

Microfinance in Fisheries in China

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Abstract

Because of lack of collateral and formal financial information, family aquacultures and small boat owners find it difficult to get loans from formal financial institutions. Fishery microfinance can partly solve the information asymmetry and incomplete contract problems in rural financial market, and it is an effective complement to formal fishery finance. The service object of fishery microfinance is mainly micro-enterprises in fisheries, including family aquacultures and small fishing boats. Fishery microfinance providers include formal financial institutions and many kinds of micro-financial institutions, among which China Fishery Mutual Insurance Association (FMIA) is the most famous one. Although micro-finance has a 20-year-history in China, there are still some problems that block its advance. The market is huge, but the existing providers are not providing good services and most are not sustainable. There is still a long way towards commercial operation and financial sustainability.

Keywords

Microfinance, Micro-Credit, Fishery

1. Introduction

Micro-finance is defined as a series of small financial services provided to the poor or low-income households or micro-enterprises. Micro-financial services include micro-credit, micro-deposit and micro-insurance, of which micro-credit is the core business [1]. It arose in the mid of 1970s in the 20 century. After almost 40 years of practice, especially in recent 20 years of development, micro-credit gets promotion rapidly in Asia, Africa, Latin America and other developing countries.

2. Microfinance Is Complement to Normal Fishery Finance

Fishery finance mainly discusses financing problems in fishing, aquaculture and aquatic product processing industry. Fisheries sectors need diversity of financial products and services. Microfinance is one of them. It cannot fulfill the large capital need of fisheries. And it cannot replace traditional credit products provided by the mainstream financial institutions. However, fishery microfinance can partly solve the information asymmetry and incomplete contract problems in rural financial market [2]. It is an effective complement to formal fishery finance.

2.1. Service Object of Fishery Microfinance

The service object of fishery microfinance is mainly micro-enterprises in fisheries. Micro-enterprises refer to small businesses and family workshops. In China they are small businesses with business income less than 0.5 million RMB a year. China's fisheries micro-enterprises are given priority to family aquacultures and small fishing boats. Family aquacultures need money to improve aquaculture places, such as tidal flats, ponds, lakes, and reservoirs. Small fishing boat owners need capital to repair boats and to buy fishing tools and oil.

Lack of financial services and financial support has been a bottleneck restricting the development of China's fishery micro-enterprises. According to a sample survey made by China Fishery Mutual Insurance Association (FMIA) in 2010, 93.55% of boat owners are in shortage of funds [3]. Fisheries microfinance aims to improve the business environment of fishery micro-enterprises.

2.2. Microfinance Is an Effective Supplement to Normal Fishery Finance

Fishery microfinance provides micro-enterprises with a series of financial services, such as loans, savings, transfers, and insurance. Fishery microfinance is a little different with traditional formal finance. Its main business is fishery micro-credit, solving the problem of fund shortage confronted by family aquacultures and small fishing boats.

Because of lack of collateral, family aquacultures find it difficult to get loans from formal financial institutions. On the one hand, based on funding liquidity and safety, banks and other financial institutions hardly provide loans on credit. The only way that small and medium-sized enterprises can get capital from banks is by mortgages with collateral. But small aquaculture enterprises are lack of fixed assets which can be pledged. On the other hand, traditional commercial banks are low risk preference, while fishery financial market is an information intensive market with highly asymmetric information as its inherent characteristics. Family aquacultures are small and their organization structure is loose. They haven't formal financial reports and budget management. Financial information asymmetry excludes family aquacultures outside the scope of formal financial institutions loans.

Small boat owners also faced a serious shortage of funds. There was a sample survey made by FMIA in five provinces of Liaoning, Shandong, Jiangsu, Zhejiang, and Guangxi. According to the survey, more than one half of the capital needed by small boat owners is from private lending. The highest proportion of private lending is as high as 90% of total lending money in some area. The main reason that small boat owners can't get loans from formal finance is the same with family aquacultures'—they are lack of formal financial information.

To sum up, fishery micro-enterprises lack traditional mortgage collateral. They cannot provide transparent financial information and good credit records. So it is difficult for them to get loans from formal financial institutions. Microfinance features group loans and relationship lending. It partly solves information asymmetry problems between borrowers and lenders by using of large number of non-financial information known as soft information. Microfinance is an effective complement to formal fishery finance.

3. Development of Fishery Microfinance in China

Microfinance in China is in the main form of micro-credit at present. In October 1993, the government introduced micro-credit, modeled from the Grameen Bank, as part of their poverty alleviation initiatives. Since then micro-credit and microfinance as a proper noun and a form of financial poverty alleviation began to spread in China [4]. According to **Table 1**, microfinance in China has experienced a change from "poverty alleviation" to "commercial operation". Its service object has changed from the original poor households to micro-enterprises. Now there are many microfinance providers besides NGOs. These providers are rural cooperative financial institutions and many forms of commercial microfinance institutions. According to China's central bank's data in late 2011, rural credit cooperatives provided over 2.4 trillion RMB loans to rural households. The Agricultural Bank of China offered credit support to 45000 micro-enterprises with a loan balance more than 500 billion RMB.

The above micro-credit business is for agriculture as a whole, including crop farming, grassland farming, forestry and aquaculture. Besides the above micro-credit services, there are also microfinance businesses especially for aquaculture. They are provided by professional capital mutual cooperatives, among which FMIA is the most famous one.

Table 1. The development of micro-credit in China.

Stage	Feature	Providers	Capital source	Service object
The first stage (1994-October, 1996)	Aim to poverty alleviation	NGOs	International donors, soft loans	Poor farmers
The second stage (October, 1996-2000)	policy microfinance poverty alleviation project arose	Government agency, agricultural bank of China and agricultural development Bank of china	financial fund, discount government loans	Poor farmers
The third stage (2000-2005)	Commercial microfinance business arose, such as micro-credit and grope loans for farmers	Formal financial institutions got in, mainly rural credit cooperatives	Financial fund, discount government loans, commercial bank loans	Poor farmers, normal farmers and micro-enterprises
The fourth stage (2005 till now)	Professional organizations got in	Commercial micro-credit institutions got in, including loan-only companies, village banks, rural mutual cooperatives, and China postal savings bank	Financial fund, discount government loans, commercial bank loans, capital from non-financial institutions	Poor farmers, normal farmers and micro-enterprises

In June 2009, the pilot work on micro-credit was carried out by FMIA in Shandong, Guangxi, Hainan, Fujian, and Zhejiang. It is a kind of entrusted Loan. The total loan fund is more than 70 million RMB. The up-limit of a single loan is 10,000 RMB.

4. Existing Problems in the Development of Fishery Microfinance

Fishery microfinance in China promotes the development of fishery industry. It increased the income of fishermen. However, the development of fishery microfinance is still slow [5]. It is difficult for microfinance to meet the capital needs of fishery micro-enterprises. There are problems in such aspects as amount, interest rate and management.

4.1. Source of Funds Shortage

Most micro-credit providers, such as professional mutual cooperatives and loan-only companies cannot absorb deposits. They haven't enough funds to enlarge the microfinance business scale.

Till now FMIA is the most famous professional mutual cooperatives that provide fishery micro-credit. FMIA Zhejiang branch pioneered micro-credit in 2007 and its premium income has always been the highest among all the branches. FMIA Zhejiang branch represents the highest level of fishery micro-credit in China.

According to **Table 2**, the insured boats and fishermen in FMIA Zhejiang branch involve almost all the boats and fishermen in that area. In 2007 FMIA Zhejiang branch extended loans using its own reserve. The loans, amounting to 2 million RMB, were all repaid. It extended loans to more than 1000 boat owners and fishermen from 2008 to 2010 and there was no default. Although the default rate is low, the development of fishery micro-credit is still slow. The amount of micro-credit extended by FMIA Zhejiang branch was 58.46 million RMB in 2010 and the amount of each loan is no more than 10,000 RMB. Only less than 600 boat owners and fishermen obtained loans. Compared with 12,000 insured boats and 120,000 insured fishermen, the loan is insufficient. The main reason that FMIA is in short of funds is its single capital source. FMIA's only capital source is its reserve. And this restricts the amount of credit extended.

4.2. Strict Interest Rate Controls

Micro-credit providers in China include formal financial institutions and informal financial institutions. Most informal financial institutions have pricing power to a certain extent. For example, the interest rate on micro-credit loans granted by micro-lending companies can be 4 times to the central bank's basic rate. However, there is still an interest rate ceiling on micro-credit loans granted by formal financial institutions. As for micro-credit loans granted by rural credit cooperatives there is an interest rate limit, namely between 0.9 - 2.3 times to the central bank's basic rate. Micro-credit loans granted by Agricultural Bank of China/Agricultural Development Bank of China are loans of poverty alleviation. The prime rate of these loans is a unified annual rate of 3%. The interest rate on micro-credit loans granted by city commercial banks is the same with the basic

Table 2. Micro-credit extended by FMIA Zhejiang branch.

Year	Mutual premium income (100 million RMB)	Insured boats (10 thousand)	Percentage of the total boats (%)	Insured fishermen (10 thousand)	Percentage of the total fishermen (%)	Amount of micro-credit extended (10 thousand RMB)
2007	1.46	1.20	80	12.0	90	200
2008	1.90	1.33	93	12.7	96	-
2009	2.22	1.40	96	12.5	97	1010
2010	2.59	1.40	-	12.5	-	5846

Data source: China fisheries yearbook 2008, 2009, 2010, 2011.

rate. Borrowers pay no interest or much lower interest and the interest gap is supported by public finance. Because of the controls on interest rate, interests received from micro-credit cannot match the cost of the loans. Most formal financial institutions cannot keep financial sustainable in micro-credit business. This is also the main reason why most financial institutions are reluctant to participate in rural micro-credit.

4.3. Single Micro-Financial Products

Micro-financial services include micro-credit, micro-deposit and micro-insurance. Compared with single micro-credit, a wider range of micro-financial services can bring more benefits for micro-enterprises. But in the area of fishery microfinance, micro-credit is still the only financial product. Single micro-financial product cause many problems. On the one hand, it cannot fulfill multiple financial demands of micro-enterprises. On the other hand, it goes against the profit expanding and operating risk spread of financial institutions.

5. Conclusions

Now, micro-finance is not only a poverty alleviation tool but also a profitable venture. The proportion of commercial capital source in micro-credit is rising. China's fishery microfinance market is changing too. But there is still a long way towards commercial operation and financial sustainability.

There is no single agency, which is universal or is the best in fishery micro-credit market. A multi-layer of micro-credit providers is better than a single form of financial institution. It can transfer all kinds of market information quickly and fulfill the financial needs of all kinds. And diversification of micro-finance products is beneficial to both micro-enterprises and micro-finance providers.

Reasonable interest rate is one of the key factors for sustainable development of micro-credit. According to the successful experiences of international micro-credit projects, interest rate on micro-credit loans should be higher than that on usual commercial loans [6]. Micro-credit financial institutions might be willing to scale up micro-credit loans, only if these businesses make profit. Government should distinguish between financial poverty alleviation and micro-credit. And it should reduce intervention on micro-credit as far as possible. It is clear that lifting controls on interest rate can improve profit on micro-credit loans and achieve its financial sustainable.

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