



PlaNNet Finance

GLOBAL NEWS

November 2008

PlaNNet Finance Group Newsletter

Microfinance in China

Guest Editorial

Following the rapid development of the microfinance sector in the world, microfinance is finally becoming one of the potential core businesses in some of China's financial institutions. Selected foreign institutions have also become active in entering the China microfinance market. Harbin Bank is one of the very few Chinese institutions that aspires to setting up a top-class microfinance bank.

In its own words, Harbin Bank constantly holds to the principle of working toward 'Inclusive Finance and Harmonious Enrichment'. The bank has been dedicated to commercial viable microfinance for many years, and has chalked up some significant achievements. By the end of the financial year of 2007, Harbin Bank had an outstanding micro-credit portfolio of USD 1 billion, which generated 44 percent of the bank's total profit. Harbin Bank has received high praise and positive comments from the Chinese government as well as the China Banking Regulatory Commission (CBRC), China's regulator of financial institutions. Harbin Bank has actively developed partnerships with international first-class microfinance institutions including PlaNNet Finance. Those new partnerships have made possible the introduction of advanced microfinance theory and skills in China, while also providing a new model for other banks in China to follow. It is apparent to Harbin Bank that there is an enormous potential market in China with 800 million farmers and 25 million soil owners.

These partnerships have not only enhanced Harbin Bank's capability in microfinance management, but also promoted microfinance's overall development in China. However, Harbin Bank is aware that its experiences need to be further built up and its skills further improved. In 2005, PlaNNet Finance started its collaboration with Harbin Bank, with a first diagnostic of its activities. Two years later, PlaNNet Finance developed a downscaling program for Harbin Bank. As a practitioner and pioneer in the field of microfinance in China, Harbin Bank is pleased to collaborate with international advanced microfinance institutions, on various levels and in diverse fields, for the purposes of exploring China and the world's microfinance markets for realizing mutual benefits.

Mr Zhiwen Guo,
Board Chairman, Harbin Bank

Microentrepreneur of the Month

Lu Chaoshuang, China

Winner of the "International Microfinance Awards" in the category "New Technologies" and client of the Harbin Bank

In 2006 Lu Chaoshuang created his company the Harbin Hong Rui Electric Co. Ltd, which develops new technology in the automobile sector and produces wiring systems for motor car engines.

Thanks to a loan from the Harbin Bank, his business has been able to develop rapidly, increasing his sales and margins. Lu Chaoshuang today employs 45 people in the Harbin Hong Rui Electric Co. Ltd., the majority of whom were previously unemployed and in addition he offers two positions of employment to disabled people.



The use of new technology enables a simultaneous reduction in costs and the number of imports, which thus promotes a policy of sustainable development along with a decrease in pollution. After having successfully worked for Nanjing IVECO Motor Company, Mr Lu foresees developing products for two new companies: Shanghai MG Motor Company and Nanjing IVECO Motor Company. On the 28 October last, Mr Lu received a prize sponsored by Sogeti, in the category "New Technology" during the first presentation of the "International Microfinance Awards", which was held during the event to mark the 10th anniversary of PlaNNet Finance.

Mr Lu Chaoshuang, receiving a prize at the « International Microfinance Awards » from Luc-François Salvador (Sogeti) and Jacques Attali (PlaNNet Finance).



Mr Zhiwen Guo, Board Chairman—Harbin Bank and **Jacques Attali,** President of PlaNNet Finance signing a 3-year cooperation agreement for a downscaling project June 11, 2007

The rise of microfinance in China

NGO-style microfinance

In terms of NGO-style microfinance, lack of a recognized legal status has been the sector's largest obstacle since the first 300-odd microfinance experiments were initiated in the late 1980s and early 1990s. Most early microfinance projects created by international agencies, such as the UNDP and UNICEF had a "special" but not legal status beyond registration with the local government under a Project Office.

With approximately 300 million people remaining below the World Bank poverty line in 2005, the Chinese government began making initiatives to recognize the legal status of microfinance institutions, or to transform older organizations into something with a recognized status.. However, pilots such as microcredit entities permitted to register as "microcredit limited liability companies" under an initiative of the People's Bank of China, are, with a few exceptions (such as MicroCred Nan-chong) focusing on the middle and lower segments of corporate lending market, rather than on the needs of microentrepreneurs and farmers.

“ Change management and mentoring through transformation has become an important part of PlaNNet Finance China's work ”

The new village banks (VBs) set up under the China Banking Regulatory Commission's auspices have so far encouraged more strategic "political" investment than investment in a "new business entity" in rural areas. Many of the new VBs have a charter to do a full range of loan sizes within the specified boundaries. For the most part, they have chosen to first do what they know, which is what we think of as SME banking. PlaNNet Finance China is now being asked to help these VBs to make the business case for smaller loan business, customized risk management systems of control, and local market survey methods.

Today, the nature of legal status continues to be problematic for players negotiating with the authorities in China.

In many cases, negotiation around complex asset ownership involves division between various founding parties before their legal status can finally be made clear. As a result, change management and mentoring through transformation has become an important part of PlaNNet Finance China's work with the smaller microfinance organizations, such as under the Asia Invest Training programme we have just finished running in tandem with Grameen Foundation; in November, certain organizations received capacity-building trainings from PlaNNet Finance Asia-based regional technical advisors.

The Postal Savings Bank and the Rural Credit Cooperatives

As the sector is currently very fragmented, the rural sector is waiting for a clearer vision of what the new Postal Savings Bank of China, with its potentially huge network of 36,000 original China Post branches, will contribute to financial inclusion for the low-income segment. Another part of the small loan picture in rural areas is the rural credit cooperatives which, although they afford access to credit for more than 73 million clients, are still labouring under mandatory low interest rates that automatically render them unsustainable, and many of them need re-training so as to be more proactive in the market; alternately, in order to survive, they divert their activity into fewer SME-style loans in support of agri-business. To complete the picture, rural cooperatives formed at the village level are permitted to run small circulating loan programmes if they can demonstrate adequate governance provisions, but the numbers of loans involved are not yet being documented.

New Trends

At the beginning of 2008, NGO and state-run microfinance organizations between them had a maximum of 100,000 active clients, an insignificant number in terms of Chinese demographics.

By mid-year 2008, the efforts by certain pioneering city commercial banks such as Harbin Bank, Taizhou City Commercial Bank, and Baotou

City Commercial Bank to create microcredit departments, are estimated to have tripled that number. Also within the past two months, many new credit companies have started springing up on eastern seaboard China, in the "spirit of the PBoC" initiative.

Recently, there has been new pressure coming from the international social-investment related community: it hopes that more Chinese financial institutions will get involved in the microcredit space and that the regulatory framework for debt financing will become more flexible and more user-friendly, so that scale might be achieved. In the meantime, certain organizations (IFC, KfW, the UNDP and the China Development Bank) have begun setting up funding facilities to help small microfinance institutions. Further, it is hoped that currently small microfinance organizations, which generally have a strong social mission, will transform themselves into sustainable enterprises of scale with recognizable governance structures, and measurable metrics.

PlaNNet Finance China has become something of an information resource centre for visiting organizations on exploratory missions. During the past few months, we have held exchanges about the China market with World Women's Banking, with Unitus, with SKS, with Mercy Corps and with Kiva. Microfinance is finally arriving in China so meaningful movement toward greater financial inclusiveness does not seem so far off.

To learn more about PlaNNet Finance's work in China, please email kdubas@mfchina.cn

Gabrielle Harris
Executive Director
PlaNNet Finance China

Useful Links

www.planetfinance-as.org

http://www.microcredgroup.com/EN/investissements_pays_chine.php

<http://www.hrbcb.com.cn>

Enhancement of Mobile Banking

PlaNNet Finance received a \$1.7 million grant from the Bill & Melinda Gates Foundation to support a Mobile Banking Project. This project, which is co-developed with Orange, will help PlaNNet Finance use Orange's existing mobile phone platform and infrastructure to provide micro-finance clients with enhanced access to banking services.

New MicroFund financings

The MicroFund, has financed two new institutions. MAATA-N-TUDU, a MFI from Ghana received a loan of USD 100,000 to finance its rapid growth and to widen its microentrepreneurs portfolio to 18,700 customers by 2010. AMYPES, a MFI from Salvador received a loan of USD 100,000. The aim of this loan is to finance 1,500 new microentrepreneurs in Soyapango.

Mobile Money Transfer 2008

The Mobile Money Transfer (MMT) conference was held in Dubai from November 10-11, 2008, in presence of PlaNNet Finance.

Mobile Money Transfer is a unique opportunity to bank the unbanked. 2 billion of microentrepreneurs are unbanked but have a mobile phone. PlaNNet Finance believes that the poor microentrepreneurs could use their mobile phone to pay their utility bill and to repay their loan.

Sébastien Duquet, Managing Director of PlaNNet Finance weighted in a panel debate on the theme: how to form successful partnerships between banks, MNOs and MFIs.

PlaNNet Finance Dubai office was also represented for this unprecedented event.

Institutional Movie

PlaNNet Finance Group 's new institutional movie is now available.

You will be able to discover it in the "Media" part of our website : <http://www.planetfinancegroup.org/EN/videos.php>

A movie on PlaNNet Finance's tenth anniversary will also be posted soon.

Winners of the first edition of the « International Microfinance Awards » held on October 28th at the Institut du Monde Arabe, Paris.

The members of the "International Microfinance Awards" jury awarded 8 prizes to microentrepreneurs from across the world among more than 100 applications.

- In the category *Education*, prize was awarded to Enaiat Abdel Aziz Merghany Shawkat (Egypt), client of the Microfinance Institution (MFI) Small and Micro Enterprise Project, Alexandria Business Association
- In the category *Health*, prize was awarded to Luc Sotima Yoro Tante (Benin) client of the MFI Vital Finance
- In the category *Environment*, prizes were awarded to Maroine Mergheni (France) supported by Créo-ADAM Aulnay-sous-Bois (Programme « Entreprendre en Banlieue ») and Ambia Khatun (Bangladesh) client of the MFI Grameen Shakti
- In the category *Innovation*, prize was awarded to Elimane Drame (Senegal) client of the MFI IMCEC Casamance
- In the category *New Technologies*, prizes were awarded to Alain Kaplan (France) supported by Créo-ADAM Sevran (Programme « Entreprendre en Banlieue ») and Luo Chaoshuang (China) client of the Harbin Bank DAZHI Branch
- In the category *Women*, prize was awarded to Liu Qinghe (China) client of the MFI TRDWA



Agenda - December 2008

Events abroad organised by PlaNNet Finance:

2 December : Ceremony of « Microfinance Awards in Morocco », Casablanca, Morocco. Informations: <http://www.planetfinance.org.ma>

Events abroad :

1-3 December : Financial Analysis for Microfinance Institutions, Davao City, Philippines. Informations: <http://www.sedpi.com>

5-6 December : SME Social Responsibility and Opportunities at the Bottom of the Pyramid, Kerala, India. Informations : http://www.isedonline.org/php/news_ised.php#Y

11 December : GTZ-PBC Microfinance Investor Conference, Beijing, China. Informations: <http://www.gtz-china.org/finance/pbc-gtz-2008>

Events in France organised by PlaNNet Finance:

1 December : PlaNNet Finance Breakfast on the theme «Microfinance and currency risk », hosted by Ernst & Young.

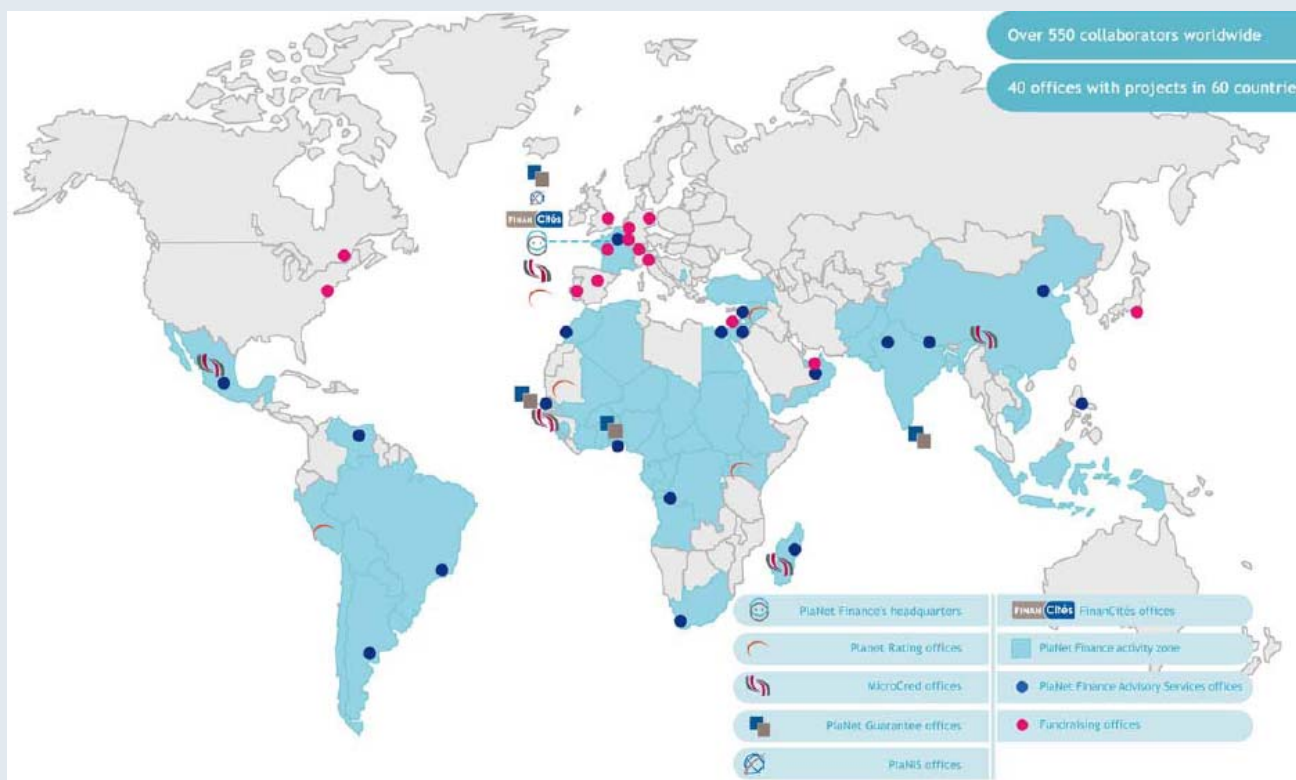
Informations: lespetitsdejeuners@planetfinance.org

PlaNet Finance Group is an international organisation whose mission is to fight against poverty through the development of microfinance.

As a microfinance expert, PlaNet Finance Group provides a diversified set of service to help increase access to financial services for the poor :

- PlaNet Finance Advisory Services**, the technical assistance and consulting provider;
- PlaNIS**, the business unit specialised in microfinance fund advisory, structuration and management;
- Planet Rating**, the microfinance rating agency;
- MicroCred**, the microfinance investment company;
- PlaNet Guarantee**, the microinsurance specialist;
- FinanCités**, the venture capital company for microentrepreneurs in French deprived urban areas.

Based in Paris, the PlaNet Finance Group is active in more than **60 countries** with an international network of **40 offices** in Europe, North America, Latin America, Asia, Africa and the Middle East.



In 2007, PlaNet Finance Advisory Services provided assistance to **220** microfinance institutions (MFIs), reaching almost **9 million clients**. Planet Rating conducted **83 rating missions**, and **2 new Greenfield institutions** were created by MicroCred. PlaNet Guarantee has been able to provide microinsurance products to **120 000 microentrepreneurs**. PlaNIS set up the financing for **40 MFIs** mainly on behalf of responsAbility funds /Credit Suisse and MicroFund for a total of **USD 80 million**. In one year, FinanCités financed **19 microentreprises** in France for a total of **EUR 853,000**.

PlaNet Finance Group gathers more than **550 staff**.

You can download PlaNet Finance's 2007 Annual Report on

www.planetfinancegroup.org



For suggestions or comments, please contact: communication@planetfinance.org

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