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Client targeting by Microfinance Institutions in China

by

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Executive Summary

Growth in China goes hand in hand with a higher disparity between rich and poor. The government has called for an urgent focus on the rural, poverty-stricken populations. Likewise, it has promised that half of urbanites will become middle-class in the medium-term. Access to financial services is essential to reduce the income gap, relieve people from poverty and raise the number of middle-class households. It is estimated that 42% of the Chinese adult population has no access to financial services. Recently, the government has been strongly supporting the establishment of Microfinance Institutions (MFIs) across the country for the purpose of triggering financial inclusion, particularly credit inclusion. The impacts of this policy, nonetheless, have not currently been meeting the government's expectations.

The financial success of an MFI is strongly influenced by its client targeting – both its targeting strategy and targeting initiators. Target clients are neither well defined nor adequately attracted in China. MFIs, consequently, grant credit to the financially served whereas they neglect the unbanked and underbanked. This failure is not limited to Chinese MFIs; South African and Indian MFIs also feature a flawed client targeting.

This paper is aimed at providing recommendations for different targeting initiators in light of all these difficulties, and outlines the prospects for other stakeholders in the Chinese inclusive finance industry. The first section of this paper contains, to that end, a definition of terms related to the inclusive finance industry – both internationally and in the specific context of China. Next, the paper draws an appropriate MFI client profile and builds up a two-dimensional theoretical framework of client targeting in inclusive finance. Third, it analyses the current regulatory regime and the existing proposals for client targeting in the South African and Indian inclusive finance industry. Likewise, the regulatory and practical situation in China is presented. This finally leads to the recommendations, which are based on this cross-country analysis as well as on the recent literature and the observations of the participants of the Third International Microfinance Investor Conference and The Second Working Group Meeting, both held in Beijing in 2011.

This paper concludes that the Chinese government needs, among others things, to review the terminology used in legal texts, liberalize the capital market, and encourage innovation, in order to trigger financial inclusion. The government, as the key target initiator, substantially acts upon the other stakeholders in the inclusive finance sector. Both MFI management and the Chinese government need to take a strong double-bottom line approach to fight financial exclusion. Such an approach from the top stakeholders will serve as a guideline and an example to the rest, and will spread through the network of MFI staff, clients, shareholders, investors and service providers.