Session 6: Financial inclusion

Presentation

Role and Challenges of China’s Inclusive Finance

by

Du Xiaoshan

Chairman, China Association of Microfinance

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Du Xiaoshan, Chairman
China Association of Microfinance

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1. How has financial inclusion strengthened development of China?
2. Given current reform initiatives in China, what challenges have arisen to enhance financial inclusion?
1. How has financial inclusion strengthened development of China?

- 99.6-9% of Chinese enterprises are SMEs, approximately 4 million; registered sole proprietors reached more than 40 million, and amounted to over 100 million if unregistered is considered.
- SMEs created 60% of total GDP, 68% of exports and imports and 53% of taxes, provided more than 75% of urban jobs, completed 66% of invention patents, more than 82% of new product development.

1. As a core component in private economic power, small enterprises and microenterprises play an important role in the overall health and vitality of the national economy.

- Separate data (Dong Jianyue, Financial Times 2014,4,21) says: 2013, SEs and microenterprises accounted for 94% of the total number of enterprises, created 65% of total GDP, provided 85% of urban jobs and 60% of income taxes.
1. **How has financial inclusion strengthened development of China?**

- To solve the financing problem of SMEs and microenterprises is not only beneficial for the government and SMEs, but also more revolutionary for financial institutions, which will bring enormous social and economic benefits to all the parties.
- Contribute to the achievement of central government’s goal of “Building Inclusive Finance”, which means financial services reaching and covering vulnerable areas, industries and groups.

1. **How has financial inclusion strengthened development of China?**

- Conducive to the improvement of China's financial system.
- Conducive to the growth and innovation of China's SMEs and microenterprises.
- Conducive to entrepreneurship and employment, promotion of people’s livelihood, narrowing of the income gap, and building of a harmonious society.
2. **What challenges have arisen to enhance financial inclusion?**

   - How to maximize social effects and economic benefits
   - Improve asset/service quality
   - Expand scale and depth
   - Increase cost-benefit ration

**Characteristics and Challenges:**

- **Lags exist between practices and policies/regulations, currently there is a speed up momentum, need flexible policies adjusted to local conditions.**

- **Eg: no policies and regulations for P2P, need supportive policies/regulations for mutual funds of farmers and cooperative finance**
2. What challenges have arisen to enhance financial inclusion?

- Value commercial microfinance, neglect cooperative finance and non-profit microfinance, need supportive policy for non-profit microfinance

Micro-level

Internal Factors of Retail financial service providers

- Mature management capacity: Stakeholders have a common business philosophy, familiar with microfinance and commercial banking business management, etc,
- Correct development strategy for own institution.
- Standardized financial techniques and procedures
- Young and highly committed employee
Meso-level

Strengthen fundamental financial infrastructure and a range of intermediaries that can help microfinance service providers to achieve lower transaction costs, and expand the scale and depth of services, improve skills and promote transparency, including auditors, rating agencies, professional business network, industry associations, credit institutions, settlement and payment systems, information technology, technical advisory services, training, and so on.

Macro-level

- Should study and have complete and coordinated development strategies, executive plan, enforcement measures and monitoring mechanisms for inclusive finance, including policy finance, commercial finance, cooperative finance and informal finance.
- Legal status of microfinance institutions and fiscal policies
- Financing channels and leverage, etc.
- Improve cooperation and coordination among related central and local government agencies, facilitate the sound development of inclusive finance and microfinance programs of different institutions.
- Need to increase financial literacy and implement consumer protection.
Thank you!