessful, primarily due to a lack of *guanxi*. However, the poorest and most marginalised households often did not have social networks that they could rely on for informal loans in times of great need. Therefore, despite the knowledge that they would likely be rejected, the most marginal sometimes desperately (and usually unsuccessfully) turned to the microcredit programmes as a source of financial capital in times of crisis. For instance, one poor household in the MWT was in the middle of building a new house when the son became seriously ill, necessitating expensive hospitalisation. The household borrowed from every source available to cover the medical bills and continue building their house, as they were living with a neighbour (i.e. essentially homeless) until the new house was complete. Unfortunately, the amount they were able to borrow from friends and family was not sufficient, so they applied to the numerous times RCC for loans. Unsurprisingly, the RCC rejected every loan application, as the household was not perceived to have the ability to repay, and was, thus, considered to be a risky borrower.<sup>356</sup> This type of rejection and exclusion from microcredit programmes that were perceived to be meant for the most marginal segments of the society understandably caused resentment and anger, which was often framed in terms of class conflict. For instance, one group of excluded day labourers said:

We cannot get loans. If we want to borrow we need to find a guarantor and have collateral... Guarantors must have money, and only those in a good situation can make contact with the RCC – only 10 per cent of people are in a good situation, while 90 per cent are in a bad situation.<sup>357</sup>

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<sup>355</sup> Interview 02; Interview 22; interview 27; Interview 39.

<sup>356</sup> Interview 51.

<sup>357</sup> Interview 35.

And the disabled head of one of the poorest households in the MWT described his exclusion from microcredit by saying:

It is very difficult for us to borrow money because we have no *guanxi*. The poorer we are, the harder it is to get a loan. The EMP is like the 'icing on the cake' for the rich, but it does not provide the poor with any temporary relief.<sup>358</sup>

Frustration with the RCC was also visually expressed in graffiti playing on official slogans. For instance, in Figure 7.1 below the official slogan stating that the RCC is the 'rural people's bank' was changed to say that the RCC was actually interested in 'getting rich first' (or serving the rich). This was obviously a play on Deng Xiaoping's famous quote – 'let some people get rich first' – and highlighted the exclusion implicit in the requirement for RCCs to be 'financially sustainable' and profit-seeking. However, during interviews the excluded and marginalised usually (but not always) stopped short of blaming overarching development policy or the central government, and instead pointed the finger at local implementers – holding them accountable for 'ruining' good central policies through corrupt local practices.

**Figure 7.1:** Graffiti on an Advertisement for the RCC in the AT



<sup>358</sup> Interview 33.

Based on the above, it is clear that, while microcredit has played a role in de-marginalising certain segments of local society by including them in modern (urban-based) networks and modes of socioeconomic operation, it has simultaneously served to consolidate power and resources in the hands of local political and economic elites. At the same time, it has excluded marginal individuals and groups from potentially transformative livelihood opportunities and access to vital capital to cover expenses during crises. The most obvious example of this type of exclusion from opportunity was the EMP in the AT, which allowed the 12 members of the FC to invest in highly profitable and risk-reducing vegetable greenhouses. Indeed, in this case the microcredit represented more than just financial capital – it represented inclusion into the ‘developed’ vanguard at the local level, and many of the villagers took the exclusion personally. For instance, the head of one household described the FC by saying:

Now there are greenhouses made of steel, but we normal people cannot join the FC and plant our crops in them. Only officials and party members can do this. We want to join the FC but are not given a place... There isn't any way for us ordinary villagers to participate, we cannot fight with them. In my heart I am unhappy and uncomfortable, but the greenhouses are limited and I cannot join.<sup>359</sup>

Similarly, access to credit was identified as a crucial factor in the ability to go into business, and thus improve livelihoods, with one household stating: “Doing business is impossible without access to capital.”<sup>360</sup> In other words, excluded households were often relegated to pursuing farm work as a livelihood strategy, which, as stated above, is much less profitable and much more difficult than operating a business.

Of course, this type of ‘elite capture’ is unsurprising as microcredit inherently seeks to fund ‘winners’ at the local level in order to instigate bottom-up development, and is, in this way, simply a reflection of the wider neoliberalisation of the rural economy and development landscape.

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<sup>359</sup> Interview 28.

<sup>360</sup> Interview 30.

Therefore, exclusion from the programmes is better understood as being a symptom, rather than a cause, of marginal relationships at different levels, which are themselves shaped by, and embedded within, the neoliberal version of the linear progression development paradigm. For instance, the systematic devaluation of local modes of socioeconomic organisation and the labelling of local forms of knowledge as 'backward' has created a situation where marginal places and people are not considered to be suitable borrowers, particularly in a market-based 'financial systems approach' to providing microcredit. Indeed, exclusion from microcredit is just one manifestation of wider socioeconomic exclusion from the 'winning' side of post-reform China's rapid development and modernisation. Many of the excluded rural actors I spoke with, and particularly those who were most desperate to get credit, were already in significant amounts of informal debt to others in the community (often failing to repay for years), and were seeking loans to meet basic needs, to survive or to get through a crisis. Because of this they did not have a plan for how these loans would be repaid, and they also would have agreed to pay very high rates of interest.<sup>361</sup> To put this another way, many actors were already locked into destructive debt cycles due to their marginal status in relation to 'successful' segments of the society, and the extension of additional credit would have done little to address the underlying reasons for their marginality,<sup>362</sup> and could actually cause more harm than good.<sup>363</sup> Therefore, this chapter does not mean to suggest that the solution to the exclusion outlined above is simply inclusion into the microcredit programmes, as in reality this could serve to further marginalise the already marginal and desperate actors described in this section.

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<sup>361</sup> Interview 33; Interview 35; Interview 36; Interview 59.

<sup>362</sup> This point was made in detail by county level PAO officials, who suggested expanding basic social services and welfare rather than providing credit, see Chapter 4.

<sup>363</sup> See (Taylor, 2012) for an example of how widespread 'financial inclusion' caused devastating results in India.

## 7.5 Microcredit as Precarity, Risk and Exploitation

Just as exclusion from microcredit was, in reality, a reflection of wider marginalisation, inclusion into the programmes was also mediated by marginal relationships at different levels. For this reason even involvement in the microcredit programmes often reinforced social pressure, risk, distress and the exploitation of marginal actors, thus exacerbating already precarious livelihoods and pushing the relatively powerless further to the margins. For instance, in some cases the microcredit programmes added significant amounts of pressure to the already stressful jobs of local implementers. As stated in Chapter 4 and Chapter 5, implementers in the MWT and the DET saw the EMP as a time-consuming challenge that had the potential to negatively impact their career prospects and future livelihoods, and therefore determined that the implementation of the programme needed to be navigated skilfully. Especially in the MWT, where the EMP had a quota imposed by the county with strict orders to ensure repayment, the local implementer was the marginal actor in relation to his superiors in the county MoHRSS, and was essentially forced to use valuable time and livelihood resources (e.g. social capital) in order to ensure that the entire EMP quota was lent out and repaid on time. However, despite the fact that he was required to do all the work and take the risks to his career, it was his relatively non-marginal county superiors who gained all the benefits from the programme in the form of the cash reward from the province for full repayment.

At the same time, microcredit often put significant amounts of pressure on borrowers. Indeed, just as credit has the potential to positively impact livelihoods, its corollary – debt – can represent stress and even danger to borrower livelihoods in certain situations. As stated previously, in all three of the townships, poor and marginal households often sought loans (both formal and informal) to cover livelihood necessities, such as housing, education for children and medical expenses. These loans were often taken out of desperation, because the households had no other place to turn for the necessary financial capital to cover these expenses. Obviously, in these cases the poor knew that credit was not the real solution to their problems, and they tried to avoid debt as much as possible. The head of one marginal household described his perception of debt by saying: “When I have no money I think about borrowing from somewhere, but borrowing means repaying and the interest is very high. I can’t repay the interest let alone the



capital, so I don't dare to borrow!"<sup>364</sup> However, when there was no other option and the need for financial capital was unavoidable, households borrowed where possible, either from formal or informal sources. Unsurprisingly, therefore, marginal households often had great difficulty repaying loans on time or at all. Indeed, in all three townships there were examples of poor and desperate households borrowing from the microcredit programmes or from informal lenders locally to cover basic expenses and necessary projects. Unfortunately, however, credit often only covered parts of their projects – e.g. a half-completed house, part of a medical treatment, etc. – and, therefore, after default they were left in debt, labelled as untrustworthy for not repaying, and, to make matters worse, had not even fully acquired the thing that they so desperately needed to borrow for in the first place.<sup>365</sup>

Microenterprises also often found the debt from loans to be oppressive, as the earnings from small business could be variable and unpredictable. In this way, microenterprises, similar to farming, were not always suited to strict repayment timetables, and even the subsidised interest could be difficult to repay with meagre profits. This situation caused stress for small business-owners across the three townships (especially in the DET due to the more easily accessible RCCMP), with some even losing their microenterprises upon default and being forced to turn to more difficult, risky and less profitable farming.<sup>366</sup> Even the more successful larger businesses were sometimes pushed into instability and precariousness due to the microcredit schemes. For instance, some of the operators of the components factories in the DET said that the formal credit they were able to gain access to from microcredit and other sources was not enough to ensure that they maintained a sufficient amount of operating capital. This was because the factories often had to front substantial amounts of capital in order to buy the components and even pay for the shipping costs themselves before being reimbursed at a later date. In other words, they were in a marginal

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<sup>364</sup> Interview 72.

<sup>365</sup> Interview 31; Interview 33; Interview 36; Interview 52; Interview 59; Interview 66. This situation went from bad to worse when a household's main income earner became unable to work or passed away.

<sup>366</sup> Conversation 04; Interview 42; Interview 59; Interview 60; Interview 76.

relationship with the larger factories in the less marginal Zhejiang Province, and therefore had no choice but to take on a majority of the up-front expenses and the risks. Moreover, because the loan process often took time (particularly for the EMP), businesses were sometimes left in limbo at crucial moments, being forced to go into debt at higher rates of interest from informal sources or sell off assets in order to continue their business balancing act and stay afloat.<sup>367</sup> While the rural financial landscape currently has few formal lending options covering rural households and enterprises during times of need or distress, this is quickly changing with the formalisation of MLCs and VTBs, and their rapid expansion at the county level (see Chapter 2). However, these institutions are often little more than formalised loan sharks, often mainly catering to gambling debts and charging interest rates of over 50 per cent per year.<sup>368</sup> If these new commercialised institutions start to penetrate the townships, it is possible that rural China may see more 'financial inclusion'. At the same time, however, MLC and VTB expansion would likely subject rural areas to the types of exploitative and aggressive lending practices associated with the microcredit industry in other parts of the 'developing world', which has been widely shown to increase suffering and facilitate further marginalisation (Bateman, 2010; Hickel, 2015; Taylor, 2011).

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<sup>367</sup> Conversation 24; Interview 53.

<sup>368</sup> Conversation 35; Conversation 41.

**Figure 7.2:** A Recently Opened MLC in the County of the DET



The distress resulting from exclusion from the programmes, or inclusion resulting in heavy indebtedness with no solution in sight, often led to despair and hopelessness, and ultimately played a role in the formation of marginal livelihood identities that were positioned in subordination to the identities of ‘successful’ borrowing members of local society. Some of the excluded actors saw their inability to get credit as a symbol of their lower socioeconomic status, and sought to gain access – not for projects or investment, but in order to feel included in the ‘successful’ strata of society.<sup>369</sup> This is because the poor were usually embarrassed by their socioeconomic positions and sought to hide their problems from others. For instance, the disabled head of one of the poorest households in the MWT

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<sup>369</sup> Interview 35.

tried to avoid talking about his health or housing problems with others in the village, saying: “My hardships are something only I know.”<sup>370</sup> When they were able to borrow, the poor were especially embarrassed by their inability to repay, stating that it caused them to lose face with their neighbours and other people that they had to interact with daily. For instance, the head of one poor household in the DET said:

Because I defaulted on loans in the past I am no longer able to borrow... In total I borrowed between RMB 150,000 - 160,000, some from the bank and some informally, including borrowing materials for building my house... Now the people I borrowed from come to ask me to repay, but I have no money, I feel very embarrassed.<sup>371</sup>

Interestingly, these marginal households were often the only ones with revolutionary-period decorations and/or pictures of political leaders from the pre-reform era (e.g. Mao Zedong and Zhou Enlai). They also often talked about how life was more fair before the reforms – i.e. the adoption of a neoliberal version of the linear progression development paradigm – and how local political leaders are no longer trustworthy, essentially identifying themselves with the old order as a statement against their exclusion from China’s post-reform development.<sup>372</sup> Ultimately, these marginal households were pessimistic about their future, and excluded themselves from the widespread narrative of beneficial progressive development coinciding with rapid economic growth that most people had adopted.

In addition to negatively impacting on the livelihood strategies and outcomes of individuals and households, research has also observed the potential for microcredit to break down local forms of social cohesion, thereby damaging local societies and economies (Bateman, 2010; Maclean, 2010). During fieldwork, both implementers and borrowers echoed this critique by stating that Grameen-style joint liability loan groups were unsuitable in the context of rural China, and expressing fear that local ‘harmony’ could be damaged if one group member defaulted on a group loan forcing others to pay their

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<sup>370</sup> Interview 33.

<sup>371</sup> Interview 59.

<sup>372</sup> Interview 33; Interview 51; Interview 59, Interview 72.

share.<sup>373</sup> However, despite the fact that the programmes shunned the group-lending model, microcredit still managed to subtly undermine social cohesion in the three townships in indirect ways. In particular, as stated in Chapter 6, the provision of microcredit resulted in increased informal lending, including the profit-oriented onlending of subsidised credit from non-marginal to marginal actors at higher rates of interest. While this was potentially beneficial for actors unable to get formal credit, it also led to usurious and exploitative loan sharking, which took advantage of desperate marginal households with nowhere else to turn. One household described their previous interaction with a loan shark by saying: “I borrowed from a loan shark at 2 points. For RMB 10,000 I had to pay RMB 200 per month [24 per cent per year].”<sup>374</sup> Others said that loan sharks can even charge interest rates of up to 150 per cent annually, either for cash loans or loans of materials and labour for building houses.<sup>375</sup> Obviously, this type of increased informal financial activity at high rates of interest is based on the implicit threat of violence – which is a fundamental feature of the creditor/debtor relationship (Graeber, 2011) – and can even result in the emergence (or expansion) of organised crime. Indeed, there were stories of borrowers being physically assaulted after defaulting on informal loans, and one interviewee had suffered a broken arm in the past. Moreover, even if borrowers fled due to default, their families were sometimes subjected to intimidation and even violence.<sup>376</sup> This is because informal lending is often accompanied by informal vigilantism to ensure the repayment of debt (and interest), thus creating an environment where the relatively wealthy and non-marginal loan sharks are able to consolidate financial capital and power at the expense of marginal (often desperate) actors. Figure 7.3 and Figure 7.4 illustrate this disturbing overlap between informal lending and violence, which undoubtedly has negative implications for social cohesion at the local level.

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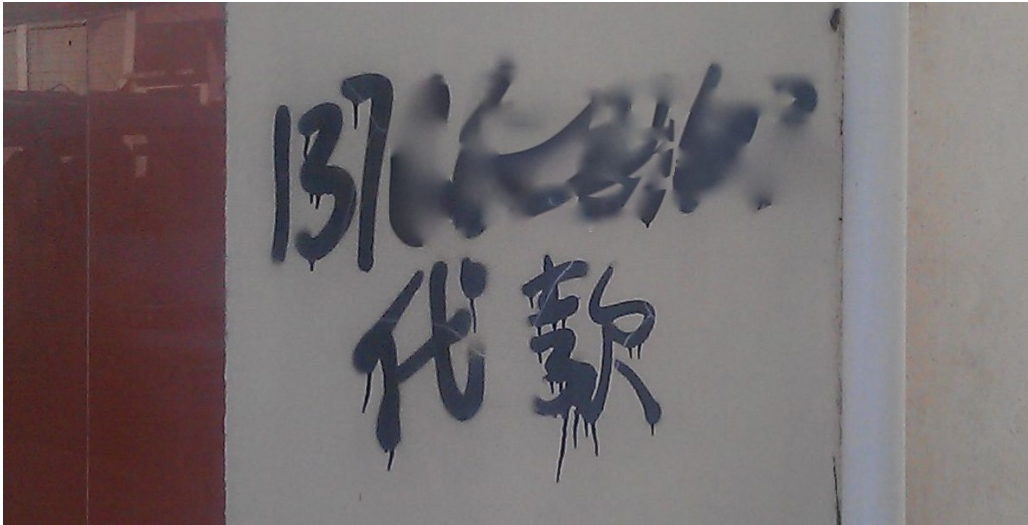
<sup>373</sup> Conversation 17; Interview 13; Interview 16; Interview 54.

<sup>374</sup> Interview 30.

<sup>375</sup> Interview 23; Interview 41.

<sup>376</sup> Conversation 42; Interview 22; Interview 30.

**Figure 7.3:** An Advertisement for Informal Credit in the DET



**Figure 7.4:** An Advertisement for Guns in the DET



More dramatic, however, than these examples of microcredit increasing stress and having a negative impact on identities and social cohesion, is the fact that the microcredit programmes were also, in some cases, utilised to actively exploit and further marginalise certain segments of local society in all three townships. For instance, the 12-member FC in the AT was only able to gain access to the entire quota of 22 loans by falsifying the documents of non-borrowing households and claiming them as fake FC members – obviously with the blessing of the township and county branches of the MoHRSS. The households that were instrumentally used in this way were relatively marginal and powerless, and had no knowledge that their



identification documents had been used to apply for loans. In one case, the FC used the information of a low level administrative worker in the village government. This abuse of power was not difficult, as she was already in a subordinate position in relation to the head of the FC, who was also the village secretary, and her identification documentation was easily available to every member of the village government. In this way, the FC was able to transfer risk to unwitting marginal villagers while retaining the entirety of the substantial benefits associated with borrowing from the EMP and building the vegetable greenhouses.<sup>377</sup>

Another example of microcredit being used even more maliciously occurred in the MWT seven years before fieldwork and a few years before the construction company arrived to claim the entire RCCMP quota. At this time, a local socioeconomic elite with connections to the township and county governments borrowed a substantial amount of money from the RCC (originally earmarked for the RCCMP) in order to purchase a large tract of farmland in one of the MWT villages and convert it from communal rural land to land for commercial real estate development. Many of the villagers did not want to sell their land, as the village was relatively poor and their livelihoods revolved around farming. However, due to political pressure from above and the high level *guanxi* of the buyer, they had little choice but to sell for RMB 7,000 per *mu*. The sale was pushed through quickly in order to avoid local protest, but afterwards the villagers discovered that the land was actually worth up to RMB 40,000 per *mu*. To make matters worse, by the time of fieldwork the local elite had still not developed the land, but instead left it vacant and was waiting for the price to rise in order to resell the land in the future. Some of the villagers attempted to return to the land, citing a policy that reverts sold farmland back to the original farmers if it is left undeveloped for a certain number of years. However, the local elite has threatened to destroy their crops. The villagers are now looking into the possibility of submitting a petition (*shangfang* 上访) to the city government or higher.<sup>378</sup> Simply put, in this situation loans from the RCC facilitated the dispossession of land, which was a crucial livelihood resource for the dispossessed, at an

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<sup>377</sup> AT Contextual Observation Report; Interview 07; Interview 26.

<sup>378</sup> Conversation 16; Conversation 17.

unfair level of compensation. At the same time, it also needlessly reduced agricultural production by leaving good farmland unused.

Marginal households were also actively coerced into knowingly going into debt in order to cover costs imposed by more powerful actors. For instance, in the MWT one of the poorest households was pressured to borrow RMB 1,500 informally (because he could not access formal credit) to 'donate' to the reconstruction of the village ancestral hall (*zutang* 祖堂), which was contracted to a company owned by the son of one of the richest and best-connected households in the village. He protested this 'donation', explaining that he did not even have enough money to fix the holes in the roof of his own house. However, he was told that if he did not pay, his children would not be accepted in the village. Therefore, in this case informal credit essentially facilitated the transfer of capital from the marginal and poor to a company associated with the non-marginal and rich.<sup>379</sup> In the DET, on the other hand, the party secretary of one of the villages in the township attempted to expropriate some of the residential land of a poorer and more marginal neighbour household in order to enlarge his own house. This resulted in conflict, finally leading to a physical altercation. Ultimately, due to the obvious imbalance in political power between the two households, the head of the marginal household was jailed for two years and required to pay RMB 80,000 to the village secretary for his role in the fight (along with losing the land). Because the household did not have this sum of money, they were coerced into borrowing from the RCCMP and, in the end, defaulted on the loan. This meant that they were no longer able to borrow from the RCCMP, and therefore were not able to access formal credit to complete the construction of their house. Moreover, even if they had the money, the village secretary has used his connections in the township to make it very difficult for the household to get the necessary permits to continue construction. In other words, this household now lives in a half-completed structure, has no access to formal credit, is severely politically and socially marginalised, and the head of the household cannot find work because of

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<sup>379</sup> After of the completion of the ancestral hall, all the names of the donors were listed on a plaque in order of the donation amount (highest to lowest). Since the poor household donated the least, it was last on the list. The head of the household said this embarrassed him and made him lose face (Conversation 04).



his criminal record. While microcredit did not cause this situation, it did contribute to the household's further marginalisation.<sup>380</sup>

The examples given above illustrate that, in addition to providing capital, microcredit represents time expenditure and added responsibility on the part of implementers and borrowers. More importantly, we cannot forget that credit necessitates debt, which implicitly has the potential to cause distress and further marginalisation if borrowers are unable to repay for any reason. Moreover, as the microcredit programmes are ultimately reconstituted at the local level through heterogeneous implementation, they are often actively incorporated into local political economies and structures of power, becoming another tool that the non-marginal can use in order to exploit less powerful members of society and push them further to the margins. This results in the continuation of regimes marked by the unequal distribution of livelihood resources and opportunities, thus exacerbating existing marginal relationships.

## 7.6 Conclusion

While Chapter 6 demonstrated that the microcredit programmes have been successful in facilitating various forms of local development and livelihood improvement, thus de-marginalising individuals and groups in the three townships; this chapter shows that these patterns of de-marginalisation only occurred in relation to other undercurrents of marginalisation. In this way, the microcredit programmes contributed to the diversion and extraction of resources from poor to rich actors/areas, the social and economic exclusion of marginal actors, and, more troublingly, the active exploitation of disempowered individuals and groups, pushing them further to the margins of China's 'modern' socioeconomic development landscape. These undercurrents of marginalisation played a role in reducing the capacity of marginal actors to implement and maintain livelihood strategies, resulting in the production of livelihood identities that have been framed as inferior to the 'successful' non-marginal actors, thus reinforcing 'development dichotomies' at various levels.

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<sup>380</sup> This interview was extremely emotional and members of the household broke down into tears when explaining their ordeal (Interview 72).

Of course, the types of marginalisation that were produced and/or strengthened by microcredit varied due to heterogeneous implementation, with different 'elites' taking advantage of the programmes and different types of actors being marginalised depending on the programme and the locality. However, for the most part, these forms of marginalisation reflected both local patterns of inequality and power, as well as the wider political economy of development in post-reform China, which is embedded within an increasingly neoliberal version of the linear progression development paradigm. This market-oriented approach to development encourages competition and the creation of 'winners' and 'losers', and, thus, simultaneously produces both marginality and non-marginality in relation to each other. Therefore, the three microcredit programmes ultimately served to shift and transform certain marginal relationships – in some cases reducing the distances between marginal and non-marginal spaces and people, and in other cases expanding, strengthening or creating new unequal relationships at different levels. In other words, rural development in China (and by extension the microcredit programmes) is inherently relational in nature, and rather than producing uniform and equitable development, "the success of some is linked to the failure of others" (Mosse, 2010, p. 1158). For this reason, impact cannot be understood linearly, but instead must be perceived through the relationships and interfaces of interaction between the actors involved. We now turn to Chapter 8, which will serve as a discussion of the key findings in this dissertation, and will outline the implications that an actor-oriented relational approach to understanding development has for microcredit and other neoliberal development interventions in China and beyond.

## **Chapter 8**

### **Conclusion**

The very language we use to describe the self-made ideal has these fault lines embedded within it: To ‘pull yourself up by your bootstraps’ is to succeed by dint of your own efforts. But that’s a modern corruption of the phrase’s original meaning. It used to describe a quixotic attempt to achieve an impossibility, not a feat of self-reliance.

- John Swansburg

This Ph.D. dissertation represents the distillation, synthesis and analysis of a huge set of qualitative data – consisting of systematic observation, interviews, conversations, photos/videos and a variety of different types of documentary material. This data was collected over more than half a year of in-depth empirical fieldwork, primarily in three townships (and villages) in rural Jiangxi Province, but also at the county, prefectural and provincial levels. Through a broad, exploratory and open research orientation – paired with a grounded ethnographic methodological design – this research project has sought to texturise and deepen our understanding of how government microcredit is formulated, implemented and perceived at the local level in order to answer the overarching research question: What role do microcredit programmes play in local processes of socioeconomic development and the livelihoods of diverse local actors? In this way, this dissertation departs from conventional mainstream research on microcredit and rural finance in China, which is dominated by the disciplines of finance and economics, quantitative and positivistic approaches, normative conceptions of the benefits of ‘financial inclusion’, and a focus on systems and/or institutions rather than local actors themselves. This concluding chapter summarises and highlights the main findings and original contributions, and outlines the key ways in which future research can build on the work in this dissertation (and address its limitations) in order to further improve our understanding of how microcredit programmes (and rural development interventions in general) are implemented at the local level – thereby facilitating, transforming and/or (re)producing processes of (under)development and (de)marginalisation in the context of rural China and elsewhere.

## **8.1 Dissertation Summary and Original Contributions**

The dissertation is composed of an introduction, six core chapters, and this conclusion. Chapter 1 began with some historical context by outlining the trajectory of socioeconomic development in rural China since the initiation of economic reforms in the 1970s and detailing the parallel evolution of the global microfinance movement. This was followed by an analysis of the ideological similarities between the two movements – which has unsurprisingly led to the adoption of microcredit as a means of promoting rural development in the country. The chapter then went on to outline the reasons why the research is important, the research questions and objectives, the original contributions, and, finally, provided a roadmap for the rest of the dissertation. Chapter 2 also began with a historical overview, but this time of the transformation of the rural financial system in China since the establishment of the PRC in 1949 in order to contextualise microcredit's place in the dynamic rural financial landscape. This was followed by a comprehensive review of the literature on rural finance and development in the country, ending with a detailed analysis of the key strengths and weaknesses in our current understanding of the nexus between rural finance, local development and livelihoods. Chapter 3 then picked up where Chapter 2 concluded by outlining how an actor-oriented livelihoods approach can address some of the key weaknesses in the current state of the art and answer the research questions at the centre of this dissertation. The chapter then elaborated on the grounded ethnographic methodological approach employed in the research project, and detailed the specific types of data collected, as well as the methods and analytical techniques utilised. The chapter concluded by providing contextual backgrounds for the three townships – the AT, MWT and DET – where the vast majority of the data collection was undertaken.

Chapter 4 outlined the policies and practices of the three microcredit programmes examined in this dissertation – the PAMP, RCCMP and EMP – based on the empirical fieldwork conducted in the three townships. The chapter began by examining microcredit policy formulation at the national and provincial levels based on analysis of primary policy documents and interviews with government officials, and then identified key areas where the policies have been left relatively open to interpretation, allowing for flexible

experimentation by local implementers. The chapter then went on to detail the realities of the local implementation of each of the programmes in the three townships – revealing high levels of heterogeneity. Chapter 5 analysed the key reasons for this heterogeneous implementation at the local level. It began by examining the ways in which differentiated financial landscapes and segmented financial markets influence local interpretations and understandings of microcredit as a resource, before going on to look at how exogenous and endogenous pressures and incentives are internalised in varied ways by local implementers. The final sections of the chapter illustrated how implementation outcomes are complex and emergent from dynamic ‘actor interfaces’, meaning that heterogeneous implementation is relational in nature and, therefore, cannot be standardised through top-down enforcement of ‘best practice’.

Chapter 6 and Chapter 7 analysed the ways in which the heterogeneous and emergent implementation has resulted in the microcredit programmes facilitating certain processes of development and de-marginalisation, while simultaneously producing and feeding into other undercurrents of marginalisation, albeit in different ways across the three localities. Specifically, Chapter 6 began by showing how the programmes have enabled flows of capital, knowledge and technology from non-marginal and ‘more developed’ regions and actors to the three townships. The chapter then illustrated the ways in which the programmes have played a role in the formation and strengthening of new socioeconomic and socio-political linkages, while also contributing to the creation of ‘modern’ modes of employment, cooperation and inclusion at the local level, thereby de-marginalising some actors and improving certain livelihoods. Chapter 7, however, responded by detailing the microcredit programmes’ simultaneous production of marginalisation. In particular, the chapter pointed to the different ways that the programmes facilitate the diversion and extraction of resources from marginal to non-marginal actors/areas, and the fact that the programmes reflect and reproduce various forms of socioeconomic exclusion at different levels, ultimately exacerbating already precarious livelihoods by transferring risk to marginal actors and facilitating their exploitation in different ways depending on the programme and location.

The in-depth exploration of the policy, practice and outcomes of the three primary Chinese government microcredit programmes outlined above has

made a number of key original contributions to how we conceptualise and undertake research on development in rural China, and the role that microcredit and other top-down plans, projects and interventions play in local development processes and livelihoods strategies. In the first place, this research project has made an important original empirical contribution to the field through the collection of data on programmes – and in localities – which have not been the subject of previous study. While there are a few examples of high quality in-depth empirical research on rural finance (both formal and informal) and microcredit at the township and village levels in China (Bislev, 2010, 2012; L. Ong, 2006, 2009b; Tsai, 2000, 2002, 2004; Tsien, 2002; Y. Zhao, 2011), these studies are the exception rather than the rule, and, in general, research on these subjects in the Chinese context has not been grounded in detailed in-depth ethnographic fieldwork. Indeed, as Professor Peter Nolan explicitly states in the quotation at the beginning of Chapter 3 of this dissertation: “There is painfully little in-depth scholarly research on China that uses fieldwork and case studies” (Nolan, 2011, p. xv). Therefore, this in-depth ethnography consisting of rich qualitative and documentary data collected over more than half a year in previously unexamined localities is a much-needed addition to our limited amount of primary data and analysis on Chinese microcredit and rural finance. Additionally, while there has been previous research on government microcredit programmes, such as the RCCMP and the PAMP (Bislev, 2010, 2012; Hofmockel, 2005; L. Ong, 2011, 2012; Park & Ren, 2001; Tsai, 2004; Y. Zhao, 2011), this dissertation is the first ethnographic study of the EMP in rural areas, in either English or Chinese.<sup>381</sup> Ultimately, therefore, this research project is based on a huge set of primary data, which represents a significant original contribution to the field of research on rural finance, microcredit and rural development in China.

This Ph.D. dissertation also makes important original contributions to how we approach and conduct research on issues related to microcredit, rural finance and development in China and other contexts. Specifically, this project has drawn on conceptual and methodological approaches utilised in

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<sup>381</sup> The EMP has only been mentioned in passing in a small number of English-language research outputs. While there are more studies into the EMP in Chinese, these have not been grounded in in-depth ethnographic fieldwork and primary qualitative data.

the rural development literature in order to design a novel actor-oriented livelihoods approach that framed and guided the research and analysis. In particular, the research built on other studies in rural China centring on notions of livelihoods and social capital (Bislev, 2010; Lu & Lora-Wainwright, 2014; Ye et al., 2009), but shifted the analytical foci towards interfaces, holistic livelihoods and financial landscapes, ultimately developing a more relational conceptualisation of development in the rural Chinese context. This novel approach provided the means to uncover new perspectives, discover new connections and linkages, and give voice to actors who had been largely underrepresented in previous research. Of course, the development and application of this locally (and relationally) focused actor-oriented livelihoods approach required the collection of an in-depth ethnographic data set, which is (as stated above) a challenging proposition in rural China. Therefore, I opted to develop new methodological tools in order to facilitate the collection of high quality data more quickly and begin the process of data analysis while still in the field. Specifically, I pioneered two interlinking and unique methods over the course of the research project – which are referred to as the ‘systematic interview report’ method and the ‘reflexive dialogue’ method. These two new methods allowed for the reliable and rapid collection of in-depth ethnographic data from interviews, conversations and observation, which were then subjected to rigorous peer-review and multiple forms of critical reflection. In this way, ‘systematic interview reports’ and ‘reflexive dialoguing’ can be adopted by other research across disciplines and in any number of contexts, and, therefore, represent a significant methodological contribution (see Chapter 3).

These empirical, conceptual and methodological contributions outlined above provided the means to collect and analyse unique sets of data (in novel ways), which allowed this research project to address the primary research questions and objectives outlined in Chapter 1 and, in this way, make a number of important original contributions to our current understanding of the policy, practice and outcomes of microcredit programmes, as well as processes of socioeconomic development more generally. Of course, due to this project’s exploratory, grounded and actor-oriented approach primarily focusing on the micro level – which necessarily allows for the co-existence of diverse (and often competing) local realities – the findings outlined in the chapters of this dissertation are not clear-cut or particularly prescriptive, and can even seem to be paradoxical. Indeed, the

complex, emergent and relational nature of implementation outcomes, and the multidimensional ‘impacts’ of the programmes on local actors and processes of development, inherently defy generalisability (by aggregate), or the identification of clear and predictable patterns or trends. In other words, this Ph.D. project simply underlines the fact that China’s rural development and financial landscapes are complex and dynamic, making any attempts to box them into a single ‘ism’ overly simplistic, reductionist and misleading. Nevertheless, there are, undoubtedly, some key lessons to be learned from the findings in this dissertation that can speak to wider issues surrounding how we understand development as a process, the functioning of external development interventions, and the role of microcredit in facilitating socioeconomic change in rural China and other parts of the world.

## **8.2 Key Findings: Addressing the Research Questions and Objectives**

In particular, this dissertation has made an original contribution to our understanding of how microcredit programmes (and other development policies/interventions) are implemented, the types of ‘impact’ they have, and how we should perceive microcredit’s role in socioeconomic development and the (re)production of rural livelihoods more generally. For instance, with regard to implementation, this dissertation illustrates that, while microcredit and the expansion of ‘financial inclusion’ has been increasingly identified as a means of facilitating rural development and de-marginalisation by the central, provincial and local governments – the actual implementation and perceptions of the microcredit programmes (and the extension of formal financial services more generally) has been characterised by extreme variation across the three townships and at different points in time. In the first instance, this heterogeneity can be traced back to the policy formulation of the three programmes at the central and provincial levels. Indeed, while all three programmes explicitly sought to de-marginalise rural actors, the types of de-marginalisation envisioned varied, and often reflected the shifting development ideologies and priorities that were dominant at the time of their conceptualisation. For example, the PAMP was initiated in the 1980s when rural poverty was seen as the most visible and pressing manifestation of rural marginality. The RCCMP was conceptualised over a decade later at the turn of the century, and reflected the dominant perception that ‘financial inclusion’ was the answer to de-marginalisation in rural China. The EMP, on



the other hand, is the most recent policy addition to China's ongoing financially-oriented rural development efforts, and depicts rural de-marginalisation as being instigated by local entrepreneurship.

All of these visions of microcredit as a facilitator of rural de-marginalisation fit squarely within the linear progression development paradigm. However, they are also flexible, allowing for shifting developmental priorities at different levels. For instance, the PAMP has been reformulated and co-opted by a number of different overarching development frameworks over the course of its existence. At the same time, the policy wording for all the programmes is vague, allowing for local experimentation. This means that both the central formulation and local implementation of the microcredit programmes have been marked by dynamism and influenced by diverse perspectives at different levels, which has, unsurprisingly, resulted in high levels of variation in implementation outcomes across time and space. Indeed, with all three programmes across all three localities the most recognisable pattern or "norm was the uniqueness of diversity" (Chambers, 2014, p. 53). Like other research, this dissertation began by outlining some of the key 'variables' contributing to this heterogeneous implementation, including contextual factors – such as differentiated financial landscapes and differently segmented financial markets; and exogenous/endogenous pressures and incentives – such as quotas, career considerations, distributions of power, and time/resource constraints. However, unlike most research on external development interventions in China or elsewhere, this dissertation determines that these 'variables' are themselves dynamic, heterogeneous and context/time specific – meaning that the actual implementation outcomes were the result of a confluence of diverse and unpredictable factors, making it impossible to accurately predict or generalise the key 'determinants' influencing implementation in each case. More significantly, the dissertation concluded that these infinite variables were not equally weighted, and that their importance in shaping implementation was mediated by relational considerations. Simply put, the implementation of the programmes was influenced by a wide range of factors, which were perceived differently by actors at different levels and with different amounts of involvement/power in the programmes, who then entered into negotiation with each other, ultimately producing the varied implementation outcomes. These outcomes were, of course, not static, but constantly shifting based on continuous and ongoing negotiations.

Therefore, the implementation of the microcredit programmes can best be characterised as complex, emergent and inherently relational in nature. This obviously contrasts with dominant mainstream conceptualisations of development interventions as linear – travelling from central formulation to local implementation with clear goals and intended outcomes based on the ‘medical-esque’ diagnosis of a problem that requires ‘treatment’ (Long, 2001). This dominant understanding of linear development perceives heterogeneous implementation as the result of ‘irregularities’ or ‘distortions’ that can (and should) be eliminated through strict adherence to ‘best practice’. The heterogeneous implementation marked by high levels of complexity outlined in this dissertation, however, illustrates that development interventions in general, and microcredit programmes in particular, should actually be understood as “self-organising systems on the edge of chaos” (Chambers, 2008, p. 174). This is because any external intervention is ultimately locally internalised and reconstituted, and thus transformed into a local “socially constructed and negotiated process, not simply the execution of an already-specified plan of action with expected outcomes” (Long, 1999, p. 4). In other words, attempting to determine sets of ‘constants’, ‘variables’ and ‘determinants’, represents the application of unsuitable natural science methods to dynamic and complex social situations, thereby creating oversimplification and misleading information. Ultimately, therefore, all development interventions, including microcredit, need to be understood as more than the sum of their parts – i.e. emergent from relational processes that are co-produced at the interfaces of interaction between diverse actors.

At the same time, this dissertation has also illustrated how the complex, emergent and heterogeneous implementation of the microcredit programmes in the three townships has necessarily resulted in differentiated ‘impact’ – or, more accurately, has caused the programmes to play a variety of very different roles in local development strategies and the livelihoods of diverse local actors. Indeed, rather than inducing some uniform vision of development and de-marginalisation through a top-down linear causal chain of events, the programmes instead tended to reflect different perceptions of what development and de-marginalisation actually entails – which, again, emerged from the negotiations between different actors based on their interpretations of the wider political economy of development. In this way, the roles of the programmes – while still situated within the linear

progression development paradigm – were largely framed by local contexts and/or the individuals/groups who wielded the most power in negotiations over implementation. For instance, in the AT the EMP and RCCMP were utilised to finance different types of investment in agriculture, in the MWT microcredit was diverted to large industry, and in the DET the programmes largely funded microenterprises and SMEs. In other words, microcredit utilisation and the resultant ‘impact’ were complex, emergent and basically unpredictable (in the same way as the processes of implementation), as the programmes became facilitators of (de)marginalisation for distinctly different sectors, groups and individuals in each of the three localities.

The fact that the role microcredit played in local development and livelihoods was socially constructed and emergent from relational processes, necessarily meant that the ‘impacts’ produced by the programmes were complex, multiple and perceived differently by different actors. Moreover, rather than eliminating ‘development dichotomies’, microcredit actively reproduced and strengthened marginal relationships and unequal structures of power at different levels that framed and defined the development landscapes. Therefore, rather than simply playing beneficial roles in development and livelihoods, the programmes produced paradoxical or contradictory ‘impacts’ by enabling de-marginalisation for some, while simultaneously feeding into undercurrents of marginalisation for others. Indeed, while the programmes can be credited with facilitating flows of capital, knowledge and technology from central to local areas/actors, the formation of new socioeconomic and socio-political linkages, and the promotion of new forms of employment, cooperation and inclusion; they also allowed for the diversion and extraction of rural resources, produced various types of socioeconomic exclusion, and played a role in the exacerbation of livelihood precarity by enabling the exploitation of marginal actors. In this way, microcredit largely reflected China’s paradoxical development landscape by reproducing both dynamic and durable inequalities at different levels, albeit in diverse ways across the three localities. Ultimately, therefore, both implementation and impact were complex, emergent and inherently relational in nature – resulting in multidimensional, dynamic and unpredictable outcomes, which were perceived as beneficial by some and detrimental by others, rendering attempts at aggregate generalisation about impact meaningless.

The findings outlined above obviously contradict the dominant understanding of development as “emanating primarily from external centres of power via interventions by the state or international bodies, and following some broadly determined developmental path, signposted by ‘stages of development’,” and instead expose the linear progression development paradigm as being “tainted by determinist, linear and externalist views of social change” (Long, 2001, pp. 10–11). Moreover, and more importantly, these findings point to the fact that the very marginality that microcredit and other development interventions seek to eliminate is itself the product of unequal relationships at different levels, which are mutually constituted and co-produced at the interfaces of interaction between different actors and areas. These patterns of inequality, marginality, and the ensuing exploitation and impoverishment are “not just part of nature” (Kirk et al., 2015, p. N/A) – i.e. ‘stages’ that can be ‘evolved’ out of – but are, instead, socially constructed within regimes characterised by differentiated structures of power and subordination.

The relational and dichotomously mutually constituted nature of the concepts of development and underdevelopment, centrality and marginality, prosperity and impoverishment, etc., is particularly evident in the neoliberal version of the linear progression development paradigm – embodied by the ‘financial systems approach’ to microcredit and adopted by China since the reform and opening. This is because neoliberal linear progressive development explicitly necessitates the production of ‘winners’ and ‘losers’ in the quest to instigate developmental progress. It is an unavoidable ‘zero-sum game’ due to “the difficult fact that the processes that allow some to escape from poverty traps are the same that allow the exploitation of others” (Mosse, 2010, p. 1172). Indeed, in the words of Henry Bernstein: “there are no win-win solutions within capitalism” (Bernstein, 2010, p. 98). Therefore, neoliberal linear progressive development is itself responsible for the continued production of the ‘third world’ that it purports to be in the process of eliminating (Escobar, 1995).

In this way, microcredit is no ‘paradigm shift’ for development, but is instead “the neoliberal development strategy par excellence” (Hickel, 2015, p. N/A), as it depicts underdevelopment and marginalisation as being the result of simple exclusion from the market system. Reasons for this exclusion are framed as local issues, such as the spatial marginality of a given locality due to its distance from developed centres, and/or temporal marginality resulting

from the 'backward' mentalities of the local inhabitants. Discussions of power disparities and exploitation are also limited to the local level, where 'traditional' perceptions of gender and class, or established local power structures, are blamed for exclusion from the all-empowering market. Expanding the provision of credit, therefore, is depicted as essentially de-marginalising in and of itself, as it brings the marginal into the formal financial system, thereby integrating them into the wider capitalist economy. This 'inclusion' is also seen to have the potential to transform the 'backward' and 'traditional' attitudes and habits of the marginal populace into 'modern' ones of higher 'quality', thus smoothing over inequalities in opportunity created by local power disparities. In other words, microcredit does not perceive marginality and poverty "as a consequence of a particular way in which society is organised through relations of power and domination... [but] as the consequences of unfulfilled market potentials" (Weber, 2006, p. 44). Therefore, by individualising and localising the causes of marginality, microcredit effectively ignores the wider structures of power and durable inequalities that are ultimately responsible for the production of marginalisation, thus shifting the responsibility for development and de-marginalisation to those disadvantaged by the unequal development landscapes themselves. At the same time, this individualisation of developmental responsibility obscures microcredit's role as a financing mechanism (and creator of debt) for a system that requires the creation of 'winners' at the expense of 'losers'. In reality, this means that microcredit providers either have to exclude some 'unsuitable' borrowers at the local level due to their perceived inability to repay, or lend to everyone and accept the fact that some projects will fail, resulting in the exacerbation of the precarity of already marginal livelihoods. In this way, microcredit ascribes unrealistic de-marginalising abilities to the 'free market' ignoring the fact that economic liberalisation often benefits the already powerful. To put this another way and return to the quotation at the beginning of Chapter 7, "microfinance does not simply smooth over contemporary processes of agrarian change. Rather, it tends to reflect and reproduce their central contradictions and power dynamics" (Taylor, 2012, p. 609).

Ultimately, therefore, while microcredit – both in China and elsewhere – undoubtedly has the ability to produce certain forms of de-marginalisation for some areas and actors, it is also the reflection of sets of interlocking and mutually constituted 'development dichotomies', and thereby necessitates

the (re)production of durable inequalities and marginal relationships at different levels. This means that microcredit does not have the ability to eliminate marginality or underdevelopment, regardless of whether or not 'best practices' are followed, but instead can only diminish some marginal relationships while strengthening others (or creating new ones) – albeit in different ways due to the complex, multidimensional and heterogeneous implementation and impacts outlined above. This fundamental inability of microcredit to address the underlying reasons for the production of marginality was perhaps most concisely expressed by the head of one poor household in the AT in response to a question about how microcredit could better serve him and other marginal actors in the community:

I don't have any recommendations. We cannot afford to buy a house, we have just enough to eat and no money saved. Even if the village built a credit union it wouldn't help. Without a basic amount of money, there is no help for normal villagers.<sup>382</sup>

More damningly, however, microcredit is also a visible manifestation of an ideological system (neoliberalism) that systematically shifts the responsibility for development and de-marginalisation to the poor and marginal themselves, thus inherently exacerbating their precarity. This mirrors the increasingly neoliberal development orientation in rural China since the reform and opening, which has discursively framed development as an individual responsibility and elevated 'self-sufficiency' to a central position in development strategy – making 'humanistic modernisation' (*rende xiandaihua* 人的现代化) and the improvement of 'quality' individual imperatives and even patriotic duties (Barabantseva, 2009; Murphy, 2004), thus putting the onus on marginal actors to change their own socioeconomic conditions by 'pulling themselves up by their own bootstraps'. This effectively de-historicises and de-contextualises marginality by obfuscating the fact that it is, in reality, systemically produced through unequal relationships of power (Kirk et al., 2015). In this way, microcredit is a key component in an ideological approach to development promotion that creates the very marginalisation and underdevelopment that it purportedly seeks to eliminate, while shifting responsibility for this production of underdevelopment to its victims. Therefore, while we cannot generalise about how microcredit

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<sup>382</sup> Interview 28.

programmes will be implemented at the local level or predict the precise patterns of impact that they will produce in different contexts, this dissertation has clearly illustrated that microcredit seeks to address the symptoms of systemic marginalisation, while not only ignoring the fundamental causes that it is implicit in creating, but also shifting responsibility for them to powerless and marginal actors. Simply put, microcredit does not produce any 'win-win' or net reduction in marginality, but is instead embedded within, and contributes to, shifting patterns of marginalisation and underdevelopment at the local level.

### **8.3 Directions for Future Research**

Of course, this dissertation represents an initial attempt to explore government microcredit in China in a grounded holistic way, and therefore has its own limitations and areas that require further scrutiny. For this reason, future research on microcredit and rural development, both in China and globally, can build on (and improve) the empirical/methodological contributions and the key findings in this dissertation – and address some of the study's limitations – in a number of important ways. Firstly, future research should be aware from the outset of the need to be more reflexive and critical of the normative conceptual categories underpinning the concepts of development, modernisation and de-marginalisation, which are primarily defined by (neo)classical economic theories and an "ethnocentric 'Western' model of social behaviour based upon the individualism of 'utilitarian man' that rides roughshod over the specificities of culture and context" (Long, 2001, p. 14) (see Chapter 3). In particular, future research should move away from the misleading characterisation of underdevelopment, marginalisation and poverty as necessary stages of development that can simply be progressed out of by identifying models to emulate or 'best practices' to follow. As stated above, this linear and universalist understanding of progressive development de-historicises and de-contextualises the 'afflictions' of underdevelopment and marginalisation, essentially detaching them from the very conditions that result in their production. Therefore, future research should take care to conceptualise underdevelopment, marginality and poverty as relational issues that are produced at the interfaces of interaction between actors at various levels, and across time and space (Escobar, 1995; Mosse, 2010).

This shift towards an actor-oriented relational approach to understanding development and marginality will allow for a more nuanced, historicised, contextualised and, ultimately, realistic depiction of the processes involved in implementing development interventions in general, and microcredit programmes in particular, as well as their complex and multidimensional outcomes and 'impacts' – i.e. the role they play in local development and livelihoods. Future inquiry could enrich this approach by drawing on research in a variety of fields and disciplines. For instance, research on decision making in behavioural psychology could complement and improve our understanding of implementers as 'street-level bureaucrats' by shining a light on how individual perceptions and group dynamics shape implementation at the local level (Kahneman, 2012; Kahneman & Tversky, 1979; Lipsky, 1980; Tversky & Kahneman, 1992). At the same time, by drawing more heavily on the classic literature on 'unintended consequences' in the field of global development (Hirschman, 1967), alongside a deeper engagement with the emerging body of research on 'complexity theory' in both the natural and social sciences – focusing on chaos, self-organising systems, non-linearity and emergence – future research could potentially create a framework for understanding heterogeneity, both with regard to implementation and 'impact' (Chambers & Loubere, 2016; Escobar, 2004; Hobbes, 2014; Ramalingam, 2013). Finally, and most importantly, the issue of multidimensional power needs to be placed at the centre of inquiry. Too often the current body of research frames power as two-dimensional, depicting local structures of power as adhering to a uniform (thus predictable) hierarchy, and framing the local powerful 'elite' as the biggest threat to 'failed' microcredit implementation due to their 'homo economicus'-induced lust for subsidised credit. This ignores the ways in which unequal power relationships manifest themselves in diverse ways at different levels, resulting in dynamic patterns of marginalisation and differentiated developmental landscapes within which the programmes are formulated and implemented, thereby influencing the roles that they play in (re)producing local development processes and livelihood strategies. Therefore, it is crucial that future research projects draw on the established (and in many ways classic) body of literature on multidimensional power, which explores diverse forms of durable inequality and exploitation (Foucault, 1982; Hathaway, 2015; Lukes, 2005; Mosse, 2010; Tilly, 1998), in order to better understand the unequal marginal relationships that underpin microcredit implementation and outcomes. This is of particular importance as a means of critiquing the notion of 'empowerment' as being one of the results of



microcredit, which ignores the fact that the relationship between creditor and debtor is inherently unequal and implicitly premised on the threat of violence. In the words of David Graeber: “there’s no better way to justify relations founded on violence, to make such relations seem moral, than by reframing them in the language of debt... because it immediately makes it seem that it’s the victim who’s doing something wrong” (Graeber, 2011).

At the same time, in order to shift from a linear to a relational mode of inquiry, future research could also build on and improve the grounded ethnographic methodological approach and specific methods employed (and pioneered) in this research project. In particular, projects exploring microcredit or other development interventions could utilise and adapt the innovative ‘systematic interview report’ and ‘reflexive dialogue’ methods (outlined in Chapter 3), in order to better map complex marginal relationships at the local level. Additionally, these methods could be improved through the application of participatory methodological approaches. For instance, ‘systematic interview reports’ could be co-produced in participatory groups and ‘reflexive dialogues’ could be expanded to include research subjects as well as researchers. Moreover, other participatory methods could be utilised, such as participatory wealth ranking, transect walks, participatory mapping, participatory video/photography, etc. (Chambers & Loubere, 2016; Shah, 2016), which would serve to provide a more nuanced depiction of how local people perceive the webs of marginal relationships that shape their development landscapes. At the same time, the detailed ethnographic portraits produced by the methods described above could be strengthened and corroborated by quantitative methods, such as participatory statistics and network analysis (Holland, 2013; Scott, 2012). Traditional statistical methods could also be utilised to explore marginal relationships at the meso and macro levels by mapping out flows of capital and other resources between rural and urban areas/actors, thereby providing a clearer picture of the wider political economy of development. While this still would not allow for aggregate generalisation or policy prescription, it would provide the means to theorise at multiple levels and extrapolate more precise understandings of the role that microcredit plays in different development landscapes. Ideally, therefore, future research projects would involve large research teams operating in a variety of localities, at different levels, and employing mixed-methods approaches. These teams could systematically adapt and improve some of the basic

methodologies utilised in this dissertation in order to map out marginal relationships across China and within localities, thereby more completely outlining where processes of marginalisation emerge from, how they manifest themselves across time and space, and how different development interventions engage with marginality at different levels.

Of course, rural China's financial and development landscapes are in a state of rapid and sustained flux. Therefore, there is undoubtedly a need for continued research that engages with these processes in-depth, but also quickly produces outputs that keep up with the dynamism of the environment. For this reason, research projects should look back to some of the key principles of RRA (Chambers, 1994, 2008; Chambers & Loubere, 2016), and also utilise quick and open access dissemination mediums, such as blogs, working papers, reports, etc., alongside peer-reviewed journal articles and books, which traditionally have longer turn-around periods and limited access. Indeed, this issue is most obviously highlighted by the fact that recent major shifts in the systemic and ideological structuring of the rural financial landscape – such as the introduction of the EMP, the legalisation of new commercialised and cooperative financial service providers (MLCs, VTBs and RMCCs), the increased prevalence of the 'financial systems approach' as the operational principle of traditional financial service providers, and the introduction (or return) of state-owned commercial banks to the countryside – have not been the subject of in-depth research in English, and have also received scant attention in the Chinese-language literature. Considering the importance that financial systems and institutions play in promoting different versions of development – and the potential they have to cause serious crisis, even destroying local and national economies, and exacerbating inequality and marginalisation – there can be no doubt that China's rapidly shifting rural financial terrain needs to be continuously and vigilantly monitored. At the same time, our understanding of what financial systems and services mean for local development and livelihoods needs to be broadened, and the perspectives and voices of all the actors involved – especially the most marginal – need to be recorded, represented and analysed in a more balanced way going forward.

## References

### Reference List A: Interviews with Officials and Employees of Financial Institutions

Interview number	Interview date	Interviewee(s) description
Interview 01	2012-04-03	Director of the township level RCC in a township neighbouring the AT
Interview 02	2012-11-01	Official in the prefecture level MoHRSS
Interview 03	2012-11-02	Party secretary of a village committee in the AT
Interview 04	2012-11-05	1) Village head of a village committee in the AT; 2) Director of the AT MoHRSS
Interview 05	2012-11-05	Director of the township level RCC in the AT
Interview 06	2012-11-06	Official in the prefecture level MoHRSS
Interview 07	2012-11-13	Official in the county level MoHRSS (AT county)
Interview 08	2012-11-14	Director of the township level MoHRSS in the MWT
Interview 09	2012-11-14	Deputy party secretary of a village committee in the MWT
Interview 10	2012-11-14	Director of the township level RCC in the MWT
Interview 11	2012-11-15	Official in the provincial level MoHRSS
Interview 12	2013-05-03	Deputy director of the township government in the MWT; highest ranking deputy director and responsible for the other deputy directors
Interview 13	2013-05-03	Deputy director of the township government in the MWT; previous director of the township PAO in the MWT

Interview 14	2013-05-03	Deputy director of the township government in the MWT; responsible for attracting and managing outside investment
Interview 15	2013-05-03	Party secretary of a village committee in the MWT
Interview 16	2013-05-03	Director of county level PAO (MWT county)
Interview 17	2013-05-28	Retired party secretary of a village committee in the MWT
Interview 18	2013-07-26	Accountant of a village committee in the DET
Interview 19	2013-07-29	Deputy director of the township government in the DET; responsible for attracting and managing outside investment
Interview 20	2013-07-29	Employees in the township level MoHRSS in the DET
Interview 21	2013-07-29	Deputy director of the township government in the DET; responsible for poverty alleviation work

**Reference List B: Interviews with Households,  
Microenterprises and Large Industry**

<b>Interview number</b>	<b>Interview date</b>	<b>Interviewee(s) description</b>	<b>Location</b>
Interview 22	2012-11-02	Household classification: Class 4 Income sources: Small shop; Farming Credit sources <sup>383</sup> : No formal loans	Nanchang City
Interview 23	2012-11-05	Household classification: Class 4 Income sources: Farming Credit sources: No formal loans	AT
Interview 24	2012-11-09	Household classification: Class 4 Income sources: Farming (vegetable greenhouses) Credit sources: EMP	AT
Interview 25	2012-11-09	Household classification: Class 4 Income sources: Farming (vegetable greenhouses) Credit sources: EMP	AT
Interview 26	2012-11-10	Household classification: Class 3 Income sources: Farming; administrative work in village committee Credit sources: No formal loans	AT
Interview 27	2012-11-10	Household classification: Class 3 Income sources: Shop; farming Credit sources: Loans from county level financial institutions	AT

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<sup>383</sup> Over 95 per cent of all households and microenterprises have borrowed informally, so this section only mentions formal loans.

Interview 28	2012-11-10	Household classification: Class 4 Income sources: Farming Credit sources: No formal loans	AT
Interview 29	2012-11-12	Household classification: Class 2 Income sources: Township business owner Credit sources: EMP	MWT
Interview 30	2012-11-12	Household classification: Class 2 Income sources: Township business owner Credit sources: EMP	MWT
Interview 31	2012-11-13	Household classification: Class 2 Income sources: Township business owner Credit sources: No formal loans	MWT
Interview 32	2012-11-15	Household classification: Class 1 Income sources: Owner of natural gas station Credit sources: RCCMP	MWT
Interview 33	2012-11-15	Household classification: Class 5 Income sources: Farming; odd jobs Credit sources: No formal loans	MWT
Interview 34	2012-11-15	Household classification: Class 2 Income sources: Farming; salary work on the SOE farm; migrant work Credit sources: No formal loans	MWT

Interview 35	2013-05-07	Household classification: Class 4 (Interview with members of five different households – all class 4) Income sources: Salary work for a local construction company; farming Credit sources: No formal loans	MWT
Interview 36	2013-05-08	Household classification: Class 4 Income sources: Farming Credit sources: No formal loans	MWT
Interview 37	2013-05-09	Household classification: Class 2 Income sources: Salary work for a local construction company Credit sources: No formal loans	MWT
Interview 38	2013-05-13	Household classification: Class 2 Income sources: Township business owner Credit sources: EMP	MWT
Interview 39	2013-05-13	Household classification: Class 2 Income sources: Migrant work Credit sources: No formal loans	MWT
Interview 40	2013-05-14	Household classification: Class 2 Income sources: Township business owner Credit sources: RCCMP	MWT
Interview 41	2013-05-15	Household classification: Class 3 Income sources: Salary work in a local factory; food preparation; migrant work Credit sources: No formal loans	MWT

Interview 42	2013-05-16	Household classification: Class 3 Income sources: Township business owner Credit sources: No formal loans	MWT
Interview 43	2013-05-16	Household classification: Class 1 Income sources: County official (retired) Credit sources: No formal loans	MWT
Interview 44	2013-05-17	Household classification: Class 2 (owns multiple houses) Income sources: Migrant work; village shop; minimum living standard guarantee Credit sources: No formal loans	MWT
Interview 45	2013-05-20	Industry type: Construction company (largest in township) Credit sources: RCCMP	MWT
Interview 46	2013-05-21	Household classification: Class 3 Income sources: Township business owner; farming Credit sources: No formal loans	MWT
Interview 47	2013-05-22	Household classification: Class 3 (owns multiple houses) Income sources: Farming; salary work on the SOE farm; migrant work Credit sources: No formal loans	MWT
Interview 48	2013-05-23	Household classification: Class 3 Income sources: Township business owner (migrant to the township) Credit sources: No formal loans	MWT



Interview 49	2013-05-23	Industry type: Commercial farm owned by an SOE Credit sources: County level financial institutions	MWT
Interview 50	2013-05-24	Household classification: Class 2 Income sources: Township business owner Credit sources: No formal loans	MWT
Interview 51	2013-05-28	Household classification: Class 5 Income sources: Farming Credit sources: No formal loans	MWT
Interview 52	2013-05-29	Household classification: Class 5 (attempting to build a class 3 house) Income sources: Farming; migrant work; odd jobs Credit sources: No formal loans	MWT
Interview 53	2013-07-26	Industry type: Components factory (largest in township) Credit sources: EMP; county level financial institutions; large informal loans from business associates at 20 per cent interest	DET
Interview 54	2013-07-27	Household classification: Class 3 (currently building a class 2 house) Income sources: Township business owner; retired village official Credit sources: RCCMP	DET
Interview 55	2013-07-27	Household classification: Class 2 Income sources: Township business owner Credit sources: RCCMP	DET

Interview 56	2013-07-28	Household classification: Class 2 Income sources: Township business owner; school headmaster Credit sources: EMP; RCCMP	DET
Interview 57	2013-07-28	Household classification: Class 3 Income sources: Township business owner Credit sources: RCCMP; county level government student loan	DET
Interview 58	2013-08-01	Household classification: Class 4 Income sources: Township business owner; farming Credit sources: RCCMP; PSBC	DET
Interview 59	2013-08-01	Household classification: Class 4 Income sources: Township business owner Credit sources: No formal loans	DET
Interview 60	2013-08-02	Household classification: Class 2 Income sources: Farming (large-scale) Credit sources: RCCMP	DET
Interview 61	2013-08-03	Household classification: Class 2 Income sources: Migrant work; salary work in a local factory Credit sources: No formal loans	DET
Interview 62	2013-08-03	Household classification: Class 2 (rented) Income sources: Township business owner (migrant to the township) Credit sources: No formal loans	DET

Interview 63	2013-08-03	Household classification: Class 3 (very large house) Income sources: Township business owner (multiple businesses); salary work in a local components factory Credit sources: RCCMP; EMP; ABC	DET
Interview 64	2013-08-04	Household classification: Class 3 (rented) Income sources: Township business owner (migrant to the township) Credit sources: No formal loans	DET
Interview 65	2013-08-04	Household classification: Class 3 Income sources: Township business owner Credit sources: RCCMP; ABC	DET
Interview 66	2013-08-05	Household classification: Class 3 Income sources: Migrant work; farming Credit sources: RCCMP	DET
Interview 67	2013-08-05	Household classification: Class 3 (currently building a class 2 house) Income sources: Township business owner (multiple) Credit sources: No formal loans	DET
Interview 68	2013-08-06	Household classification: Multiple properties and a flat in Guangzhou Income sources: County official; multiple businesses Credit sources: Large informal loans from business associates	DET

Interview 69	2013-08-06	Household classification: Class 2 Income sources: Salary work for a local construction company; migrant work; salary work in a local components factory; farming Credit sources: No formal loans	DET
Interview 70	2013-08-06	Household classification: Class 4 Income sources: Farming; salary work in a local components factory Credit sources: RCCMP	DET
Interview 71	2013-08-07	Household classification: Class 2 Income sources: Township business; migrant work Credit sources: RCCMP	DET
Interview 72	2013-08-07	Household classification: Class 4 Income sources: Township business; Farming Credit sources: No formal loans	DET
Interview 73	2013-08-08	Household classification: Class 2 Income sources: Tea farming; tea processing plant Credit sources: RCCMP	DET
Interview 74	2013-08-13	Household classification: Class 3 (Rented) Income sources: Township business; farming (large-scale) Credit sources: RCCMP	DET
Interview 75	2013-08-13	Industry type: Tea company (largest in township; famous brand; branches around the country) Credit sources: County and higher level financial institutions	DET

Interview 76	2013-08-14	Household classification: Class 2 Income sources: Township business; renting out commercial property; hotel; salary work in the bus station Credit sources: RCCMP	DET
Interview 77	2013-08-15	Household classification: Class 3 Income sources: Truck driver; salary work in the bus station; investment in the bus station Credit sources: RCCMP; ABC	DET
Interview 78	2013-08-15	Household classification: Class 3 Income sources: Aquaculture; farming; salary work in a local components factory Credit sources: RCCMP	DET

### Reference List C: Unstructured Conversations

Conversation number	Conversation date	Conversation description
Conversation 01	2012-11-05	Director of the township level MoHRSS in the AT
Conversation 02	2013-05-03	Microfinance industry insider
Conversation 03	2013-05-06	Owners of a small shop in the MWT
Conversation 04	2013-05-07	Poor household without access to formal credit in the MWT
Conversation 05	2013-05-08	Township level RCC employees in the MWT
Conversation 06	2013-05-08	A group of villagers upset with pollution from the SOE commercial farm in the MWT
Conversation 07	2013-05-09	Elderly farmer with wealthy children living in various cities in the MWT
Conversation 08	2013-05-10	1) Elderly farmer in the MWT; 2) Young worker in the township industrial park in the MWT
Conversation 09	2013-05-14	Owner of the largest construction company in the MWT
Conversation 10	2013-05-15	Elderly farmer living in a class 1 house paid for by remittances from his children
Conversation 11	2013-05-16	Middle-income household in the MWT
Conversation 12	2013-05-21	Migrant farmers from a township neighbouring the AT who have contracted approximately 180 <i>mu</i> of farmland in the MWT
Conversation 13	2013-05-22	County level insurance company employee in the MWT
Conversation 14	2013-05-22	Migrant street vendor at the weekly market in the MWT

Conversation 15	2013-05-22	Migrant street vendor at the weekly market in the MWT
Conversation 16	2013-05-23	Township management officer in the MWT
Conversation 17	2013-05-24	Local street vendor in the MWT
Conversation 18	2013-05-29	Party secretary for a village in the MWT
Conversation 19	2013-07-24	A group of street vendors in Nanchang
Conversation 20	2013-07-26	A group of village and township officials in the DET
Conversation 21	2013-07-26	Leader of a natural village in the DET
Conversation 22	2013-07-30	Director of the township level RCC in the DET
Conversation 23	2013-07-31	University student who returned home for a visit in the DET
Conversation 24	2013-08-01	Owner and a group of employees of the largest components factory in the DET
Conversation 25	2013-08-01	A group of small shop owners in the DET
Conversation 26	2013-08-01	Middle-income household in the DET
Conversation 27	2013-08-02	Street tailor in the DET
Conversation 28	2013-08-02	A group of residents living by the river in the DET
Conversation 29	2013-08-03	Components factory employee in the DET
Conversation 30	2013-08-05	Owner of a small shop in the DET
Conversation 31	2013-08-06	1) Component factory employee in the DET; 2) A farmer in the DET
Conversation 32	2013-08-08	Motorcycle taxi driver in the DET
Conversation 33	2013-08-08	Student cadre in the DET
Conversation 34	2013-08-08	A group of officials from the DET and neighbouring townships

Conversation 35	2013-08-09	County level MLC employees in the DET
Conversation 36	2013-08-12	Township level ABC employees in the DET
Conversation 37	2013-08-12	Township level PSBC employees in the DET
Conversation 38	2013-08-13	Construction worker in the DET
Conversation 39	2013-08-15	Township level RCC employees in the DET
Conversation 40	2013-08-15	Poor household in the DET
Conversation 41	2013-08-16	County level MLC borrower in the DET
Conversation 42	2012-11-12	University student who returned home for a visit in the MWT



**Reference List D: Observational Data**

- AT Contextual Observation Report
- AT Village Contextual Observation Report
- MWT Contextual Observation Report
- MWT Village Contextual Observation Report
- DET Contextual Observation Report
- DET Village Contextual Observation Report
- DET County Contextual Observation Report
- Scoping Trip Fieldwork Journal
- Trip 1 Fieldwork Journal
- Trip 2 Fieldwork Journal
- Trip 3 Fieldwork Journal
- Scoping Trip Preliminary Analyses and Progress Reports (Compilation)
- Trip 1 Preliminary Analyses and Progress Reports (Compilation)
- Trip 2 Preliminary Analyses and Progress Reports (Compilation)
- Trip 3 Preliminary Analyses and Progress Reports (Compilation)

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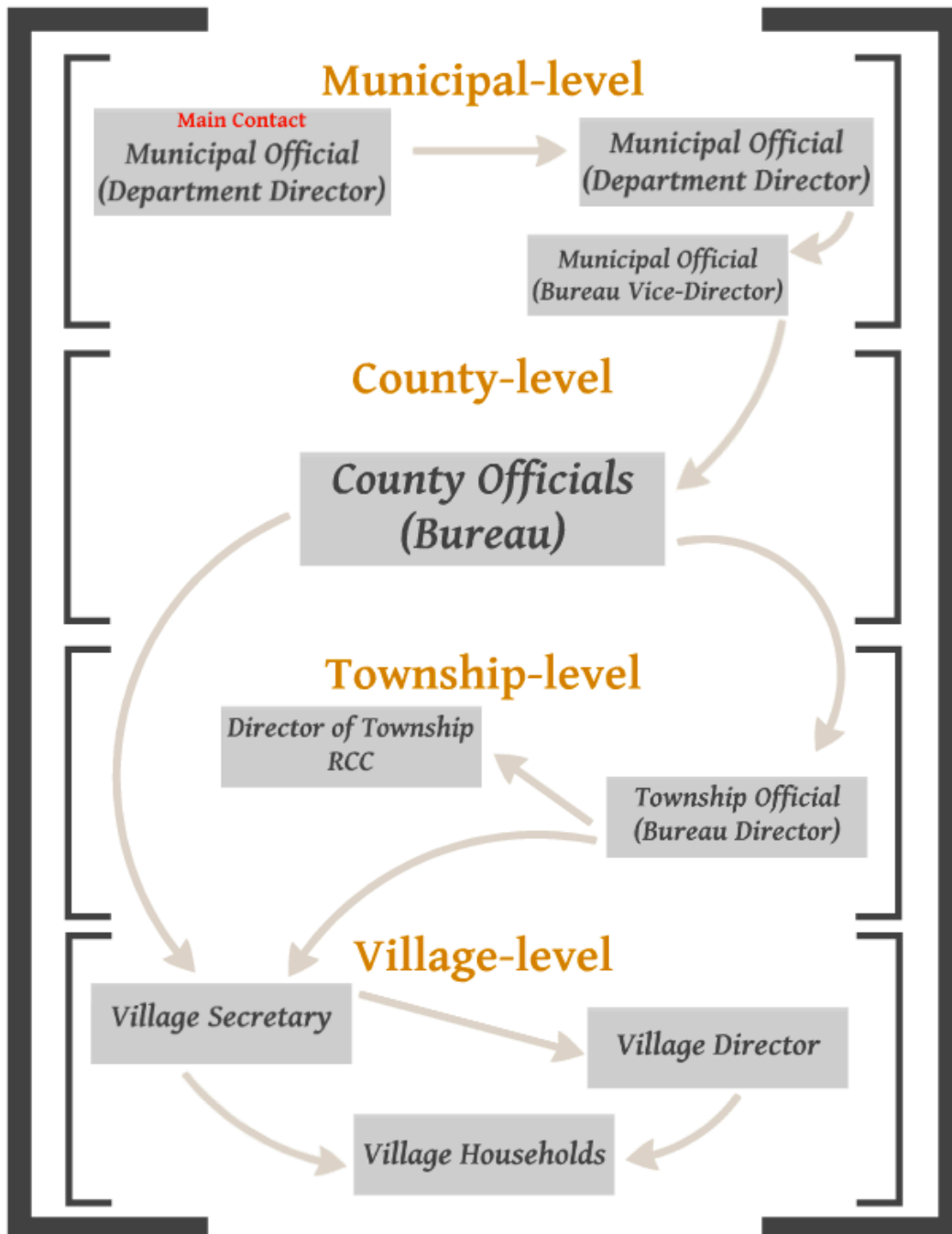
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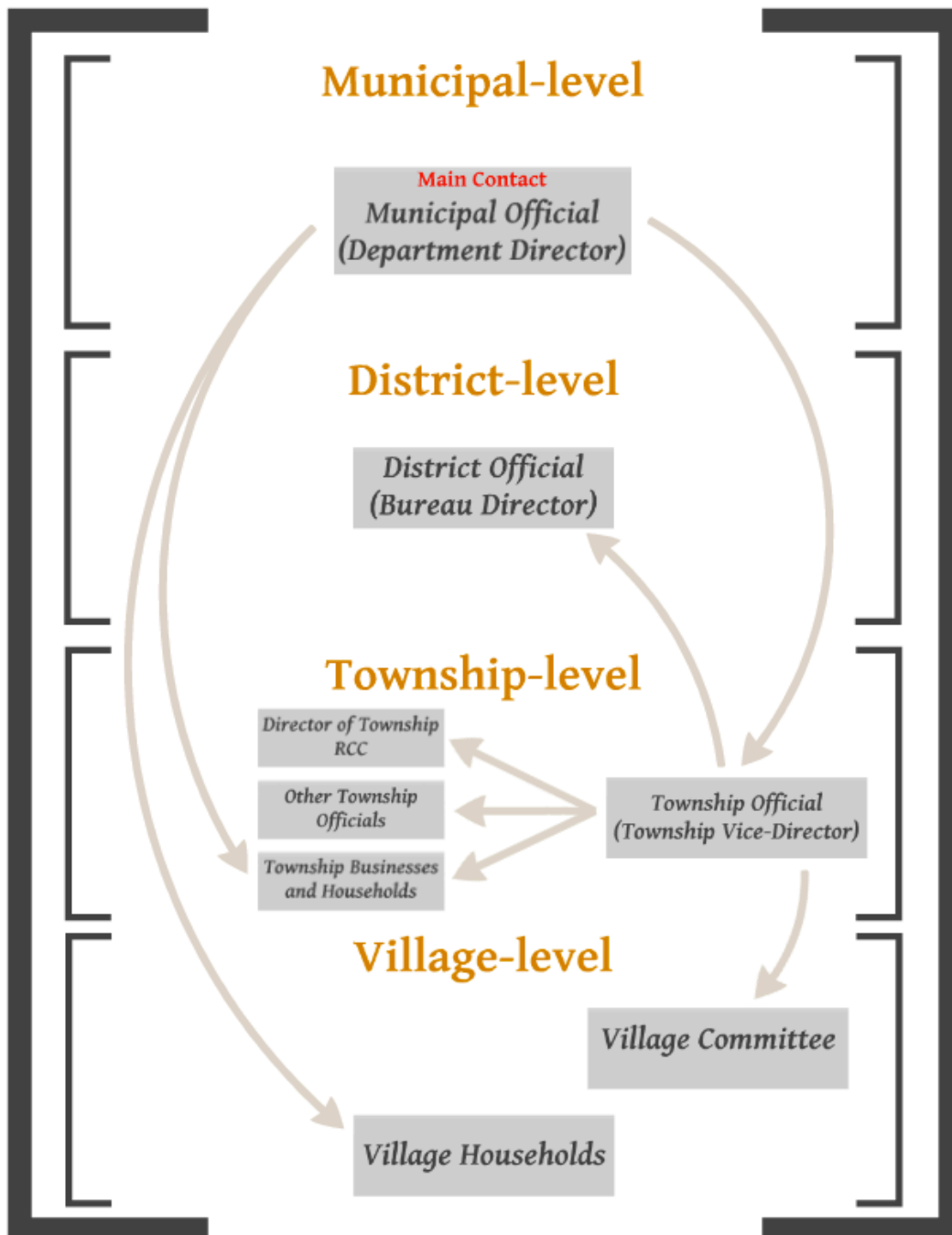
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## Appendix A: Accessing the Fieldwork Sites

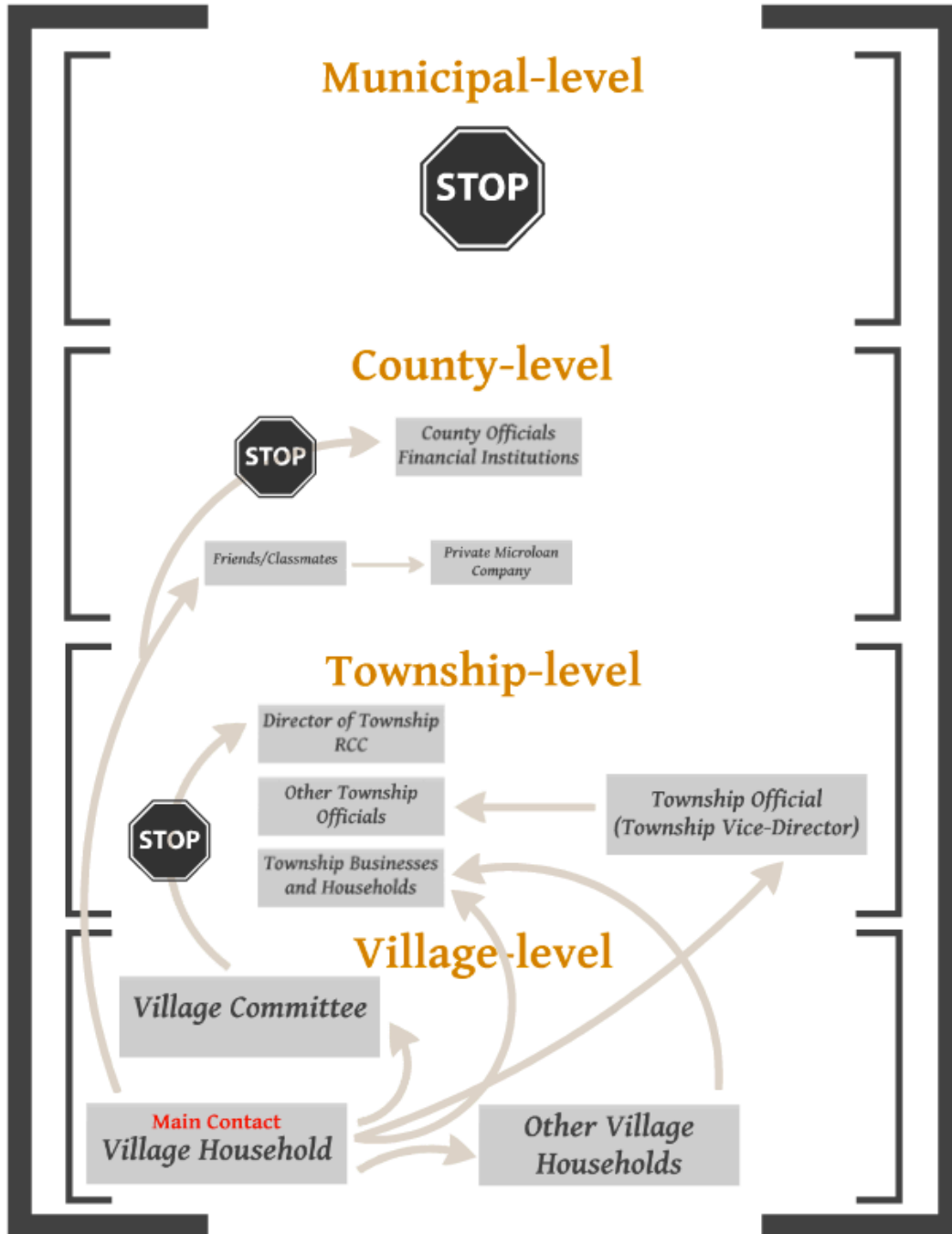
### The Agricultural Township



### The Migrant Work Township



### The Diverse Economy Township



## Appendix B: Business Mapping Results

### Migrant Work Township Businesses

<b>Business Type</b>	<b>Number of Businesses</b>
Construction/Construction materials	27
Appliances and things for the home	8
Hardware/Fix-it	3
Supermarkets (large and medium)	9
Small convenience shops	13
Restaurants (large and medium)	5
Restaurants (small)	4
Bakeries	1
Hotels	2
Motorcycle sales and repairs	4
Computers	1
Printing	2
China Telecom	1
China Unicom	1
China Mobile	3
Clothing	8
Hair dressers	2
Baby milk powder	1
Pharmacies	2
Car washes	1
Gas Stations	1
Majiang halls	4
Internet bars	1
Pool halls	1
Natural Gas Plants	1
Commercial Farms	1
Pig raising facilities	5
Private kindergartens	1
Industrial park factories	9 (13 vacancies)
Street vendors	A variety of vendors selling diverse products and services; also a daily wet market and a large market every Wednesday
<b>Total</b>	<b>122 (excluding street vendors)</b>

## Diverse Economy Township Businesses

<b>Business Type</b>	<b>Number of Businesses</b>
Construction/Construction materials	42
Factories (textile components)	12
Appliances and things for the home	42
Hardware/Fix-it	10
Supermarkets (large and medium)	8
Small convenience shops	19
Restaurants (large and medium)	3
Restaurants (small)	10
Hotels	13
Motorcycle sales and repairs	7
Bicycle sales and repairs	1
Computers	3
Printing	1
China Telecom	3
China Unicom	1
China Mobile	6
Clothing/shoes	45
Hair dressers	12
Pharmacies	6
Mechanics (large vehicles)	7
Car wash and car accessories	3
Gas stations	2
Agricultural products	14
Tea processing plants	1
Rice processing plants	1
Specialist food shops (e.g. fruit)	17
Bottled water	4
Daily necessities	2
Baby products	1
Toy stores	2
Book stores	2
Musical instruments	1
Cosmetics	3
Jewellery	3
Funeral materials	1
Yarn/thread	2
Train/lottery tickets	1
Photography	1
Eye/sun glasses	1
Fishing equipment	1
DVDs	1
Majiang halls	1
Pool halls	1
Massage parlours	3
Internet bars	1
Private kindergartens	1
Private summer schools	1
Street vendors	A variety of vendors selling diverse products and services
<b>Total</b>	<b>332 (excluding street vendors)</b>

## Appendix C: Household Socioeconomic Classification and Mapping Results

### Household Socioeconomic Classification Criteria

<b>Class 1</b>	<ul style="list-style-type: none"> <li>• Obviously larger than other houses in the community (3-4 stories)</li> <li>• Built within the last decade</li> <li>• Concrete construction (brick interior) and modern amenities (e.g. air conditioners, large TVs, computers with internet access)</li> <li>• Located on larger plots of land than other houses, better locations</li> <li>• Owned by local elites or family of wealthy/powerful people living outside the community</li> </ul>
<b>Class 2</b>	<ul style="list-style-type: none"> <li>• Large houses built within the last decade, but not as big as Class 1 houses (2-3 stories)</li> <li>• Sometimes only partially furnished</li> <li>• Concrete construction (brick interior) and maybe some modern amenities (e.g. air conditioners, large TVs, computers with internet access)</li> <li>• Located on normal-sized plots of land, normal locations</li> <li>• Usually financed with remittances from migrant work or local business, some informal loans</li> </ul>
<b>Class 3</b>	<ul style="list-style-type: none"> <li>• Medium-sized houses built in the 1980s-1990s (2 stories)</li> <li>• Concrete construction (brick interior), often with tiles on the exterior walls</li> <li>• Usually basic interiors without modern amenities (e.g. fans instead of air conditioners)</li> <li>• Located on normal-sized plots of land, normal locations</li> <li>• Financed with savings and/or informal loans</li> </ul>
<b>Class 4</b>	<ul style="list-style-type: none"> <li>• Small houses built in the 1960s-1980s (1-2 stories); sometimes much older</li> <li>• Traditional grey/red brick and wood construction</li> <li>• Basic interiors without modern amenities; often farm tools and animals also in the house</li> <li>• Located on relatively smaller plots of land than newer houses</li> <li>• Built by the residents with help of others in the community in the 1960s-1980s; sometimes much older houses that have been maintained by the inhabitants (e.g. traditional houses of elites in early 1900s)</li> </ul>
<b>Class 5</b>	<ul style="list-style-type: none"> <li>• Small houses built in the 1950s-1970s (1 story)</li> <li>• Mud brick and wood construction</li> <li>• Very basic interiors without modern amenities; often poorly maintained (e.g. holes in the roof); farm tools and animals also in the house</li> <li>• Located on relatively smaller plots of land than the newer houses; often located on relatively poor quality farmland</li> <li>• Built by the residents with help of others in the community in the 1950s-1970s; inhabited by the poorest people in the community</li> </ul>

## Household Socioeconomic Mapping Results

### Agricultural Township (Village) Household Class Distribution

Class 1	Class 2	Class 3	Class 4	Class 5	Storage	Abandoned
0%	15%	30%	50%	5%	0%	0%

### Migrant Work Township (Village) Household Class Distribution

Class 1	Class 2	Class 3	Class 4	Class 5	Storage	Abandoned
2%	4%	53%	13%	11%	7%	10%

### Diverse Economy Township (Village/Township) Household Class Distribution

Class 1	Class 2	Class 3	Class 4	Class 5	Storage	Abandoned
<1% (only 1)	42%	47%	9%	0%	0%	2%