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Rural Finance, Development and Livelihoods in China

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Rural Finance, Development and Livelihoods in China

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Abstract:
Establishing an inclusive financial system with comprehensive and accessible services in rural areas is increasingly promoted as a crucial element for socio-economic development both in China and globally. Yet, in existing research on China's agricultural and rural development, relatively less attention has been paid to the ways in which changes in the provision of rural finance have impacted the livelihoods of individuals, families and communities from the perspectives of local people. This paper intends to contribute to our understanding of the relationship between rural finance and development by delineating a recent history of financial service extension to rural areas since the founding of the People's Republic of China in 1949. We analyse, in particular, the accelerated pace of the expansion and diversification of such services together with a deeper penetration of the so-called 'microfinance industry' in rural China since the mid-2000s. We analyse the major actors and dynamics involved , the strengths and weaknesses in current scholarship, and suggest ways forward in order to deepen our understanding of the relationship between rural finance, development and the livelihoods in China and beyond.

Keywords:
Rural financial services, financial extension and diversification, urban-rural integration, microcredit, livelihoods, China

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1 Introduction

Recent research has highlighted the importance of developing comprehensive and accessible financial systems and allocating scarce resources in rural areas as a means of promoting socio-economic development (Brandt et al. 2001; Nyberg & Rozelle 1999; Zhang et al. 2012). Financial intermediaries have also been linked to increasing rural income, encouraging entrepreneurship, and improving rural livelihoods through the provision of resources for investment in farm, off-farm and non-farm activities, rural industries, and in human capital (e.g. education, healthcare, etc.) and/or consumption purposes such as housing (Ong 2011; Pan et al. 2009). Moreover, with the rise of the global microfinance movement since the 1970s, the concept of financial inclusion – the argument that access to financial services is a basic right – has gained popularity, and increased access to financial services and products has been credited with having a variety of beneficial impact (both financial and social) on rural individuals, households and communities (Helms 2006; United Nations 2006).

There can be no doubt that rural finance has played an important role in the rapid and transformative development in rural China over the past three decades and more. Informal and, in particular, formal financial services have expanded and diversified during this time, and have facilitated rural industrialisation through investment in township and village enterprises (TVEs), promotion of local entrepreneurial and sideline businesses, agricultural intensification and mechanisation, and rural to urban migration through the expansion of remittance services (Cheng 2006; Tsai 2002; Zhou and Takeuchi 2010). While there is a growing body of research on the development of rural finance in China, this literature tends to be from the disciplinary perspectives of economics and finance, and is more interested in macro-level issues related to the system as a whole (e.g. changes in financial policy) and/or the functioning of rural financial service providers. There has been less academic and policy attention paid to the experiences and perspectives of farmers, farming households and other rural actors as service users, and/or the impact that changes in the provision of rural financial services has had on the lives and livelihoods of local people. In this paper we review systematically the existing literature on rural finance, and its interaction and relationship with broader rural development policies in China in order to gain a better understanding of the state of the art, and to identify approaches and areas that future research can adopt and engage with.

The rest of the paper is organised as follows. In section 2 we delineate a trajectory of the development of rural finance since the establishment of the PRC in 1949. Particular attention is paid to the development of this sector during the past decade. In this context, section 3 systematically reviews the current research on rural finance in China, identifies some of its strengths and weaknesses, and proposes fresh conceptual and methodological approaches, which can be applied in future research. Section 4 concludes the paper.

2 Development of Rural Finance in China since 1949

The recent transformative development of China's rural financial system, and the emergence of new institutions and services must be understood within the context of historical-structural changes to policies and financial service providers. In order to fully understand the relationship between rural finance and socio-economic development, and the implications that this has for rural livelihoods, we first provide a historical overview of financial service development in rural China since the founding of the PRC.

2.1 The pre-reform Period

The Chinese Communist Party (CCP) began restructuring the rural financial system and practice through the introduction of rural credit cooperatives (RCCs) in CCP-controlled regions – known as the 'liberated' areas (*jiefangqu*) – before 1949. As cooperative institutions, RCCs were initially owned by their members (i.e. rural households) and provided both savings and loans services for small agricultural producers. Politically and ideologically, RCCs were established to protect peasants from usurious money-lending practices that were commonplace under the Nationalist government, and therefore can be considered an initial social policy intervention aimed at improving rural welfare and achieving greater equality rather than merely providing financial intermediation (Cheng 2006; Herrmann-Pillath 2009a).

In the 1950s, shortly after the CCP came to power, the government further restructured the rural financial system. Alongside the RCCs, the Agricultural Bank of China (ABC) was established to finance agricultural production through the provision of what would now be considered 'policy loans'.[1] The RCC network expanded nationwide to become the main financial provider for farming households in rural areas.[2] By the mid-1950s, RCC branches increased to over 103,000 with more than 100 million rural households joining as members (Cheng 2006). However, as the pace of agricultural collectivisation escalated after the mid-1950s, the control over RCCs swiftly shifted from the members to the much larger people's communes, which, together with the supply and marketing cooperatives, incorporated RCCs into a single system (Zhao 2011). Following the failed Great Leap Forward (GLF) in 1958, and with the implementation of the economic readjustment policies and consolidation of a three-tiered (commune, brigade, team) collective agricultural system in the early 1960s, management of some of the RCCs was handed to the production brigades until the Cultural Revolution of the 1970s when the People's Bank of China (PBC) took over their administrative duties. Meanwhile, the ABC merged with the PBC during the GLF and was only re-established after the initiation of the reforms (Herrmann-Pillath 2009a).

Under the system of collectivised agriculture, the Chinese rural economy was less diverse and rural people were paid largely in kind (e. g. grain) through the commune's work point remuneration system (Herrmann-Pillath 2009a; Riskin 2009). As a result, rural individuals and households were short of cash, and ideological rigidness of the time forbid almost all private entrepreneurship, as well as discouraging most collective effort to diversify local economies and livelihoods. Within an overall policy framework favouring urban heavy industry over agriculture and the rural sector, RCCs became one of the institutional mechanisms through which the transfer of rural surpluses, including deposits by rural households, to urban areas and industries systematically took place, e. g. through RCC deposits in the PBC (Cheng 2006; Feder et al. 1989; Herrmann-Pillath 2009a; Tam 1988; Zhao 2011). However, RCCs also provided the financial support, e. g. the necessary start-up and operational capital, for an emerging sector of rural enterprises, especially in relatively better-off areas with stronger collective entities. These rural enterprises, which later become known as TVEs, generated extra cash income for both the collectives and rural households. While they did not receive as much support as larger state-owned enterprises (SOEs), they did manage to tap into the RCCs for loans. With the rapid expansion of TVEs since the early 1980s, RCCs continued to use pooled local savings to support local government budgets and TVEs, but were found by some researchers to be reluctant to lend to private individuals and families for initiating small business ventures in different areas (Ong 2011; Tsai 2004).

Informal finance for the purpose of investment was also constrained because of the restrictions on almost all forms of private economic and financial activities, the predominance of a subsistence agriculture, and a largely mono-mode of livelihood during this period. Notwithstanding this, in some areas rural people still set up rotating savings and credit associations (ROSCAs or *huzhuhui*) as a method of interest-free financial self-help, mainly to provide mutual support in meeting the needs of local people for ceremonial events, such as weddings and funerals, or during household crises, e. g. supplementing income during the illness of a family member, as opposed to investment in diverse livelihood activities and entrepreneurial ventures (Hu 2003; Tsai 2004).

2.2 The post-reform Period

Since the market reform was initiated in rural areas through agricultural decollectivisation and the introduction of the household responsibility system in the late 1970s, China's rural financial system has undergone dramatic change and transformation. In 1979 the central government designated the PBC as the country's central bank responsible for setting national monetary policy and regulating the financial sector in mainland China while the ABC was demerged out, and since then has become one of the four

1 Policy loans are subsidised (i. e. below market interest rates) credit programmes aimed at furthering certain government policy objectives rather than seeking profit (Cheng 2006).

2 RCCs are still the major financial institution in rural China, and in some areas they have maintained a monopoly position in formal finance provision (Ong 2011).

major banks under the administration of the PBC.[3] This move redefined the ABC as both a policy and commercial bank, and it also took over control of the RCCs from the PBC given the changing nature of both institutions. These reforms were also meant to re-establish the cooperative nature of RCCs to meet the increasing needs of farmers for credit, which went hand in hand with rapidly diversifying rural livelihoods and growing farmers' income in the first half of the 1980s. However, this restructuring failed to meet the designed goal: while rural savings deposited in the RCCs increased rapidly from RMB 16.6 billion in 1978 to RMB 214.5 billion in 1990 (Cheng 2006: 27), RCCs, under the administration of the ABC, were required to transfer 30 % of these savings to the ABC at low interest rates. Some researchers have pointed out that in the 1980s the RCCs' deposits actually became the largest source of funds for the ABC, representing some 50 % of the latter's total savings (Tam 1988: 67). Drained of their resources, the RCCs were only able to lend 50 % of their total savings amount (Cheng 2006: 27), most of which went to the TVEs within a wider policy environment that encouraged the expansion of TVEs, rural industrialisation, small town development and in-situ urbanisation.

As public or collective entities and formal financial institutions, the ABC and RCCs[4] were also required to provide loans at very low interest rates as a kind of financial support to realise this rural industrialisation strategy. This was evidenced in the fact that although 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 in 1985 to RMB 377.4 billion in 1990, both institutions were, in effect, loss making (Cheng 2006: 27; Ong 2009a; Tam 1988; Zhao 2011). While the strong government support for the TVE sector can be considered a success story of state-led rural industrialisation, given the role of TVEs in driving China's miraculous economic growth for more than a decade after the mid-1980s (Bateman 2010), the strategy also led to some unintended outcomes. First, it, in a sense, contributed to the widening inequalities within rural areas and between coastal and inland regions since the TVE-led growth factor was mostly observed in the more developed eastern coastal region, which, with its booming TVE sector, received the bulk of government support in the form of subsidised loans, while the less developed inland central and western regions shared much less financial resources. Second, the unsatisfactory performance of the two leading financial institutions in rural areas also contributed to dampened incentives to further expand and diversify their products and services for the rural population.

In the second half of the 1980s two important structural changes to the rural financial system occurred resulting in increased rural capital outflow. First, the ABC was allowed to pursue profitable commercial lending opportunities, most of which, however, were in urban areas, by using rural deposits (Tam 1988). This profit pursuit also saw the declining presence of the ABC in rural areas. Second, in 1986 the Postal Savings and Remittance Bureau (PSRB) was established offering savings and remittance transfer (excluding credit) 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 at the central bank at preferential interest rates. This enabled the PSRB to provide its customers 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's funds were deposited by rural households, its pot allocated by the PBC for lending in rural areas was small. In other words, rural deposits captured by the PSRB were not used locally (Cheng 2006: 33; Marks 2010; Ong 2009b: 53). This capital flow from rural to urban areas through the RCCs, the ABC and, in particular, the PSRB occurred despite the intention to provide increasing numbers of migrant workers in Chinese towns and cities with improved services to remit money back to their rural origin. As such, the newly established financial institutions continued the earlier policy effect of channelling rural surpluses to feed into urban development and industrialisation.

At the same time, the first attempts at microfinance began with the incorporation of microcredit based on the Grameen Bank joint-liability lending method into some small-scale projects run by international development agencies and non-profit or non-governmental organisations (NPOs/NGOs), such as the

3 The 'big four' state commercial banks are the Bank of China (BOC), the Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB) and the Agricultural Bank of China (ABC).

4 The RCC, while mutually owned, is defined as a formal financial institution on the grounds that it has been recognised and regulated by the central government/PBC (Zhou and Takeuchi 2010: 304).

World Bank, the United Nations Development Fund for Women (UNIFEM), the International Fund for Agricultural Development (IFAD), the United Nations Population Fund (UNFPA), Heifer International and Oxfam. These projects, initially relying on exogenous sources, e. g. grants, to fund their activities, were often run in cooperation with local authorities and aimed at poverty reduction in rural areas (He et al. 2009).[5] In 1986 the central government started its own subsidised poverty alleviation microloan programme (*guojia fupin tiexi daikuan*) in rural areas (within its overall poverty reduction strategy) with interest rates set as low as 2.88 %, and subsidies being paid for by the Central Treasury (Park & Ren 2001: 43). The microloan scheme was further expanded after 1996 as part of the 8-7 National Poverty Reduction Programme (*guojia baqi fupin gongjian jihua*)[6] to become one of the largest microcredit programmes in the world (Park & Ren 2001; Park & Wang 2010).

Meanwhile, informal and semi-formal rural finance expanded and diversified.[7] In the early 1980s, the Ministry of Agriculture (MOA) introduced another network of financial provider known as rural cooperative foundations (RCFs) (Nyberg & Rozelle 1999). Because many rural areas were experiencing severe shortages of capital and financial services, RCFs became popular and expanded quickly, and by the end of the 1980s they had already attracted RMB 10 billion in deposits. 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, despite their popularity, RCFs effectively fell into a legal grey zone with only a semi-formal status (Cheng 2006; Tsai 2004). Informal institutions such as ROSCAs, pawnshops and even loan sharks also made a dramatic return to rural China. Faced with difficulties in accessing formal finance for credits and loans, rural people have also heavily relied on their social networks, e. g. families, kin (often on the man's side but also increasingly on woman's side as well), fellow villagers and friends, etc., for loans or pooled funds for a variety of purposes, e. g. economic, socio-cultural and human investment, consumption, start-up capital for micro-businesses, children's education, medical expenses, house-building, ceremonial events such as weddings and funerals, and so forth. Some researchers thus estimate that informal finance has become the largest source of lending capital in rural China since the reform began (Hu 2003; Tsai 2004; Turvey and Kong 2010; Zhao 2011).

The 1990s brought more structural change through the official differentiation of rural financial institutions into policy banks, commercial banks and cooperative institutions.[8] The Agricultural Development Bank of China (ADBC) was created in 1994 to take over the policy lending duties of the ABC, and was also put in charge of the government poverty alleviation microloan programme. The RCCs were separated from the ABC with their administration transferred to county unions, which were directly responsible to the PBC (Cheng 2006; Zhao 2011). Along with the change in the institutional structure and management, this differentiation also 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 and small enterprises. In the meantime, thanks to the formation of the ADBC, the ABC was free to pursue profitable commercial endeavours, which were better achieved in urban areas. This led to the ABC's further retreat from rural areas (despite that it is supposedly an 'agricultural bank') and by the end of the 1990s the bank had closed almost all its branches at the township and village levels, as well as many county level branches (Li et al. 2011; Ong 2009c). Meanwhile, the PSRB continued to expand in both urban and rural areas (Cheng 2006).

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5 It should be noted that there is limited in-depth research investigating how such microfinance projects have actually worked on the ground in rural China, although Bislev (2012) provides empirical evidence suggesting that some of the projects might have exacerbated social exclusion on the basis of existing power relations and social stratification in rural communities, e. g. class, ethnicity, lineage, etc., and thus led to greater social division rather than solidarity and cohesion. Overall, this neglect means that there has been little engagement of China Studies scholarship, published in either English or Chinese, with the global debate over microfinance with respect to its ideological underpinnings, implementation processes and policy effects (cf. Aitken 2013; Bateman 2010, 2012; Taylor 2012).

6 The 8-7 National Poverty Reduction Programme was named for its declared targets of lifting 80 million rural people out of poverty in seven years from 1994 to 2000 (Tsai 2004).

7 See Tsai (2004), Zhou and Takeuchi (2010) for definitions and types of rural informal finance in China.

8 The commercial banks (e. g. the 'big four') are expected to be profit-oriented and financially sustainable. Policy banks (e. g. the ADBC) are not profit-oriented but instead provide loans for policy objectives, e. g. poverty reduction. Cooperative institutions typified in the case of the RCCs, in contrast, are mutually owned and should meet the needs of their members (Cheng 2006).

In 1994, a group of researchers from the Chinese Academy of Social Sciences Rural Development Institute (CASS-RDI) established the Funding the Poor Cooperative (FPC) with the support from the Ford Foundation and the Grameen Bank. The FPC was the first purpose-run microfinance institution (MFI) in China, and its establishment is considered to be the beginning of non-governmental institutionalised microcredit in the country inspired by the global microfinance movement of the time. Throughout the 1990s NPO/NGO-style MFIs utilising the Grameen group-lending practice with poverty-reduction goals gained popularity and by the end of the decade there were more than 200 MFIs of this kind (He et al. 2009; Jia 2008; Tsai 2004). These MFIs, however, are not registered as formal financial institutions, and thus not considered a constituent of the financial market subject to government supervision and regulations. They, therefore, are not allowed to conduct the full range of financial business, particularly with regard to accepting and mobilising deposits. Nevertheless, in many rural areas they have been permitted to operate and provide microloans to low-income groups.

After 1996, the government poverty alleviation microloan programme became the main component of the 8-7 National Poverty Alleviation Programme. As part of the restructuring of poverty alleviation efforts, administration of the microloan programme was shifted from the ADBC to the ABC in 1998,[9] and the ABC was required to supply specified microloan quotas to the township and village Poverty Alleviation Offices (PAOs), under the auspices of the State Council's PAO, which were responsible for organising Grameen-style joint-liability lending groups (of about 5 people each) and disbursing the loans. As stated above, these loans had very low interest rate of 2.88 % and were subsidised by the Central Treasury. However, it has been reported that these loans often missed the targeted groups, but instead were captured by more powerful local elites, e. g. officials and better-off groups to either promote local development projects (like TVEs) or serve self-interests not necessarily related to poverty reduction objectives (Ong 2011: 53). Moreover, instead of demanding repayments through stringently applying penalties, which could cause indebtedness, distress, and even crisis for individuals and families, thus aggravating poverty as experienced and documented in many other developing and transitional contexts (cf. Bateman 2012; Taylor 2011, 2012), the poverty alleviation microloan programme did not forcefully implement measures to enforce repayment rules. With policy goals overriding commercial considerations, at least in name, these loans tended to become outstanding (sometimes with repayment rates as low as 50 %) and thus became a liability for the ABC (Druschel 2002; Ong 2011; Park & Ren 2001: 43; Sun 2002; Tsai 2004).

The end of the 1990s was a turbulent time for rural finance in China, which went hand in hand with serious policy challenges resulting from exacerbated rural development issues, e. g. the *sannong* problem,[10] and the state's continued neglect of these issues and retreat from its support for rural areas. In the financial sector, 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 subject to further 'restructuring' and 'overhauls' in an increasingly neoliberal-dominated climate and substantially reduced central government support for agriculture partly through subsidised financial service provision. The existing financial system was seen as incompatible with the commercial banks' core objectives of making or maximising profits, namely their 'efficiency' and 'competitiveness'. The idea of egalitarianism was further abandoned in the overall trend of privatisation and promotion of a free market economy (Bateman 2010). All this led to further withdrawal of the existing financial institutions from the 'unprofitable' and 'inefficient' rural sector. About 18,000 RCFs, which had 5 million clients, were either closed down or merged with RCCs, triggering local campaigns and protests (Tsai 2004). Furthermore, many RCCs were shut down or consolidated through mergers with other, financially 'more successful' RCCs, (especially village-level branches and the total number of RCC branches fell from just under 50,000 to 33,020 by the beginning of the twenty-first century (Cheng 2006; Tsai 2004; Wen 2009).

9 The fact that the ABC, a commercial bank, took responsibility for the poverty alleviation microloan programme, illustrates the often blurred category boundaries between policy, commercial and cooperative financial institutions.

10 The *sannong* issue refers to development problems related to agriculture (*nongye* in Chinese), rural areas (*nongcun*), and farmers (*nongmin*). These problems became increasingly serious since the late 1980s and throughout the 1990s. For more detailed discussions, see Zhang 2009a; Christiansen and Zhang 2009.

These reductions in branch numbers and services, along with the ABC's retreat from townships and villages, represented a significant retraction of the rural financial system and substantially hindered access to financial information, services and institutions for a number of rural actors, especially farmers and farming households at the village level.[11] This meant that many local people would have had to travel further to use RCC/ABC services. Under such circumstances, it became much more convenient for them to use the extended PSRB network for savings, remitting money and posting goods. Meanwhile, the RCCs continued to channel the rural household deposits to local governments and TVEs, most of which had changed from collective to private or semi-private entities by the turn of the new century (Ong 2009a). At the same time, the government poverty alleviation microloan programme tended to be captured by local elites who had wider access to information, better connections, and more resources and power to secure such loans than the targeted population, i. e. low-income groups, resulting in funds being directed away from their designed goals (Ong 2011). For these reasons a majority of rural households and microenterprises continued to rely on informal sources to meet their credit needs (Tsai 2004). All this also contributed to the problem of widening inequalities both across urban-rural areas and within rural localities.

Since the early 2000s there have been two divergent trends in Chinese rural finance. Firstly, the continued exacerbation of the *sannong* issue and increasing social discontent in the countryside have gone hand in hand with the growing gap in income and development between rural and urban sectors and coastal and inland regions. Faced with such challenges, the Hu-Wen administration has started paying greater attention to the *sannong* issue. For example, the *sannong* has been featured in every No. 1 Document issued by the central government at the beginning of each year since 2004, which has delivered a message of stronger political will to deal with these perceived problems. Specific measures have since then been taken in an attempt to reverse the trend of rural China lagging further and further behind urban areas due to a range of unfavourable policies at both macro- and micro-levels. Of these measures, the most prominent are the nationwide abolition of agricultural taxes in 2006, the provision of subsidies for agriculture and farmers since the mid-2000s in a new discourse of 'industry supporting agriculture' (*gongye fanpu nongye*), the launch of the 'construction of a new countryside' movement started at the end of 2005, the stress on 'urban-rural integration' since 2007 (Veek and Wei 2011; Zhang 2009a, 2009b), and, in more recent years, the introduction and establishment of basic social security schemes for migrant workers and a welfare system in rural areas, e. g. piloted social safety net schemes targeting migrants, free nine-year compulsory education, the new rural cooperative medical system (*xinxing nongcun hezuo yiliao*), the new rural pensions (*xinxing nongcun yanglao baoxian*), and so forth (Brown et al. 2009; Watson 2009; Zhang 2009c, 2012).

Within this context, the government again attempted to reform the RCCs in order to better support their members, i. e. rural households. Along with various changes to the RCC structure,[12] the central government wrote off a large amount of RCC debt from non-performing loans and directed the PBC to provide subsidised loans for the RCCs to lend out as microloans aimed at promoting microenterprises and further diversifying rural livelihoods (Ong 2009a). The subsidised RCC microloans (*nonghu xiao'e xinyong daikuan*) not only offer lower interest rates,[13] but also are expected to be accessible by low-income households without collateral (Ong 2011). Another important development in support of the *sannong* was the transformation of the PSRB into the Postal Savings Bank of China (PSBC) in 2007, which has since then been able to provide microcredit services in both urban and rural settings. The PSBC and its national network have been given the task of redirecting investment capital back into rural areas, providing microcredit to rural individuals, households and microenterprises, and to support other MFIs, e. g. NPO/NGO-style MFIs and the private commercial institutions mentioned below,

11 In our fieldwork in Jiangxi in the autumn of 2012, local people in one village stated that the village had an RCC branch in the 1990s. Since its closure at the end of the decade, villagers have had to travel to the township branch, which is located 10 kilometres away, in order to use its services.

12 After 2003 the RCCs were put under the administration of provincial unions (*shenglianshe*) and three RCC institutional models were introduced: rural credit cooperatives, rural cooperative banks, and rural commercial banks. For a more detailed explanation of RCC structure and governance see Ong (2009a, 2009c).

13 Normally RCCs and other state-owned financial institutions are allowed to charge 0.9–2.3 times the basic lending interest rate set by PBC (Du 2008a).

through wholesale loans (Cai 2006; Du 2008b). Finally, the government poverty alleviation microloan programme administered by the ABC through the local PAOs has continued and expanded. In recent years the urban unemployment microloan programme (*zaijiuye xiao'e danbao daikuan*) has been extended to rural areas, providing microcredit at 0 % interest (interest is paid for by the Central Treasury) in order to generate employment opportunities and increase income for the poor.[14] These government initiatives have been created and expanded to more effectively deal with the *sannong* issue in a reversal of the earlier domination of a neo-liberal policy discourse prioritising 'financial sustainability' and 'efficiency', i. e. seeking ever larger profit.

That being said, it should be noted that the growing global neoliberal ideological dominance, particularly with regard to microfinance, which has seen a significant shift from NPO-style loans aimed at tackling rural poverty and improving livelihoods towards market-oriented for-profit goals, known as the financial systems approach (cf. Bateman 2012; Hulme 2008; Robinson 2008), has also impacted policy-making in China. In 2005 the PBC introduced a pilot programme for private profit-oriented microloan companies (MLCs) to operate in rural China; in 2006 the China Banking Regulatory Commission (CBRC) initiated a pilot programme allowing private village and township banks (VTBs) to be established; and in 2007 the CBRC allowed the piloting of rural mutual credit cooperatives (RMCCs), which are the equivalent of the previous ROSCAs. While different rules apply to MLCs and VTBs, the two emerging rural financial institutions are nevertheless allowed to lend at higher interest rates, which can go up to four times the PBC basic lending rate. However, current rules forbid them from operating beyond their home county, and they cannot link up to central administrative units at higher levels either in an attempt to reduce the type of rural capital outflow discussed earlier (Du 2008b; Dubas & Harris 2008; He et al. 2009).

The entry of the new actors into the rural finance sector has created new opportunities for private profit-oriented financial institutions, local investors and global capital represented by international commercial banks to tap into China's rural financial capital, e. g. cash reserves possessed by individuals and households. For instance, since 2008 major international players, such as the Hongkong and Shanghai Banking Corporation (HSBC), the Bank of East Asia (BEA) and Standard Chartered Bank have set up VTBs, and Citibank has invested in MLCs. From 2008 to 2012 an increasing number of VTBs and over 4,000 MLCs have been established nationwide (Wang & Wang 2012). 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 (Du 2008a) though with different proclaimed objectives, i. e. within the wider framework of urban-rural integration, by which the extension of financial services and institutions to rural areas is considered a crucial constituent. The increased competition caused by the growing number of international- and private capital-backed service providers threatens the RCC's monopolistic position, and the RCCs, in turn, have been driven to become more market-oriented, e. g. by seeking higher profit.[15] This has resulted in greater market liberalisation of the rural financial sector, which is increasingly prioritising profit making over considerations of financial inclusion and widening access. All this has helped create a complex, dynamic but often fragmented financial landscape composed of an increasing number of players with different and sometimes conflicting objectives providing a variety of financial services for various rural actors. For instance Cheng (2006) noted that the RCCs, an officially recognised financial provider, should meet the central government's mandate of providing support for *sannong* through policy loans. At the same time, the government expects the RCCs to be financially independent, i. e. responsible for their own profits and losses. To achieve this, the RCCs must

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14 Our interviews with Jiangxi provincial officials and documents (Jiangxi Provincial Department of Human Resources and Social Security 2012) gathered during fieldwork in autumn 2012 suggest that the new unemployment microloans are targeting the following groups: laid-off workers, demobilised military personnel, high school and university graduates initiating micro-business ventures, migrant workers returning to rural areas, households without anyone in employment, students returnees from abroad, and disabled people. Clearly, many of these groups are urban- rather than rural-based, and the broad and vague definition of "unemployment", particularly in rural areas, where farmers are self-employed and farming seasonal, allows county and township officials much discretion in deciding eligibility for and entitlement to such loans. We observed during our fieldwork in rural Jiangxi between 2012 and 2013 that these loans were often provided for people who can hardly be considered 'unemployed'.

15 Based on interviews with RCC managers, government officials, and enterprise managers at the township and county-levels during fieldwork in Jiangxi in 2012 and 2013.

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 demand on the other. Without strong government fiscal support and transfers, the RCCs tend to operate more as a commercial entity regardless of its officially defined duties. Furthermore, it is, at this stage, still unclear whether and how this increasingly complex rural financial market providing a wide range of financial information, products and services has been effectively regulated by the state to protect rural clients, particularly small-scale farmers, mini-enterprises and vulnerable social groups, e. g. low-income individuals and families, from falling victim to unbridled profit-seeking malpractices and even fraud as witnessed in almost all parts of the world.

2.3 The Current State of Rural Finance

One key feature that we can identify from the above historical overview is that China's rural financial system has, at different times, experienced either expansion and diversification, or contraction with key players retreating from rural areas as a result of major ideological and policy shifts. These structural changes have had various impacts on the ways in which different rural actors access and utilise financial services, which, in turn, has implications for rural livelihoods. For instance, agricultural decollectivisation in the late 1970s and early 1980s led to a more dynamic rural economy, thus higher demand for financial services in general, and credit in particular, resulting in increased lending to individuals, households, mini-businesses and microenterprises by RCCs, RCFs and from informal sources. This played an important role in the dramatic rise of TVEs from the mid-1980s throughout the 1990s. At the same time the establishment of the PSRB allowed many households increased access to secure savings and remittances services, which have facilitated rural to urban migration that has fundamentally transformed China's post-reform urban and rural development landscapes. The rise of microcredit after the second half of the 1980s, both governmental and non-governmental, further facilitated credit accessibility for some of the rural poor even though it may have benefited the local elite more than others. The retraction of the rural financial system by the end of the 1990s led to reduced access of farmers and farming households to formal finance, especially at the village level. Over the past decade China's rural financial system has been rapidly expanding and diversifying both in terms of government-subsidised financial services in support of the *sannong* and commercial financial institutions seeking greater profits and investment returns in rural areas.

Tables 1 and 2 show the current financial landscape in rural China in terms of providers and their services. Categorising Chinese rural finance this way, as opposed to focusing only on the institutions themselves, allows us to paint a more comprehensive picture that represents more accurately the current state of affairs. This can help us to clearly identify what financial services are being provided to different segments of the rural population, as well as to clarify some of the concepts that are defined or interpreted differently across the literature. For instance, the terms rural microfinance and microcredit used to be closely associated with the specific Grameen Bank non-profit microloan group-lending model with poverty reduction as the key objective in China as elsewhere. Nowadays, however, these terms are often used in an all-embracing way to indicate any fund of a 'small amount' (Bislev 2012), including loans, savings, remittance transfers, insurance, etc. (Meyer and Nagarajan 2006, cited in Turvey and Kong 2010), provided by a wide range of financial institutions regardless of their operational principles and goals in rural China. The tables below show that the only dedicated providers of microcredit services are genuine NPO-type MFIs, whose numbers are decreasing in China as elsewhere, and government agencies offering subsidised policy-oriented microloans, e. g. poverty alleviation microcredit and unemployment microcredit schemes. Other institutions, such as the RCCs and PSBC, also provide subsidised microcredit, but this is not their main function. Other financial services, e. g. savings and remittances transfers, which are often considered constituents of microfinance in the Chinese context would not fit the definition of 'development microfinance' in the wider global debate over the phenomenon.[16] Mapping out a financial landscape this way makes it possible for us to more precisely define the state of microfinance in China as consisting of mainly microcredit provided by NPOs, RCCs, the

16 Aitken (2013: 474) defines microfinance as "a form of credit offered to the 'very poor' as a way to generate income from microenterprises and, by extension, to reduce poverty among those most disenfranchised in the global economy."

PSBC and government agencies. This, then, provides a base, upon which we can investigate in greater depth through empirical research the dynamic process of rural financial development in China, to assess the impact and implications for the livelihoods of various rural actors from their own perspectives and grounded in the grassroots, and to explore the theoretical and policy relevance of such an academic endeavour and the ways it may contribute to wider global debate.

Table 1: Types of financial service providers in rural China since 2006

	Policy-oriented	Market-oriented		Cooperative	Informal and semi-formal
Providers	ADBC	State-owned: ABC PSBC	Private: VTBs MLCs	RCCs RMCCs	NPO MFIs ROSCAs Moneylenders Pawnshops Friends and family

Table 2: Types of financial services provided by different institutions in rural China since 2006

	Policy loans	Savings	Transfers	Commercial credit	Subsidised microcredit
Sources	ADBC	RCCs RMCCs ABC PSBC VTBs Informal sources	RCCs ABC PSBC Informal sources	RCCs ABC PSBC VTBs MLCs Informal sources	NPOs/NGOs RCCs PSBC Government

3 Research on Rural Finance and Development in China – the Current State of the Art

Our analysis above shows that China's rural financial system has undergone dramatic changes during the past few decades, which have been closely associated with the implementation of, or shifts in, national development strategies in general, and rural, e. g. the *sannong*, policies in particular. These changes have impacted upon rural livelihoods in diverse ways. 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 the financial system in China's rural development. However, a careful scrutiny of current scholarship reveals that, with a few exceptions (e. g. Tsai 2000; Zhang et al. 2012), most work is from the disciplinary perspectives of economics, finance or, to a much lesser extent, political economy, that are mainly interested in macro-level issues related to the provision of rural finance, such as analysis of the rural financial system as a whole and/or specific elements related to the institutional environment within which rural financial institutions operate. Comparatively, much less effort has been made through applying micro-level sociological and anthropological approaches that would shed light on the economic and socio-cultural processes and practices involved in local actors' accessing and utilising financial information, products and services. Only limited voices and perspectives of local people have been represented in terms of the relevance of rural finance to their livelihoods, their dealings and negotiations with institutional financial actors, e. g. NPOs, government and private providers, and the ways in which access to formal and informal finance may have shaped their livelihood choices, trajectories and outcomes. In this section we turn to review systematically current scholarship on China's rural finance in order to identify some of its strengths and weaknesses, the main assumptions underlying both research and policymaking, and areas where our understanding is relatively less developed, necessitating the exploration of new approaches that can direct future research.

3.1 Financial Institutions and Service Provision

Current research has paid considerable attention to the functioning of China's rural financial markets (Findlay et al. 2003; Meyer & Nagarajan 2000; OECD 2003), the role that rural finance has played in economic growth (Nyberg & Rozelle 1999; Ong 2011), in poverty alleviation (Brandt et al. 2001; Zhu et al. 2002), with some also looking at the development of informal finance (Li & Hsu 2009; Tsai

2002; Zhou and Takeuchi 2010), and microfinance in China (Du 2008b; Dubas & Harris 2008; He et al. 2009; Montgomery & Weiss 2006; Park & Ren 2001; Sun 2002; Tsai 2004). Special attention has also been paid to how regulatory reforms have changed the institutional environment for financial service providers, for instance, the differentiation between policy, commercial and cooperative financial intermediaries (Cheng 2006), and how policies have either facilitated or constrained the expansion and diversification of the rural financial industry (Gowrie-Smith 2010; Kwong 2011; Ma 2003; Sun 2008; Thompson 2003). Most commentators tend to consider the current state of China's financial system as 'weak' or 'underdeveloped', then attribute this mainly to 'unwanted' government interventions, which has distorted the market, e. g. through subsidies, and a legal framework that restricts financial service providers in a number of ways (cf. Farrell & Lund 2006; OECD 2003).

There has also been significant interest in examining the operation and functioning of rural financial intermediaries and analysing overall structural changes in the sector. For example, the RCCs, which have the widest network and outreach in rural China, tend to be the focus of many studies, particularly regarding the reforms made over the past few decades to their structure and governance, the regulatory environment, the institutional factors contributing to the RCC crisis in the late 1990s and its effects, and the on-going expansion of RCC-provided microcredit services (Cheng 2006; Ong 2009a; Ong 2009b; Wang 2003; Xie 2003). Similarly, the ABC and its role have been the focus of much attention, especially with regard to the bank's relationship with the RCCs in the 1980s and 1990s, its shift in nature from a policy bank to a state-owned commercial bank in the early 1990s, its retreat from the countryside in the mid to late 1990s and its subsequent return in recent years, its responsibility to implement the central government mandate of disbursing the poverty alleviation microloans, and so forth (Cheng 2006; Du 2008a; Ong 2011; Park & Ren 2001; Park & Wang 2010; Tam 1988). Additionally, there are some good accounts of the regulatory environment, institutional structures, and current outreach of the new players that have come onto the stage since 2005, such as the PSBC, VTBs, MLCs and RMCCs (Cheng 2006; Du 2008b; He et al. 2009; Ong 2011; Sun 2011), but as of yet there has been limited empirical investigation into how these new institutional actors operate at the local level, how they – their presence and practices, products and services – have been received, utilised and perceived by local people, and the impact that they are having on rural livelihoods and development. Finally, there has been some fine empirically-based research on informal finance, focusing on the operation of the informal system and the practices of pooling financial capital through informal social networks (Hu 2003; Li & Hsu 2009; Tsai 2000, 2002, 2004; Zhang et al. 2012; Zhao 2011) in an attempt to understand how rural actors have diversified their livelihoods through informal lending and borrowing for starting, sustaining and expanding a wide range of entrepreneurial endeavours, microenterprises or investment in agribusinesses.

Much of the existing research seeks to provide policy recommendations that are increasingly informed by a neoliberal agenda that has started dominating economic and financial research on China. These include, e. g. a discourse diagnosing the problem in relation to China's rural finance as 'unsustainable' and 'inefficient', and providing prescriptions of greater market 'liberalisation' through further privatisation of financial institutions, e. g. the RCCs, and deregulation of the financial market. The advocacy for further commercialisation and financialisation of microfinance typifies this trend. This recommendation has been 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, e. g. monitoring and regulation, and to some extent control, of the financial sector are under increasing attack and are frequently framed in negative terms – as inhibiting free market operation, prohibiting competition, preventing the automatic optimal allocation of resources, discouraging entrepreneurship, and thus, hindering economic growth and development (Du 2008; OECD 2003). Therefore, much research in the field, implicitly or explicitly, advocates further liberalisation of China's rural financial market, including, e. g. interest rates, services, institutional practices, ownership forms, 'cost-effectiveness', providers and their consolidation, and so forth. More controversially are the political pressure and lobbying efforts by powerful corporate and vested interests for full-scale privatisation through fundamental property rights changes, particularly privatisation of collectively-owned agricultural land, which, as the lobbyers argue, would provide a form of collateral for loans enabling the release of capital locked up in land for farmers to invest in larger-scale agribusiness and other productive assets, among other things (OECD 2003).[17]

These policy recommendations mirror the wider, increasingly dominant ideology of neoliberalism in global finance research and policy-making, which largely underpins the fundamental shift from promoting agricultural development through state actions, e. g. government-subsidised lending to farmers as witnessed in post-Second World War Europe, or non-profit microloans aimed at poverty alleviation in the 1970s and 1980s, to the present-day profit-seeking commercialised 'financial systems approach', particularly relating to microcredit schemes (Adams et al. 1984; Aitkens 2013; Bateman 2012; Hulme 2008; Robinson 2008). In the context of China's financial system development, however, more complexities are involved with respect to ideological and policy directions. On the one hand, the extension of financial institutions and services to rural areas and their subsequent diversification and expansion has been strongly state-led as opposed to a *laissez-faire* market approach, which is contradictory to the predominant neoliberal market orthodoxy and hegemony. On the other hand, the provision of rural finance, especially the supposedly non-profit types, e. g. microcredit, has become increasingly profit-driven and dominated by a neoliberal discourse which is also reflected in the growing body of research in the field taking the 'financial systems approach'. Added to this complexity is the fact that the extension, diversification and expansion of rural finance during the past decade or so has been entangled in complex ways with, and constitutes an important part of the Chinese central government policy initiatives to address more effectively the three rural issues and to alter the dualistic structure between urban and rural economy and society in the wider context of China's political economy of development. All this makes the attempt to box China's dynamic landscape of rural finance in a single 'ism' overly simplistic. The situation therefore calls for identification and application of more appropriate and sophisticated conceptual, analytical and methodological approaches.

3.2 Impact and Implications

Apart from the institutional perspectives identified above, some research has started paying attention to the impact of rural finance on diverse actors. This research, however, also tends to be dominated by the disciplinary perspective of economics combined with a discourse centring on the supply and demand sides of financial services and products, to include, for instance, the analysis of rural demand for financial intermediaries (mainly credit). The main argument put forward is that the market reforms have brought about increasing demand for credit from individuals, 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 (Cheng 2006; Du 2004; Unger 2002) For example, the OECD (2003: 7) estimated that only a small proportion (16 %) of Chinese farmers sought formal or informal credit due to the difficulties that farmers had in meeting the lender's threshold, e. g. a lack of collateral as their land was collectively owned, and the high transaction costs involved in obtaining formal credit. Other factors, e. g. the closure of large numbers of local branches also hindered farmers' access to formal credit. It was estimated that the majority, or more than 70 %, of loans were obtained through informal channels while only less than 30 % were from formal financial institutions. Most studies have attributed such a state to a restrictive policy environment created through unwanted government interventions as discussed above, and recommended further liberalisation and deregulation of the financial market, and commercialisation of the system in order to meet demand (Du 2004; Feder et al. 1989; He 2008; Mu 2003; OECD 2003). At the same time, however, some researchers argue that the Chinese credit constraints are not universally or evenly observed across time and space, pointing to survey data that show widespread use of both formal and informal sources (Park & Ren 2001; Tsai 2004; Zhou and Takeuchi 2010). Other studies contest the predominant view that rural households on low income have high demand for loans by showing that many such households have actually decided to opt out of credit programmes based on careful calculation of potential risks and returns (Park & Ren 2001; Turvey & Kong 2010). Still other more recent studies have begun investigating, in greater detail through micro-level research, individuals' and households' awareness of and access to financial information and services as

17 For a critique and counter-argument, see Zhang and Donaldson (2013).

vital livelihood resources, their selection of the type and provider of products and services (formal and informal), as well as their borrowing behaviours (Tsai 2004; Xu 2009; Zhang et al. 2012; Zhao 2011), revealing high levels of diversity and heterogeneity in individual and household preferences, practices and goals with regard to lending and borrowing.

Investigation into the use of finance constitutes another aspect of impact-oriented research. Again, the majority of studies in this area focus on the use of credit with only a very small minority looking into savings or other financial services and products, e. g. remittances or insurance, with the latter being rarely discussed or mentioned only in passing (Fleisher et al. 1994; Zhang 2013; Zhao 2011). Rural households are found to have used loans for productive purposes, e. g. investment and input in agriculture,[18] including fertiliser, seeds, livestock, tools and machinery, and off-farm and non-farm activities such as microenterprises, and/or for consumption purposes, such as children's education, healthcare,[19] house construction, consumer durables, weddings, funerals, daily necessities – though the boundaries between productive investment and consumption are often blurred since the latter can also be considered as *investment* in human and social capital. In most existing research, borrowed capital used to help households ride out poor harvest and/or personal crises is conceptualised as 'consumption smoothing' (Cheng 2006; Ong 2011; Park et al. 2003; Unger 2002; Zhou & Takeuchi 2010). This notion and the associated dichotomistic division of loan use between 'productive investment' and 'consumption smoothing', however, have been recently questioned by critics, particularly in relation to debates surrounding microfinance (Taylor 2012). Interestingly, in China, unlike elsewhere, loan provision and use for 'consumption smoothing' tends to be more positively framed as a result of the greater outreach and expansion of rural financial services, as well as of rural households' increased awareness of and access to these services. The heterogeneous and multiple uses of loans employed in diverse household livelihood strategies, e. g. engaging simultaneously in farm, off-farm and non-farm activities, and/or through rural-urban migration have, to some extent, been explored in this research (Kumar et al. 2013; Xu 2009).

Generally speaking, only limited research has examined how access to financial information, services and intermediaries may have impacted rural livelihoods from the perspective of local actors through in-depth fieldwork in Chinese villages and townships. That being said, some studies have made such an attempt by applying econometric methods, and found that easier access to financial intermediaries has resulted in increased income and/or consumption (Li et al. 2011; Pan et al. 2009; Park & Ren 2001). It has also been reported that changes in the ways in which access to rural formal/informal financial intermediaries and the utilisation of the services are negotiated may have broader societal implications, such as for gendered division of labour or female empowerment (Bislev 2012; Tsai 2000; Tsien 2002). Some researchers have observed that access to information and subsidised loans provided by, e. g. NGO or government microfinance schemes, is differentiated based on existing social relations, power and emerging social stratification in rural society, using the idea of 'elite capture' (Bislev 2012; Tsai 2000; Unger 2002; Zhang et al. 2012). However, due to the general neoliberal orientation of most existing research in the China Studies field, the literature on China's rural finance in general, and microfinance in particular, has not engaged with the wider global debates over microfinance and the impact of its financialisation on rural livelihoods, especially with regard to the rural poor. In this debate, researchers have provided evidence that in many developing and transitional societies, such as India and Bosnia, the increasingly commercialised microfinance industry has caused severe debts, distress, and crisis at individual, household, community and societal levels with the impact on livelihoods being highly differentiated by caste, class, gender, ethnicity, and so forth (Bateman et al. 2012; Taylor 2011, 2012). This research has gone beyond a mere description and analysis of rural people's livelihood distress and sufferings to question fundamentally the theoretical reasoning, logic and ideological pillars of neoliberal assumptions (Aitken

18 Recent global debates about microfinance point out that in some development contexts, farming does not produce high enough profit margins to allow rural households/'clients' to repay high-interest loans lent by commercialised MFIs (Harper 2012; Marr 2012). However such a conclusion has not yet been proved with empirical evidence drawn from the Chinese context.

19 The fact that many farming households have to borrow money for children's education and/or healthcare for family members points to an important aspect of the *sannong* issue, i. e. the underdevelopment of a social safety net in rural areas. The issue has started drawing increasing attention from the central government since the early 2000s, and greater efforts have been made in establishing a rural welfare system with substantial central government fiscal transfers combined with matching local authorities' expenditure and individual contribution.

2013; Bateman 2010, 2012; Taylor 2011, 2012). The non-engagement with this global debate suggests an urgent need for applying critical theories and developing more reflexive perspectives in studies on China's rural finance in general and microfinance in particular.

3.3 Ways Forward

As discussed above, overall, research on rural finance in China, while expanding, has fallen short on the empirical front that is solidly grounded in detailed fieldwork, in particular qualitative in-depth studies. As Professor Peter Nolan (2011: xv) at Cambridge University points out, "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". The scenario described by Nolan prompts us to think more deeply about searching for more fruitful conceptual frameworks, which may allow us to effectively address some of the key lacunae in current research that we have identified, and guide fieldwork and qualitative data collection and analysis. Here we propose that the livelihood approach combined with an actor-oriented perspective holds such a potential on the grounds that these approaches, as both a critique and alternative to the "people-less" perspectives (Long 2001: 1) manifest, among other things, in existing studies on China's rural finance, stress the importance of examining "the real worlds" of local people, "trying to understand things from local perspectives" (Scoones 2009: 172), and gain insight into "the self-organising practices of those inhabiting, experiencing and transforming the contours and details of the social landscape" (Long 2001: 1).

The livelihood approach has gained prominence in Development Studies in general, and agricultural and rural development in particular since the early 1990s with the publication of the influential work of Robert Chambers and Gordon Conway (1992), where they thus defined the notion by stating that "a livelihood comprises people, their capabilities and their means of living, including food, income and assets" (p. iii). The concept was further developed and broadened by Norman Long and his colleagues at Wageningen University, The Netherlands, which is known as the 'Wageningen School' (de Haan & Zoomers 2005). Long (1997) thus defined the notion by stating that a "livelihood best expresses 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" (p. 11). These definitions highlight the importance of not only the economic, but also non-material dimensions, including capabilities (cf. Sen 1984, 1985, 1987) and socio-cultural practices and value systems (Long 2001).

In a wider context, where development policy-making tended to be dominated by a top-down approach, development thinking by economists embedded in classic or neoclassic traditions, and research methodology leaned heavily on positivist epistemological underpinnings obsessed with imitating the methods used in 'hard science' and quantifying social data in order to seek 'objective truth', the livelihood approach brought about alternative conceptual and methodological perspectives by placing local people and their agency right at the centre of social inquiry. It emphasises the socially constructed (e. g. through processes of social interactions, meanings generation, interpretations and negotiations among different actors involved) nature of knowledge and reality. As such, it highlights the holistic and intertwined nature of livelihoods, and aims to understand the complex social interactions and relationships that are involved in making a living as part of individuals' and social groups' lifeworlds (Long 2001; Scoones 2009). Such a deep and nuanced understanding, the livelihood approach maintains, can only be gained through applying in-depth qualitative research methodologies, e. g. collecting detailed first-hand data with protracted ethnographic fieldwork (comprising observations, interviews, and so forth), which takes full account of the local context, where diverse actors interact, negotiate and deal with each other, as well as with external agents, e. g. government officials/bureaucrats and representatives of development agencies – both domestic and international – in their daily livelihood struggles, for their own interests, and to maintain and sustain their cultures, traditions and ways of life. In so doing, the local actors give meanings to their actions and make sense of their lifeworlds (Long 2001).

Despite the rise of the livelihood perspective and its advantages as an analytical framework as discussed above, it, at the same time, faces some particular challenges. These include, as Professor Ian Scoones (2009) at UK's Institute of Development Studies aptly points out, four interlocking aspects, i. e. its frequent failure to connect what is observed at the local level with processes and politics on a larger scale, e. g. globalising forces, national policies and power relations; its awkwardness, with the emphasis on human action, in dealing seriously with structural conditions and constraints; its insufficient attention to longer-term change and dynamics with its overwhelming concerns with short-term coping and adaptation in respect of climate change, for instance; and finally its susceptibility to "multiple purposes and ends" (e. g. the possibility of being hijacked and used by neoliberalism), and thus the need to pay closer attention to "knowledge politics" (Scoones 2009: 185) manifest in, e. g. how problems are framed and interpreted through discourses, power and domination on different levels and scales. Only when the livelihood perspective fully confronts such challenges, we believe, can it serve as a deep and sound analytical and methodological tool, and in our particular case, to aid us in the exploration, examination and explanation of the complex relationships between rural finance and development in China.

4 Conclusion

This paper examines the linkages between rural finance, development, and livelihoods in China. It begins by charting the historical-structural trajectory of rural financial development since the founding of the PRC. We analyse this process dynamically and situate it in the wider rural and national development contexts. We demonstrate that rural finance has played a vital role in rural livelihood, its sustainability and its diversification for the past few decades in response to, and interaction with larger and changing policy environment and priorities. Through a systematic review of existing research on China's rural finance we show that while considerable scholarship has been generated on the topic, this research tends to a) be predominantly from disciplinary perspectives of economics/finance; b) focus on the financial system as a whole with much less attention being paid to the socio-cultural processes and practices at the local level; c) while there are some fine empirical studies in the field, these tend to apply quantitative survey or econometric methodologies underpinned by positivist philosophical and epistemological assumptions, and much less research has utilised in-depth, qualitative ethnographic fieldwork methods.

We, therefore, argue that the livelihoods approach, which is frequently applied in the field of development studies, particularly agricultural and rural development, can potentially serve as a conceptual and methodological tool to deepen our understanding of the linkages between rural finance, development and livelihoods in China given its focus on human action at the local level, its emphasis on representing and understanding the experiences and perspectives of local actors through telescopic micro-level qualitative studies. Meanwhile, we take as valid Scoones' (2009) constructive critiques on the livelihood approach and suggest that the ways forward for researching the relationship between rural finance, livelihood and development in China is to engage more actively with global theoretical and policy debates, e. g. on microfinance and its increasing commercialisation, and to employ a strengthened livelihood perspective, which deals with power and politics, connects the micro with macro-forces, e. g. economic and political globalisation, incorporates a dynamic dimension of long-run changes, and demonstrates greater awareness of knowledge and its social and political construction associated with discourse, power and domination.

Ultimately, this paper aims to build on the existing body of research on the rural financial system, institutions and policy in China, while also shifting gears to place rural people at the centre of social enquiry. Aminur Rahman commented that the global microfinance discourse increasingly becomes fascinated "with the mechanics of microfinance, with the vehicle. There is less and less concern about the passengers and their destination" (cited in Hospes & Lont 2004: 3). This also reflects, in a sense, the reality of research on rural finance in China thus far. While it is important to understand the institutional changes relating to China's rural finance, it is of equal importance that we understand the ways in which such changes have shaped livelihood choices, strategies and the lifeworlds of local people, i. e. farmers (both men and women), their families and communities, as well as the ways that rural people through social actions, in turn, have negotiated their access to and command of a range of livelihood resources, and ultimately, helped reshape both the institutions and the course of their own livelihood trajectories and outcomes. Future research, therefore, should start addressing a new set of questions that will allow for a more comprehensive and holistic understanding of how rural people creatively construct, diversify and sustain their livelihoods, and the role that rural finance plays in these processes.

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Acronyms

ABC	Agricultural Bank of China	中国农业银行
ADBC	Agricultural Development Bank of China	中国农业发展银行
BEA	Bank of East Asia	东亚银行
BOC	Bank of China	中国银行
CASS-RDI	Chinese Academy of Social Sciences – Rural Development Institute	中国社会科学院-农村发展研究所
CCB	China Construction Bank	中国建设银行
CCP	Chinese Communist Party	中国共产党
CBRC	China Banking Regulatory Commission	中国银行业监督管理委员会
FPC	Funding the Poor Cooperative	北京市农发扶贫基金会
GLF	Great Leap Forward	大跃进
HSBC	Hongkong and Shanghai Banking Corporation	汇丰银行
ICBC	Industrial and Commercial Bank of China	中国工商银行
IFAD	International Fund for Agricultural Development	国际农业发展基金会
MOA	Ministry of Agriculture	农业部
MFI	Microfinance Institution	小额信贷机构
MLC	Microloan Company	小额贷款公司
NPO	Non-profit Organisation	非营利组织
PAO	Poverty Alleviation Office	扶贫办公室
PBC	People’s Bank of China	中国人民银行
PRC	People’s Republic of China	中华人民共和国
PSBC	Postal Savings Bank of China	中国邮政储蓄银行
PSRB	Postal Savings and Remittance Bureau	邮政储汇局
RCC	Rural Credit Cooperative	农村信用社
RCCU	Rural Credit Cooperative Union	农村信用合作联社
RCF	Rural Cooperative Foundation	农村合作基金会
RMCC	Rural Mutual Credit Cooperative	村镇资金互助社
ROSCA	Rotating Saving and Credit Association	互助会 （标会、做会、呈会）
SOE	State-owned Enterprise	国有企业
TVE	Township and Village Enterprise	乡镇企业
UNFPA	United Nations Population Fund	联合国人口基金
UNIFEM	United Nations Development Fund for Women	联合国妇女发展基金
VTB	Village or Township Bank	村镇银行

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