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Master's Thesis
Academic Year 2015

The Design of a Value Co-Creation Business
Model for Rural Banks in China

Graduate School of Media Design,
Keio University

Luyuan Yang

A Master's Thesis
submitted to Graduate School of Media Design, Keio University
in partial fulfillment of the requirements for the degree of
MASTER of Media Design

Luyuan Yang

Thesis Committee:

Professor Naohito Okude (Supervisor)
Professor Sam Furukawa (Co-supervisor)
Professor Masa Inakage (Member)

Abstract of Master's Thesis of Academic Year 2015

The Design of a Value Co-Creation Business Model for Rural Banks in China

Category: Action Research

Summary

This research is an action research aims on designing a business model for rural bank in China. The purpose of this research is to explore the possibility and benefits of creating a value co-creation business model. Through cooperate with Emeishan Zhongcheng Rural Bank in Emei city, Sichuan Province, China, researcher and the bank have designed and implemented three loan programs from 2014 to 2015. The three loan programs have applied a business model that the researcher has designed with the bank. The results have proved that a value co-creation business model could not only solve Chinese farmer's lack of credit issue, but also help rural bank to improve its brand image and the effectiveness of its marketing activities.

Keywords:

Strategic Management, Creating Shared Value, Micro Finance, Rural Bank, Business Model, Design Thinking

Graduate School of Media Design, Keio University

Luyuan Yang

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Chapter 1

Introduction

This research aims on creating a business model, especially to design a micro loan program for small rural banks in China, to help Chinese small individual farmers who are lacking collateral and credit history to receive a loan easier. The purpose of the loan program is not only to solve the lack of credibility and lack of collateral problems of farmers, but also to solve the weak competitiveness and low brand recognition problems of small rural banks. The approach of this loan program is different from others because the core of this business model is on value co-creation. In other words, this business model aims on creating social and community value with the clients—small individual farmers in China.

Researcher has collaborated with a local rural bank—Zhongcheng Rural Bank that is located at Emei city, Sichuan province, to conduct the action research. The purpose of the action research is to examine the effectiveness of the business model in real world. Pre-study and researches have been conducted in 2014 and three loan programs have been designed and implemented in 2015.

1.1 Background and Needs

The causalities of rural credit issue are not one dimensional. Farmers, business owners, different kinds of financial institutions and governments are all largely involved in the rural credit problem. This research would only focus on the two core stakeholders—farmers and banks. Researcher has concluded from the historical materials that a new loan program is necessary for both of the parties. The reasons are as followed.

Agricultural related problem has always been an issue in China. China has been an agricultural economy based country since ancient time. In China, the agricultural population has occupied more than 50 percent of the total population.¹ No matter China is under feudal society or under modern society, the

ruling class has always put agriculture on a prioritized position. In 2003, Chinese government has officially named Chinese agricultural problem as “Sannong issues”: issues concerning agricultural, farmer and rural area. At the same time, Chinese government has announced that “Sannong issues” would be one of the future focal points of government’s work.² Since then, “Sannong issue” has been mentioned repeatedly as a major focal point of work in the Official Reports on the Work of Government every year. The goal of solving the “Sannong issues” is to realizing the industrialization of Chinese agricultural economy—to transit the rural economic model from traditional peasant economy to modern industrialized agricultural economy.³

Along with the fact that farmers are gradually switching from traditional agricultural “cultivate-harvest-sell” business model to diversified business model, their financial needs are growing significantly every year.⁴ However, farmers are having difficulty in accessing rural credit resource. The most severe reason is that farmers are facing a lack of credit issue. Specifically speaking, farmers could not provide qualified collateral to meet the prerequisite of a loan. The reason is that in China, farmers have land to operate agricultural activities such as cultivating and planting. However, farmers only have the land tenancy but not the the ownership of the land. As a result, banks could not accept farmer’s land as a guarantee in case of default.⁵ In addition, agricultural has been regarded as a high risky industry due to the uncertainty of the environment, the diverse causalities of crop failures, the huge size of losses and the weak bargaining power of farmers in the price negotiation. So banks are even more hesitating in lending money to small farmers.⁶ Another reason that affect farmer’s accessibility to rural credit is the limited education level of farmers. The average education level of farmers in China is junior high school⁷ so it is obviously that farmers are lacking necessary knowledge, not even to mention the economic and finance knowledge. So there is a lack of systematic understanding of how to finance their businesses among normal farmers in general.

From the perspective of small rural banks, a brand new loan is also needed. Rural bank in China is still a new thing. It faces both opportunities and challenges.

The opportunities are that for a long time, scholars and experts have suggested the emergency of promoting the reformation of rural financial system as a solution to the “Sannong issues”. As a result, Chinese government and China Banking Regulatory Commission (CBRC) are continuously releasing policies to promote the development of a modern rural credit market. For decades, there only existed

several financial institutions in rural area of China—Rural Credit Cooperative (RCC), Agricultural Bank of China (ABC) and Postal Savings Bank of China (PSBC). They have been dominated the rural credit market for many years but were far from satisfying the financial demand of farmers.⁸ As an effort of solving the issue, in 2006, China Banking Regulatory Commission (CBRC) has released a document on actively promoting the establishment of rural financial institution i.e. rural bank in Chinese countryside.⁹ This initiative has been concreted in 2007 with the release of “Interim provision on the management of rural banks”.¹⁰ This initiative has defined rural bank. Rural bank refers to banking financial institutions located at rural area that primarily serve local farmers, agricultural related business. It has to be funded by domestic and foreign financial institutions, domestic non-financial institution legal representative and natural person under legal process.¹¹ Thus, from the perspective of policy support, rural banks are in an advantage position.

However, the challenges that rural banks are facing are more severe than the opportunities. The first competition that small rural banks are facing is the increasing cruel competition among financial institutions in rural credit market. Currently, the rural credit market in China could be divided into three parts: formal finance, semi formal finance and informal finance.

Formal finance refers to financial institutions that are authorized and regulated by the state monetary authorities. Formal finance institutions includes RCC, ABC, ADBC, PSBC and small local rural banks. Semi formal finance refers to financial institutions that established by non-profit organisations or government agencies. The examples are Grameen Bank in China and other Microfinance institutions (MFIs). Informal finance refers to any unregulated financial activities delivered or offered by rural individuals or organisations. In the case of China, the informal finance activities mainly refer to money borrowing activities among relatives and friends, money lenders and pawn shops.¹²

Due to the complexity of Chinese rural credit system, rural bank faces competitions from not only industrial giants—RCC, ABC and PSBC, but also other resources such as NGOs and private lending organizations.

Another challenge that faced by rural banks are the low brand recognition and the inefficient marketing strategy. On the one hand, the promotion choices for rural banks are quite restricted. Firstly, rural banks have limited budget on

marketing activities so that are not able to conduct high efficient commercials such as TV commercials or newspaper advertisements. Secondly, the internet accessibility of farmers is much lower than the urban area in China¹³ so that the popular social network promotion activities are almost impossible to rural banks. On the other hand, rural banks have restricted service range in terms of geographic area—rural banks are only allowed to serve local customers.¹⁴ Thus, under such a complicated competition environment, how to conduct marketing activities efficiently in order to establish brand recognition and positive brand image has become one of the most important issues to rural banks in China.

As discussed above, from both the farmer’s perspective and the rural bank’s perspective, a brand new business model is in an emergent need.

1.2 Importance of the Business Model

For a long period of time, there was no special attention paid to small individual farmers in China. Because of the monopoly of banking industry, banks could make enough profit without designing a specific business model to serve small farmers¹⁵. So a sense of serving small individual farmers is missing among Chinese banks.

The rural credit market has been regarded as a “seller’s market” for decades. That is to say, banks are in a power position relative to borrowers so that banks could decide whom it would issue loan for.¹⁶ The reason is that there are only formal financial institutions in the rural credit market for many years. RCC has started serving farmers since 1950s, ABC has entered the market since 1979 and PSBC has been established based on China Postal Office since 2007. As there are almost only three big players in Chinese rural area to serve around 50% of Chinese population for more than half century, farmer’s financial needs are far from being satisfied. In addition, although the main service range of those three banks are agriculture and related business, their main clients are rich farmers, agricultural related industry, and small medium enterprises (SME).¹⁷ Thus, the small individual farmers in China have been under served for decades.

The situation has become even worse in recent years. Because the three banks are having a strong tendency of transforming its main service area from the rural area to the urban area. Since 2003, CBRC has released an initiative to promote the transition of RCC from rural credit union to rural commercial bank.¹⁸ As the new name “rural commercial bank” has showed, to generate shareholder revenue as much as possible has become the main mission of the new RCC. As a result,

although the name of RCC is still connected to rural area and agriculture, it has in fact gradually switching its business focus to urban and industrial clients who have more profit potential.¹⁹ Another big player—ABC—has once quit rural market in 2007. Although it has announced its back to the rural market in 2012, ABC's branches in rural area has been decreased a lot.²⁰ The situation of PSBC is even worse, although PSBC has naturally owned many branches in the rural area because of its post office branches, it has just become a financial institutions for less than 10 years. Therefore, PSBC has little experience in serving clients effectively. As the major players are in fact gradually leaving out their rural clients, to serve the rural residents have become an important mission for local rural banks.

1.3 Challenges of the Business Model

The problems that this thesis are trying to solve could be divided into three categories. The first category is to solve the lack of credit issue of farmers. The second category is to create a profitable and sustainable business model. The last category is to improve the brand reputation and marketing efficiency of small rural banks.

1.3.1 Credit Issue of Farmers

The lack of credit issue are not only come from the characteristics of land ownership in China, but also come from the lack of understanding to farmer's community. Actually, the credit issue of farmers is a worldwide issue that exists in rural credit market for many years. Many researches have been conducted and many practices have been implemented. For example, Grameen Bank has first raised the concept of "microcredit" in 1983—to lend money to extremely poor people, especially female without any collateral. The microcredit program is purely based on trust. The ultimate goal is to help poor people to get out of the poverty situation. Grammeen Bank has reached great success in Bangladesh. The success of Grammeen model has showed that its credit based loan model is efficient in helping poor people to get out of poverty situation.

However, Grameen bank has not reached same success in China. Grameen Bank has entered China since 2010 with a hope of solving Chinese farmers' credibility issue by applying the Grameen model. However, since Chinese rural area has

huge diversity and Chinese farmers are quite different from farmers in other countries, Grameen bank has announced a shut down of business in 2013.²¹ Although there were also management problems within Grameen Bank China branch, the most important lesson from their failure is that a thoroughly understanding of local farmers is a must for the success of a rural bank. So the problems that this business model need to solve are: how to form a deep understanding with farmers, how to group farmers based on their production capability and credibility and how to track farmers' after loan activity.

1.3.2 Profitability of the Business Model

Although Grameen bank's experience could be further studied, it is a non-profit organization. It has regarded creating social value and making a social impact as its ultimate goal. So it does not have the pressure of reaching a commercial success.²² However, a rural bank is a profit pursuing organization. It has shareholders so that it has the responsibility of delivering maximum monetary value to its shareholders. So one of the ultimate goals of this business model is to guarantee its economic success, otherwise rural banks would not be able to serve clients sustainable.

1.3.3 Improving the Marketing Efficiency of Rural Banks

One of the significant characteristics of rural banks in China is that it is always small in capital size and it could only offer limited financial services. This also means that rural banks would not have big amount of budget for marketing activities. On the other hand, compare to major banks, rural residents are much less familiar with this kind of new financial institution. As a result, an efficient relationship-based marketing strategy is needed in this business model due to the limited marketing budget. So the challenges could be concluded as how to get closer to our customers, how to encourage bankers to get in touch with farmers more and how to convince farmers to trust our bank and to try our financial product.

1.4 Purpose of the Study

The purpose of this study is to examine how to establish a sustainable business model for rural banks in China in order to help both farmers and rural banks.

That is to say, to help farmers to receive loan easier and to help rural banks to differentiate themselves from other rural credit sources effectively. The hypothesis was that by constructing communities with farmers, rural banks could not only build its brand image and reputation by step into the everyday life of their core customers, but also solving the credit issue that faced by farmers.

Researcher has taken an action research approach and has collaborated with a local rural bank in Sichuan province, China that named “Emeishan Zhongcheng Rural Bank” to conduct the study since 2014.

1.5 Structure of the Thesis

This thesis is composed of five chapters.

The first chapter is the introduction chapter. In the first chapter, the background has been briefly introduced so that the problems and the necessity of the studies could be understood.

The second chapter is literature review. In this chapter, the research problem would be examined from three different angles. Nine academic research paper would be critically reviewed. Chapter 2 would serve as a backbone chapter to support author’s hypothesis from an academic perspective.

The third chapter is the methodology chapter. This thesis used an action research approach to examine the feasibility of author’s hypothesis, thus the third chapter would mainly introduce the design process action researches.

The fourth chapter is the implementation and result analysis chapter. The implementation of the three action researches would first be introduced. Then, the results of three action research would be carefully analyzed. Author has gathered data from the bank and from the field. Both quantitative and qualitative data would be analyzed in order to guarantee the fairness of the results.

The fifth chapter is the conclusion chapter. The main idea of this thesis would be concluded in this chapter. Author would also discuss some limitations of this research. Finally, several possible research topics for other interested researchers would be presented.

Notes

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Chapter 2

Literature Review

This research aims on designing a business model to help small individual farmers in China to receive a loan easier under the situation of lack of credit. Also, to help small rural banks to conduct marketing activities more efficiently. The three areas related to the business model that discussed in the previous chapter are the structure of rural credit market in China, farmer's accessibility to rural credit and the value co-creation business model. Empirical researches that conducted by recent scholars and researchers would be discussed in this chapter.

2.1 Rural Credit Market in China

2.1.1 The Transition of Rural Credit System in China

The study of the formation of rural credit market in China is necessary for business model designing of rural bank. As newly entering the market, an understanding of the current market, which means to understand the competitors thoroughly is important. The rural credit market in China is comparatively a closed market. The market has been dominated by Rural Credit Cooperation (RCC), Agricultural Bank of China (ABC) and Postal Savings Bank of China (PSBC) for decades. However, the situation has changed in 2006, when Chinese government initiated the "New Countryside Campaign". It has marked a new era of rural credit market. On the one hand, government has granted a greater amount of subsidy to farmers. On the other hand, government has relaxed the regulations for investors to enter the rural credit market.¹ But the dominance of RCC, ABC and PSBC in the rural credit market has built a wall for other players to enter the market. Under such background, Guo and Jia has conducted a research to study the transition and reformation of rural credit system in China. Their purpose was to give others an idea of what is going on in the market and the difficulties that new financial institutions are facing.

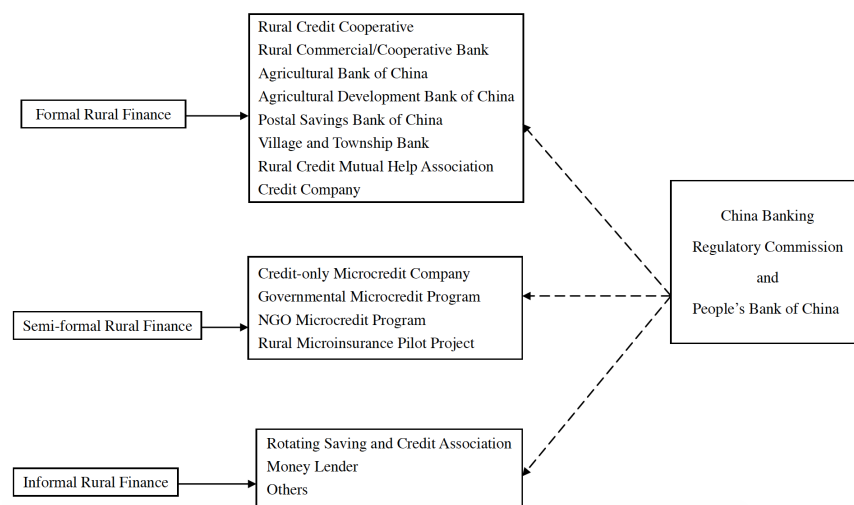
Guo and Jia have conducted a research about the transition of Chinese rural credit market by referring to the historical documents, including academic researches, government profiles, and recent political regulations. The research has mainly studied the transition of formal financial institutions—RCC, ABC and PSBC because they are still the main financial service providers in Chinese rural area.²

Chinese rural credit market could roughly be divided into 2 stages. The first stage is from Reform and Opening-up (1980s) to becoming a member of WTO (2001): The banking institutions in China are mostly state-owned organizations and are centrally managed. There were only formal financial institutions exist in the rural area. Market competition were not exist among banks. Banks could earn a great amount of profit easily by only providing limited financial services. Another characteristic of banks was that each major state-owned bank has its own specialization. For example, China Construction Bank(CCB) was established with the purpose of promoting the infrastructure construction in China, and ABC was founded to serve agriculture and rural development. However, banks preferred people who was close to the regulators and would provide special interest rate discount for them. Especially for ABC, it only focused on serving small portion of rich farmers, and it has switched business focus on urban clients instead of rural clients despite the fact that ABC's name came from agriculture.³

The second stage is from the year 2011, when China has become a member of WTO. China has started revolution in banking industry. Banks are no longer state owned but become joint-equity banks. China has also opened the financial market to both domestic and international investors. Therefore, local banks are facing more competitions. Not only financial institutions, but also NGOs and other micro finance institutions have entered the rural credit market. Under such condition, ABC has decided to return to the rural market, RCC has deepened its focus on rural clients, and PSBC has designed programs that focus on group lending, farmers micro credit and micro-entrepreneur loans.⁴

The researchers have concluded three forms of credit sources that currently coexist in Chinese countryside—Formal rural finance, semi-formal rural finance and informal rural finance. The detailed structure could be seen in Figure 2.1.⁵

As the rural credit market has become more and more complex, the researchers have provided several suggestions for banking institutions to better compete in the market. First, banks should provide diversified services in order to win customers from competitors. Secondly, banks should be an independent object that are not

Figure 2.1: Summary of Rural Credit Resources⁶

influenced by political power so that banks could have a more flexible business model. Also, banks could pay special attention to farmer's organization and those credit mutual-help organizations. Those organizations are composed by farmers so that they understand farmers' real demand. They might be able to help promote the agricultural business in an efficient way.⁷

2.1.2 Overview of the Current Rural Credit System in China

In order to provide products and services that really meet the customer's needs, a bank institution need to study the supply and demand of rural credit market to understand the customer and itself.

Turvey etc. has conducted a survey to study the supply and demand side of rural credit market. to study the structure of Chinese rural credit system, Turvey and his team have surveyed 897 households and did extensive interviews in Shanxi and Gansu provinces in the summer and fall of 2009 with the help of Chinese scholars and researchers. Their focuses were on the supply and demand side of the rural credit market, and farmers' attitude toward rural credit. In order to study the attitude of farmers, the survey has included an attitude scale questionnaire. Also, the in-depth interviews have helped researchers to form a more comprehensive understanding of the meaning behind the grades that farmers

give. This article has also used a 7C evaluation system to explain the survey result.⁸

According to the authors, “the rural credit market in China is rudimentary, complex and dynamic”. By rudimentary, it means that in many areas of China, only Rural Credit Cooperation (RCC) and Agricultural Bank of China (ABC) are available for farmers. By complex, it means that the informal financial options in China are very active and the lending activities between individuals often do not have any interest rate. By dynamic, it means that Chinese Banking Regulatory Commission (CBRC) has gradually allowed different financial institutions to enter the rural credit market, thus in some relatively developed rural areas, there exist RCC, ABC and other micro finance institutions (MFI) and NGOs.⁹

Turvey etc. have then explained the survey and interview results in detail based on a 7 C system. As early as 1941, G.H. Stebbins has raised the concept of 7 C evaluation system for commercial banking.¹⁰ Later, this 7 C system has been elaborated and developed by the American Farm Credit Corporation and has been applied to the agricultural credit system until now. The 7 Cs gives an overview of the credit situation from both the supply side and the demand side. 7 Cs includes Credit, Character, Capacity, Capital, Condition, Capability and Collateral. The analysis results would be introduced in detail as followed.¹¹

Credit: Historically, RCC and ABC are always in the rural credit market and claimed that to support agriculture are their traditions. However, RCC and ABC were mostly supporting agriculture and farmers through indirectly supporting agricultural related business. As a result, they have ignored the basic need of individual farmers for many years. Since 2006, CRBC has relaxed the regulation of entering the rural credit markets, thus RCC and ABC have faced competition from others. The rural credit market have become more dynamic than before. Since then, the individual farmers’ financial needs for production activities have raised bank’s attention. However, only part of the credit needs could be satisfied. The reason is that Chinese farmers were lack of guarantee for many years. In order to solve the credit issue of farmers, a new form of group guarantee must be designed. Otherwise, farmers’ financial needs could not be satisfied no matter how many new financial institutions could enter the rural market. At the same time, according to the survey, farmers have great concern with the service level of rural financial institutions thus it is a must for those banks have reconsider the way they serve farmers.¹²

Character: The study of “Character” of Chinese farmer was mainly about

the trustworthiness of normal farmers. According to the research, Chinese farmers, even those poorest, have showed enough trustworthiness in terms of always payback a loan or return money that borrowed from friends and relatives. However, RCC and ABC have had a strong bias that the poorer the farmer is, the less trustworthiness they are. On the contrary, the researchers have found out that when comes to decide the sequence of returning debts, most of the farmers would first pay back a loan from bank and then pay back a loan from friends and relatives. According to the research, the researchers suggested the formal banking institutions that they should trust normal farmers more.¹³

Capacity: In China, the biggest restriction that prevents farmers from receiving loan is the lack of collateral problem of farmers. In order to solve this issue, Chinese banks allowed farmers to form group and use group guarantee to apply for a loan individually. Group guarantee has solved the credit issue. Many farmers have thus received financial needs for production. However, sometimes the amount of money that a bank gave to a farmer has beyond his or her income level, so that the farmer was not able to pay back the loan on time. Therefore, this research suggested that a bank should research deeply about the local farmers' capacity and then to issue loan that could meet farmer's capacity.¹⁴

Capital: Although most of the Chinese farmers do not have assets that are qualified as collateral, they do show great care about their assets. The researchers have discovered that farmers are to a large degree risk averse people—compare with using their assets as some form of guarantee of receiving a loan, they prefer to not having a loan. It also means that once a farmer decide to use his or her asset as a guarantee to apply for a loan, he or she would have a high possibility of paying back the money to secure the asset.¹⁵

Condition: According to the research, only 132 of 897 respondents were actually members of a group guarantee, despite the fact that major bank institutions are promoting group guarantee as a way to solve farmer's collateral issue. However, among those who joined group guarantee, they agreed that being a member of a group guarantee made them easier to access a loan than individual. Meanwhile, there also existed creditworthy borrower and creditworthy villages. Those forms have also made farmers be able to access higher loan amount. The researcher suggested that in order to solve the collateral issue, an efficient joint credit system should be designed.¹⁶

Capability: Capability is different from capacity in the sense that capability is more about what would happen on a farmer after receiving a loan from a bank.

Even if a farmer has been regarded as trustworthy, there are many other uncertain factors that affect his or her ability to pay back the loan. For example, the gift giving culture. However, the researcher has recognized that being a member of a group guarantee has improved a farmer's capability of returning the loan.¹⁷

Collateral: According to the research, the more a collateral that a farmer could provide, the better interest rate he or she could receive from a bank. This is contradict with the result that having extra collateral actually did not help farmers get extra amount of loan.¹⁸

As a conclusion, this article has found that although there are income difference among farmers, in general Chinese farmers are trustworthy so they have a high possibility of paying back the loan. In the future, the demand of credit in rural area would keep increasing. However, the amount of loan that a bank issued to farmers might outreach their production capability thus farmers might have difficulty in paying back interest and loan on time. As a result, banks should well evaluate the capacity of farmers and to design a loan program that not put pressure on farmer's paying back capacity. On the other hand, the rural credit market has become more and more complicated in terms of different forms of credit are co-existing in the market. Thus the financial institutions should also consider how to compete effectively with other forms of financial resources.¹⁹

2.1.3 The Popularity of Informal Lending in Rural China

For many years, the supply of money from formal financial resources has been largely restricted. Therefore, using informal financial resources has been popular in rural China. As discussed above, the rural credit market in China is complex. Formal credit resources and informal credit resources have been co-existed in the rural credit market for decades. Chinese governments and People's Bank of China (PBC) have always emphasize that ABC, RCC and PSBC should stay close to their rural clients and help to promote the development of Chinese rural areas, the truth is that the majority of the funds have been lent to small and medium enterprises and other agricultural related business.²⁰ As an effort of solving this issue and improving the competition in rural credit market, PBC and the government have announced an initiative to encourage the establishment of micro financial institutions (MFIs) in China. It could be funded by foreign capital and domestic capital.²¹ However, the situation was not improved a lot. Only 17% of the "Special Funds for Agricultural Loans" have been used in micro credit to small farmers. The loan demand of small individual farmers are still far from

being satisfied. Borrowing money from friends and relatives is still an important financial resource in rural area. More than half (67%) of the rural population has claimed that they have used some kind of informal financial resources to meet their financial needs. Therefore, informal credit resource is a research topic that can not be ignored for the study of rural credit market.

The study of informal financial resource, especially borrowing from friends and relatives, has helped researcher to solve some difficult issues that formal financial institutions have faced for many years. The main problems that formal financial institutions in rural China are facing are the high transaction cost, the monopoly of RCC, the land ownership problem, and the moral hazard issue. To study the characteristics of informal borrowing, researcher could conclude useful hints to solve the above issues.

Turvey and Kong have conducted a thorough study of the characteristics of informal financial resources, especially informal lending among friends and relatives, in 2010. They have designed survey materials and have collected data from 1565 farm households in China from Shaanxi, Henan, Gansu provinces. Turvey and Kong have used three methods to examine the correctness of their conclusions. Bonferroni adjustment, two-step cluster analysis and General Linear Model regressions have been used. Before discussing the informal financial resources, Turvey and Kong have roughly discussed the history of the informal lending market in China.²²

The first period of informal lending started from 1939. During this period, the informal lending among friends and relatives was more similar to usurious loan. The interest rate varied a lot between individuals and different regions. The basic interest rate was from 2.3% to 2.8% and the maximum was no more than 40%. Most of the loan was used for non-productive purpose such as wedding ceremony, education spending and funeral. The data about informal lending was missing between Great Leap Forward movement (1958-1960) and Cultural Revolution (1966-1976) were missing unfortunately. Then, informal lending has entered a new stage. The convention of informal lending between friends and relatives have become very flexible. The interest rate is zero in most cases. Peasants are willing to lend money to others because of the traditional code of conduct—what if they would need some money in the future? Nowadays, informal lending has become one of the main financial options for rural residents in China. More than 50% of the rural population has admitted that they have the experience of borrowing money from friends and relatives.²³

The pure trust based lending-borrowing relationship among peasants in China has raised scholars' interest. This paper has found that poorer households in terms of smaller asset value and lower income level, would have a higher proportion of borrowing from informal financial resources. Even though those relatively poorer farmers would borrow more from friends and relatives, the default ratio is close to 0% due to the power of moral hazard and community supervision effect. The researchers have thus concluded that the poorer farmers are more trustworthy and would have lower default ratio.²⁴

Another important finding of this research is that the cost of a loan would prevent farmers from borrowing from formal financial resources. Especially for those relatively poorer and smaller farmers, they would have a high possibility of being charged higher interest rate, thus they would mostly prefer borrowing from friends and relatives. So how to set an ideal interest rate that could satisfy small farmers and could cover the transaction cost would be a big challenge for formal financial institutions in China.²⁵

The application of this paper is that in order to be able to compete against informal lending in rural credit market, formal financial resources need to study the cultural background and social conventions that influence farmers' trust relationship. In addition, rural financial institutions should not ignore the information asymmetry between them and the farmers. One possible way to solve the issue is to establish a favorable relationship with county head or village governors. Through those who have a deep understanding with local farmers, formal financial institutions could avoid high risky clients efficiently. Turvey and Kong have warned formal financial resources and MFIs to take informal lending seriously in case of being crowded out from the market.

2.2 Farmer's Accessibility to Rural Credit

2.2.1 The Psychological Relationship Between Borrowers and Formal Lenders in Rural China

The study of the psychological behind the supply and demand relationship is also necessary if a rural bank aims on providing products and services that reflect customer's needs. Christopher etc. has first defined the borrower, lender and bank relationship as a mutually influenced relationship. As the triangle diagram has showed in figure 2.2, the banks' policies and instructions would influence lenders'

behavior to borrowers; lenders' behavior would be the determinants of banks' profitability. Lenders and borrowers are more deeply correlated. How lenders regard borrowers would lead to 1. how lenders treat borrowers and 2. lenders' lending decisions. Borrowers would then form their understanding of lenders. This would lead to the satisfaction of borrowers, and whether borrowers would have a willingness to borrow money from certain lenders. On top of the relationship are the trust and commitment that customers have toward banks and bankers. Trust and commitment are the bases for customers to choose which bank to stay with. The conclusion from the diagram is that bank should treat the lender and borrower relationship seriously, and design bank policies and initiatives that could best improve the lender and borrower relationship.²⁶

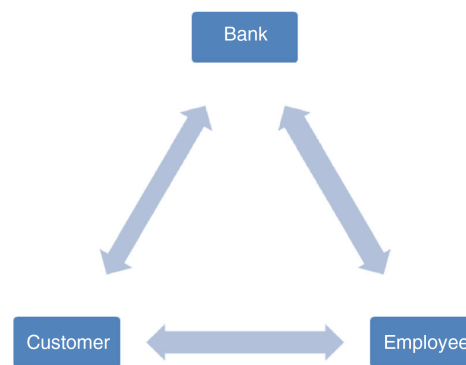


Figure 2.2: The Lender Borrower Bank Triangle Relationship²⁷

Based on this triangle diagram that defined by Christopher, Turvey, Kong et al. have conducted a study with the purpose of understanding the borrower attitudes, lender attitudes and the influential factors behind their attitudes in 2014. In order to examine lenders' and borrowers' attitudes toward rural credit market, Turvey et al. have conducted researches with 394 farm households in Shandong province by asking farm households attitudinal questions based on Likert Scale.²⁸ Turvey et al. have also interviewed 120 loan officers in Shandong province to ask them about their attitudes toward rural borrowers. Researchers then differentiated borrowers into four groups according to their attitude toward lenders and their credit status. Lenders have also been divided into two groups based on their attitude toward rural borrowers. Sequentially, the influential factors that decide borrowers and lenders' attitudes have then been concluded and further tested by linear and logistic regression.²⁹

Turvey et al. have grouped borrowers into four different groups based on their attitudes toward lenders. The four groups are dissatisfied constrained, satisfied constrained, dissatisfied and satisfied. Seven factors have been proved not related to borrowers' attitudes. The seven factors are years farming, loan amounts from friends and relatives, family size, whether they hired farm labor, whether household labor worked off the farm, high school completion or some elementary school education. The factors that influence the attitudes are age, education level, asset value, loan from formal resource and income effects.³⁰

Age factor influence the satisfaction level in a way that the elder the borrowers are, the more satisfied they would be toward banks. Education level has a positive influence on the attitude of borrowers. The higher education level the borrowers are, the more satisfied that they would be in the borrower and lender relationship. The asset values also have a positive influence on borrowers attitude. That is to say, the more asset that farmers believe they have, they more satisfied would they feel during their interactions with banks. Another positive factor is whether farmers have loan from formal resource. Similar to all the other factors mentioned above, this one also has a positive influence on borrowers' attitudes. The last factor is income effect, in general the more income a household have, the better that they perceive the bank. Especially for those who rely more on the income from agricultural activities, their satisfaction level are heavily influenced by the income level.³¹

Like borrower groups, lenders have been divided into two groups based on their attitudes toward borrowers. The two groups are no difference group and farmer-favor group. What have influenced lenders' attitudes toward farmers is the education level. The interview results have showed that the more educated the lenders are, the more farmer friendly lenders would be. However, the loan rejection rates does not matter too much in this case. That is to say, whether a lender has rejected a lot of agricultural related loan would not significantly influence his or her attitude towards borrower. In addition, the more loans that the bank officers have made to farmers, the more sympathetic they are to farmers.³²

The first application from the results is that to improve the education level of both parties is extremely important for the lender and borrower relationship. When design the loan product, banks should take educate both loan officers and customers into consideration so that not only customers would feel more satisfied from the services, but also loan officers would be more sympathetic to farmers. Second application is that bankers should make an effort of treating all the farmers

equally no matter how much assets farmers have and how much income farmers could earn. As the previous literature have showed, poorer farmers are usually more trustworthy, so bankers should not keep poor farmers away. The lender-borrower relationship would only be strengthened if bankers could interact more with farmers and if a trustworthy relationship has been built between two parties. At last, the most important thing is that the management level of rural bank should encourage employees to accept loan applications from farmers. An aversion from agricultural from the management level would definitely influence lenders' activities.³³

2.2.2 Determinants of Rural Households' Formal Credit Accessibility

The accessibility to rural formal credit of rural households is worth studying because it helps researcher to understand what has prevented rural household's from receiving a loan from formal financial resources. Understanding the reasons could give rural bank ideas on what pre-loan activities should be involved in order to improve rural households' accessibility to a loan.

According to Atieno, credit has long been regarded as a resource to help people expand their businesses, to improve their living conditions and to discover new business opportunities. However, in order to receive a credit, credit applicant is always required to provide certain kind of collateral to secure default risk. As a result, poor people has been excluded from credit resource due to the fact that poor people usually are not able to provide qualified collateral. This fact is contradicted with the purpose of credit. Therefore, micro-credit has been designed to solve the lack of collateral issue of poor people. China has also acquired the concept of micro-credit and has applied it to the rural credit market.³⁴

A research conducted by Li et al. was attempting to find out the characteristics of the rural credit borrower and the determinants of their accessibility to formal credit resource. Research has been taken place at Hubei Province, China between 2008 and 2009. In total, 424 farm households have been interviewed. The formal rural credit resource in this research refers to the financial services provided by RCC. Regression has been applied in order to examine the relationship between factors and how it affect the accessibility to rural credit of farmers.³⁵

Before discussing the determinants of farmer's accessibility to rural credits, it is also important to know the characteristics of farmers who have borrowed from

rural credits. The characteristics of the rural households who have borrowing experience from formal financial resources include gender, education level, self-employment, farm size, location of RCC, distance from farmers' house to RCC, savings, attitude toward debt, and the accessibility to other credit resources. According to the research, a male household head has a better access to formal credit resource. The higher education level the rural household head is, the higher probability that the household has borrowed from RCC. Also, most of the borrowers are self-employed and they have relatively larger farm size. In terms of the location and distance factors, farmers would more likely to apply for a loan or using financial services if there is an RCC existed in the local area. Accordingly, if a farm household is closer to the RCC, the possibility of using RCC would increase. "Savings" factor refers to if a household has opened a saving's account at local RCC. If a farm household has a saving's account at RCC, it would be more natural for this household to use other services provided by RCC include the loan service. In addition, farmers consciousness also plays an important role in terms of how they regard having a debt. Farmers who have borrowed before normally showed a more open minded toward having a debt. The last characteristic is whether farmers have alternative financial resources. That is to say, if a farmer can borrow enough money from friends and relatives, he or she would less will to borrow from RCC.³⁶

The determinants of the accessibility to rural credit resource of farmers have some overlaps with the characteristics. How they have influenced the accessibility were examined by applying regression method. The factors that have positive relationship with accessibility of rural credit are income level, self-employment, whether a household is close to village officials and education level. Positive relationship means that if a household has higher income level, is self-employed, has a closer relationship with local officials and is better educated, this household would have a better access to formal rural credit resources. On the contrary, asset value, savings, shareholder status, household size, distance to RCC, attitudes toward debt and alteration of other credit resources have a negative influence on the accessibility of rural credit resource. In detail, a higher asset value means the household is richer, so that the household would have a lower demand for financial resources. Saving and shareholder are similar to the asset value—if a household has a large amount of savings, and if a household is a shareholder of local RCC, it would not need to look for external financial support. The household size influenced the accessibility negatively. If a household has more population, the

income per capita would decrease according. Thus the repayment ability would be negatively influenced. Distance to RCC, attitudes toward debt and alteration of other credit resources have been discussed in the characteristics part and the rationale are almost the same.³⁷

Besides the determinants from farmers, external determinants have also been discussed in this research. Farm households' knowledge of the micro credit program by RCC, the price of borrowing (interest rate), and the administration time have also influenced the accessibility of rural credit resource by farmers.³⁸

This research has proved the importance of education in terms of improving the accessibility of rural credit resource. Education not only influences the willingness of applying for a loan, but also influences the probability of receiving a loan. On top of the general education, this research also suggested banks to provide off-financial services such as risk management service and introducing businesses to potential clients. Secondly, this research has suggested banks to adjust their loan policies and management style according to different client groups. Rural credit market is not a homogeneous market, and to cooperate with informal financial resource would be an option for banks to tackle this issue.³⁹

2.2.3 Credit Rationing in Rural Credit Market

The study of the characteristics and determinants of credit rationing in rural credit market is requirement for rural banks. On the one hand, rural banks could refer to the prerequisite that established by RCC to build its own loan prerequisite. On the other hand, RCC might have filtered a great amount of qualified potential customers and they could become rural banks' future customer resources. In order to gain those prospective customers, rural banks need a business model that could solve the credit rationing problems.

In rural formal credit market, the supply side has been regarded as having absolute power over demand side for decades because RCC has been the oligopoly in the rural credit market for more than half century. Therefore, RCC has formed ultimate power in deciding whom to issue a loan for. This situation has become even worse with a subsidized cheap interest rate policy in Chinese banking industry. In order to support agricultural industry and rural economy, the interest rate for a rural loan was normally lower than the market interest rate. The gap has been subsidized by Chinese government. As a result, the demanding of loan in the rural credit market has always exceeded the supply. The credit rationing has become a common phenomenon in Chinese rural credit market.

The situation has been improved to some extent with the appearance of micro finance institutions (MFIs) in Chinese rural credit market. MFIs in China are known as providing micro finance to rural residents in a higher than RCC interest rate: 15% 17% of MFIs in contrast with 7% 10% of RCC. As a result, MFIs are less preferred than RCC by Chinese Rural general public. However, because MFIs have actively provided loan services to female clients, designed an credit evaluation system based on the cash income of farmers, MFIs are able to expand their business to poorer farmers than RCC.

In order to study the characteristics and determinants of credit rationing in rural credit market, Cheng and Ahmed have conducted researches of MFIs at poor counties in China based on three principles. The four counties have to be the state designated poor counties, the MFIs in those counties should operate normally, and the MFIs should be the best players. Besides MFIs, researchers have selected 820 households as observation individuals. Researchers have studied the characteristics of credit rationing by RCC and by MFIs.⁴⁰

The characteristics for the RCC credit rationing are value of productive assets, total of cultivated and irrigated land area, income from off-farm activities and age. Among them, value of productive assets, cultivated and irrigated land area have positive influences on the credit rationing decision. That is to say, the more productive assets a farmer have, the more reliable a farmer could be, the more possibility that a farmer could receive a loan from RCC. The same relationship holds for total of cultivated and irrigated land area. In contrast, income from off-farm activities and age play opposite roles in credit rationing decisions. A farmer household who has more income from off-farm activities would reduce its opportunity of receiving a loan from formal financial institution. Also, an older applicant would less likely to receive a loan from RCC.⁴¹

The characteristics of MFIs credit rationing are more complicated than that of RCC. Number of workers in a household, number of village officials in a household, value of productive assets and irrigated land areas would have a negative influence for a household to receive a MFIs loan. The reason is that household who has more members would have less income per capita so it would influence its payback ability. On the other hand, if a family has members worked in the local authority, it would have more opportunity of receiving a loan from RCC, thus it would be less likely to apply a loan from MFIs. The value of productive assets and irrigated land areas influence household because these households are also having more chances of receiving a loan from RCC. Value of house and total cultivated

area have positive influence on MFIs credit rationing. The more value a house is, and the larger the cultivated area is, MFIs are more willing to make a loan to farm households.⁴²

In general, RCC prefers to target better-off farmers. RCC has a high possibility of rejecting female, older and less educated loan applicants, people who have more animal stocks. Unlike RCC, MFIs would not avoid female loan applicants and applicant who has sick family members. In addition, MFIs would not reject loan applicants if the applicant has already had some debt from other sources. With a riskier clients group, MFIs designed a more frequent payment schedule and a more strict enforcement system to make sure a low default rate. As a result, MFIs have successfully expanded its business to poorer farmers and more remote area in China.⁴³

MFIs and other financial institutions such as small rural banks in China still need more business innovations if they want to expand business to a larger degree. Instead of setting up a higher interest rate than RCC's, how to reduce the transaction cost efficiently could be an improve point in the future. Also, as mentioned above, RCC has an inclination of rejecting farmers who have more animal stocks. Rural banks thus could focus on designing product for customer groups that are historically ignored by RCC.⁴⁴

2.3 Business Model for Creating Shared Value

2.3.1 Introduction of the Inclusive Business Model

This research has aimed on creating a business model that could create value together with the customer, a study of the inclusive business model and social business model is important in this case. Inclusive and social business model are different from normal business model that they have regarded creating benefit for the society as important as generating monetary value for the shareholder.

In modern strategic management literature, business model canvas⁴⁵ has been widely used to help individuals and corporations to establish a winning business strategy. However, this business model format has only considered traditional for profit corporations and only focused on generating maximum amount of shareholder value. The business model canvas has failed to recognize the importance of social impact that a business might cause and has ignored the society the business is in. The problem of ignoring the social impact has lead to a flame up of the

tension between a business and the surrounding environment. The moral issue of a business has also become a widely discussed topic.⁴⁶

In 2006, Porter and Kramer have called on management level to switch its business model from a pure profit generating business model to a social value creating business model for the first time⁴⁷. In 2011, a “creating shared value” business model has been initiated by those two. Under a creating shared value business model, company not only generates monetary value for its shareholder, but also take society’s well being into consideration. It means that value could be generated from the whole process of running a business by re conceiving the product and market, by redefining productivity in the value chain and by corporate with local NGOs and communities.⁴⁸ Creating shared value is different from corporate social responsibility in a way that creating shared value also regard economic return as one of the most important tasks.

On the other hand, the concept of social entrepreneurship has been raised international attention with the great success of Grameen Bank. Social entrepreneurship focuses on the low-income community in the society. Products and services are designed to meet the real needs of low-income community. Social entrepreneurship start from the low-income people, and the profit from running the business would reinvest to expand the business to benefit a larger low-income community. Most of the social entrepreneurship is non-profit but self-sustainable.

Under the concept of creating shared value and social entrepreneurship, two kinds of business model have been concluded—Inclusive business model and social business model. Michelin and Fiorentino have conducted 10 thoroughly case studies by using a multiple-case (holistic) model to study the differences and similarities between the two business models. By compare and contrast the two business models, researchers provide a new perspective for the strategic management field. Through study the similarities and differences between the two business models, business managers would have an opportunity to absorb the good parts from both.

Michelin and Fiorentino have analyzed inclusive business model and social business model from the perspective of partner network, use of knowledge, value chain, development of innovative distribution models, value proposition, governance systems, profits management model, social risks and economic profit equation.⁴⁹

Inclusive business model and social business model are both seeking corporation with local communities or non-profit organization so they are similar in partner networks. Also, they could access to new market and new local networks

by expanding their businesses to a new area so that they have the same procedure of acquiring new knowledge. The value chain of the two are also similar because those two business models are aims on creating values in all the phases of their businesses. In the case of development of innovative distribution models, both social and inclusive business models would consider to redefine their distribution models by take the local characteristics into consideration.⁵⁰

The differences between inclusive and social business models are more diversified than similarities for managers. From the perspective of value proposition, inclusive business model has focused on the whole chain, but social business model mostly focused on the provision and production phases. In addition, Inclusive business model has mainly adopted a normal management style while social business model is mainly managed by social-joint venture. By implementing social-joint venture, the idea of a social business could be spread more efficient among the society. As for the profits management model, inclusive business model has a mission of generating shareholder value. But the most important mission for social business model is to spread the social impact as much as possible. In terms of social risks, social business model has a risk of privatization of social property. The social risks of inclusive business model is the monopolization of business. The last category is the economic profit equation. Social business model focuses more on the long term sustainability of its business while inclusive business model has to consider many other factors such as return on investment.⁵¹

Besides the similarities and differences discussed above, inclusive and social business models are worth studying because both of them have a positive impact on the brand image and reputation of a business. They have given normal business manager a hint of combining business profit generation with social value generating. This combination would not only bring economic return but also generate intangible assets such as branding effect. Moreover, the moral issue of a business might be solved by studying the two business models.⁵²

2.3.2 Co-creation of Value in a Business Network

Business, including the banking industry, has become so different than few years ago as business now has entered a knowledge based, cooperation oriented and resource integrated era. Not only the product and service itself are important, but also the relationship among business partners and with customers have become extremely important. Modern business model studies have also reflect this change. In the case of banking industry, the relationship among customers and bank em-

ployees need to be carefully examined in order to promote the value co-creation between the two parties.

Storbacka have concluded the characteristics of a modern business model based on the studies conducted by Osterwalder⁵³ and other significant literature in modern business model field. A business model usually pay attention to five main categories: create value for customers, make profit, clear define of value chain, efficient management of resources and capabilities, and the strategic decisions and principles made by a firm. The ultimate goal of a firm is to realize profitability through creating and delivering values to its customers. In order to achieve this goal, firms should have an excellent management ability that could make best use of its external and internal resources. The resources include the value co-creation network, the supply chain, other related business partners and its internal capabilities. Firm's management level should then make strategic decisions and establish firm principles based on a clear understanding of the external and internal resources.⁵⁴

However, a study that focused on the value co-creation among business network was missing in the academic field. In order to fill the gap, Storbacka has conducted researches with 12 leading cooperations to conclude a conceptualized business model that focus on business network value co-creation. The research has involved senior managers from 12 multi-national cooperations. Researcher has conducted workshop and discussion panel with each firm. Each research study has included three phrases: the pre-understanding phase, the model development phase and the interpretation phase. The whole research has lasted for 11 months.⁵⁵

The business model of value co-creation has been concluded by three components and each components could be further divided into four dimensions. The three components are design principles, resources and capabilities. Design principles refer to the ability of turning knowledge and resources that a firm obtain into value and useful products and services. The main resources that a company have are mostly customers and brands. Among resources, tangible and intangible resources are further divided. In relationship based marketing, intangible assets such as brand image, reputation and brand recognition are the most important resources. Intangible assets take a long time to build but could be destroyed in a minute. Capabilities refers to a firm's ability of turning resources into value. Resources here include external resources such as supply chain, and internal resources such as human resource management.⁵⁶

Under each components, there are four dimensions. The four dimensions are

market, offering, operations and management. That is to say, there are design principle market, design principle offering, design principle operations, and design principle management. The same hold for the two other components. The 12 dimensions have defined a business model from the perspective of customer relationship, products and services management, , external operation intelligence and internal management efficiency. The detailed characteristics have been concluded by researcher and is presented in figure 2.3.⁵⁷

	Design principles	Resources	Capabilities
Market	Market and customer definition	Customers and brand	Market and customer management
Offering	Offering design and earnings logic	Technology	Offering management and R&D
Operations	Operations design	Infrastructure, suppliers and partners	Sourcing, production and delivery
Management	Management system	Human and financial resources	Management and leadership

Figure 2.3: Summary of the 12 Dimensions⁵⁸.

As shown from the chart, no part of a business model is independent. A business model would be able to operate sustainable only if it has well considered every stakeholder's interest.

The same rule holds for rural banks. Among the 12 dimensions, the customer and brand, market and customer management, offering design and earnings logic, operations design, management system and human and financial resources are the important ones. From the perspective of rural banks' business model, a strong customer relationship should be placed in the center. The customer relationship management and branding effect are mutually influence each other. A well managed customer relationship would improve the effectiveness of marketing activities in a great degree. The offering management, which is the services and products that rural banks provide, is based on the deep analysis of customer's needs. Operations design, management system, human and financial resources are related to internal management ability of a rural bank. That is to say, in order to provide better products and services, an effective internal management system is needed. So the training of employee and supply chain management is significant to rural banks. Also, due to the limited budget size of a rural bank, an efficient financial management system need to be designed.

In conclusion, modern business model of a rural bank should focus on cus-

customer relationship management. Product and service design, internal and external management practices are the fundamental parts for a successful customer relationship.

2.3.3 Relationship Management

Nath and Mukherjee have concluded the development and leading ideas within the relationship management field. In the classic relationship management marketing literature, Berry and Parashuraman have developed three types of relationship bonds⁵⁹. They are financial, social and structural relationship bonds. Financial bond refers to the monetary benefit that a company offer to its customers. Such as bonus points, extra discount. Social bond refers to non-monetary care that a customer could feel from a company. Greeting cards, regular customer contacts are belong to this category. Structural relationship bond is mainly about personalized services to a customer. For example, customized products, private financial management services.⁶⁰

The three relationship bonds are important as they are the fundamental of an effective relational outcome, which has been defined as “relationship quality” by Palmatier. Relationship quality have three elements—trust, commitment and satisfaction.⁶¹ Trust means that the customers have formed a trust relationship with the company and are willing to rely on the firm. Commitment means that the customers would like to maintain a long-term relationship with the firm. Satisfaction means that customers could gain emotional value from the relationship with the firm.

On the other hand, according to Hsieh, customers have different attitudes toward different product categories. Therefore, firm should use different relational bonds to manage the relationship with customers. Hsieh has divided products into search, experience and credence categories.⁶² Search products refer to products that could be understood by consumer’s pre-purchase investigation. The examples are savings account and loan account. Experience products means that customers only know if a product is good or not after tried the product in real life. Credit card belongs to this category. Credence products means that customer would not know if a product is good or bad before and after the usage of the product. Insurance product is one of the credence products.

However, as Nath and Mukberjee have pointed out, so far the relationship marketing literature has ignored the situation of missing information in a relationship. That is to say, under the situation that if the customers do not have a

clear understanding of a potential products and if the product could not be investigated in advance, how would the three relational bonds interact with each other? Also, what kind of effect would arise if managers combine different bonds with each other is also needed to be discovered. Therefore, Nath and Mukberjee have conducted a research aimed on discovering if different relational bonds could have a complementary effect in information asymmetry contents. Nath and Mukberjee have first conducted researches to define search, experience, and credence goods from the perspective of a consumer. Researchers then have surveyed 452 UK retail bank customers to figure out their attitudes toward different relational bonds on different products. Then researchers then measured how different combinations influence the relationship by using statistical methods.⁶³

The research result has showed that the relational bonds do have positive effect on relationship quality. Also, different relational bonds have different effects on relationship quality and on product categories. Financial bond is most effective for search product, social bond is effective for search and experience products and structural bond is most effective for credence product. For the combination effects, financial and social bonds, social and structural bonds, and all the three bonds work together have a plus effect on relationship quality than alone. As for the product category, financial plus social bonds have positive influence on search and credence products. Social and structural bonds are effective in experience and credence products. Financial and structural bonds are effective in credence products. All the three bonds together have positive effect on all kinds of product.⁶⁴

As the result showed, a combination of different relational bonds could reduce the suspicion that comes from information asymmetry. Managers could customize the use of relational bonds to achieve the maximum effect of relationship quality. The study also showed that structural bond on average scores higher than the other two bonds in terms of relationship quality. Thus, one of the suggestions that the researchers gave was to combine structural bond with other bond to achieve certain relationship management goal. For example, a bank could provide customized financial advisory service together with some interest rate discount or some community service to convince customers to consume new product and service. The most important point is the customization experience provided to each customer.

On the other hand, as the study have discussed, different relational bonds have different effects on different product categories. Thus, rural banks could consider

provide different offerings with different product types. For example, use more monetary awards with basic banking services, and use more customized wealth management service with insurance and investment products.

2.4 Contribution to the Field

This thesis contributes to the business model design, especially loan program design for the rural banking field. Different from other researches that mostly focused on RCC, the research focuses on the new power of the formal rural credit market—small commercial rural banks in China that serve small individual farmers. By combining the experience from social entrepreneur such as Grameen Bank, with commercial banks such as Rural Credit Cooperative, this research would examine the possibility of a rural bank to create monetary value and social impact at the same time.

Also, different from the approaches of conducting interview, surveys and case studies, this research would examine the research questions by conducting action researches with a local rural bank. Therefore, this research would be able to collect empirical data from the working frontier to prove what elements are important for a rural bank to run a business model, which could solve farmer’s lack of credit issue and improve rural bank’s branding efficiency.

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Chapter 3

Design of the Business Model

This business model is designed under the purpose of creating social value with customers. It is not just a loan program that solve the short-term demand of fund for individual farmers, but a business model that could help farmer's to fund themselves sustainable in the long run. On the other hand, rural banks that implement this business model should be able to build a strong relationship with farmers, thus to have a unbeatable influence among farmers community. In the long run, rural banks would be able to build their core competence that could stand against economic turbulence. In order to achieve these goals, the business model must first solve the credit issue that farmers are facing. Therefore, the focus of this business model would be on building a trust relationship between farmers and the bank from the perspective of constructing a financial community together.

In the following section, the concept of the business project would first be introduced. Then the design process of the business model would be explained in detail. Finally, the purpose and evaluation process of the business model would be discussed.

3.1 Concept of the Business Model

The design concept of the business model is that it could benefit both the service recipient, the service provider and the society at the same time. The focus of the business model design is on the design of a value co-creation loan program. Through value co-creation with clients, both farmers, rural banks and the society could be benefited from the loan products. The loan program would not only consider creating values for rural bank, but also create social impact with the clients. Through building a community with different kind of farmers, this loan program could successfully solve the lack of credit history issue and lack of

collateral issue that prevent farmers from applying for a loan for decades. From the rural bank's perspective, being a member of the farmers' community, it could effectively conducting marketing activities to build a clear brand image. In addition, social value such as an uplift of education level and financial knowledge would be created through interaction between banks and clients.

The business model is a loan program that composed by three phases: pre-loan preparation phase, application phase and post-loan service phase. In the first phase, farmers community would be constructed after bank employee formed a thorough understanding of farmers. Financial education of farmers would also be involved in the first phase under the purpose of creating loan demand and social impact. In the second phase, an efficient administration process would be designed. This administration process would help both farmers and loan officers to save time. Therefore, the pain of applying for a loan would be lessened. In the third phase, financial advisory services such as wealth management service and wealth management products would be provided. Therefore, banks would be able to further strengthen the connection with farmers. The three phases are interrelated to each other. Same attention should be paid to all the phases and non of the phases could be ignored or underestimated.

Different from the existing micro finance programs, this loan program has emphasized that pre-loan and post-loan phases are as important as the normal administration process. Also, this loan program mixes elements from social entrepreneurship and inclusive business model. The ultimate goal of this business model is to create social benefit and to generate shareholder value at the same time.

In the long run, by practicing this business model, rural banks would be able to form its core competitiveness in terms of having a much deeper understanding with farmers than any other kind of financial institution through continuous interactions with farmers. Therefore, rural banks would be able to stay in the business despite the economic cycle. From the farmer's perspective, a transformation of ideology could be expected. Farmers would first be equipped by basic financial knowledge, and then form an understanding of using modern financial products and services. Rural bank would then be able to expand its service range to go beyond traditional banking services, and eventually to become a multi-functional financial institution.

As a result, the society would be benefited from the transformation of agricultural economy. Production efficiency and education level of the society are

improved at the same time.

The loan program has been designed based on field research of farmers, bankers from rural banks, and other micro finance programs. In total, three loan programs has been designed and implemented through 2015 with the corporation of Zhongcheng Rural Bank in Leshan city, Sichuan province, China.

3.2 Introduction to Zhongcheng Rural Bank

In October 29, 2013, Zhongcheng Rural Bank has been established at Emei city, Sichuan province, China. The purposes of establishing Zhongcheng Rural Bank are to serving the rural area of Emei city, and to support the agricultural economy. Zhongcheng Rural Bank is a small bank with only six million Chinese Yuan's registered capital. Zhongcheng has 24 employees in total and only has one physical branch at Emei City. The services that Zhongcheng provide are mainly traditional banking services—Savings, transaction accounts, mortgages, personal loans, and debit cards. Figure 3.1 is a picture of Zhongcheng Rural Bank.



Figure 3.1: Picture of Zhongcheng Rural Bank

Although Zhongcheng Rural Bank was established under the instruction of “promoting agricultural economy, further activate rural credit market” by CBRC¹, the development of Zhongcheng’s business was far lower than expectation. The profitability of Zhongcheng Rural Bank has remained negative since its establishment. Also, the brand recognition of Zhongcheng is extremely low compare to

other financial institutions. Moreover, in order to chase higher monetary return, Zhongcheng has focused on issuing loan to small and medium entrepreneur in the early days. This has resulted in a high percentage of non-performing loan. With that many problems, Zhongcheng Rural Bank was looking for a way to turn its business into positive profit, to improve its brand recognition and eventually to develop a sustainable business model to compete against other financial institutions.

As the previous chapter has discussed, Zhongcheng Rural Bank's problem has represented the development problems that many rural banks in China are facing. Especially the marketing activity issue and the wrong targeting issue. Researcher has thus choose Zhongcheng to work together to conduct action research to develop a business model that could help solve rural bank's development issue.

3.3 Ethnography

This research started from observing one of the rural bank's representative kind of customers—Owner of Nongjiale to understand what are really pursued in a loan program from the client's perspective. Then researcher observed a typical day of a loan officer from Zhongcheng rural banks to understand the operation of traditional loan program and what was missing. Next, researcher has analyzed the actions of a Nongjiale owner and the loan officer in parallel to conclude what should be included in the new loan program. In addition, researcher also studied the development history of Grammeen Bank in China. Researcher has focused on Chinese micro finance programs because Chinese farmers and Chinese rural financial system are largely different from that of other countries.

The following section would explain each fieldwork in detail.

3.3.1 Field work of Nongjiale Owner

The first field work has been conducted with one of Zhongcheng rural bank's major customer group—Nongjiale owner. Nongjiale refers to a new kind of accommodation style in the countryside. Nongjiale is similar to hostel but it is built on farmer's country house. Nongjiale aims on providing authentic farm living experiences to urban residents in terms of traditional country food, nature friendly environment and relaxing atmosphere. Nongjiale is an important income resource for farmers in Mt. Emei. As one of the four Buddhism mountains in China, Mt.

Emei has been recognized as world heritage in 1996. Since then, Mt. Emei has speed up the progress of building itself as a world famous tourist destination. One of the important works of developing tourism in Mt. Emei was return the grain field to forestry movement. This movement requested the majority of farmers that live in Mt. Emei to stop traditional agricultural activities such as farming and forestry, but switch to tourism industry instead. As a result, most of the farmers have stopped planting and farming activities and turn to tourism industry. It also means that the farmer in Mt. Emei does not own any farming land, which has made the collateral issue more severe. Typical tourism economy in Mt. Emei including hostel and restaurant businesses, self-employed retailing. Among all the commercial choices, redecorating farmers' own houses and develop Nongjiale business has become a popular choice for farmers in Mt. Emei. The peak season of Nongjiale business is during the summer. Urban residents like to go to the mountain area to escape from the hot summer weather in the city. Pictures of a Nongjiale and the surrounding environment are shown in figure 3.2 and figure 3.3.



Figure 3.2: Picture of a Typical Nongjiale

The fieldwork was conducted at August 7th, 2014 at Wannian temple area in Mt. Emei. Wannian temple area is one of the most popular tourist destinations of Mt. Emei. Wannian temple is the temple for Samantabhadra, whom is the bodhisattva of Mt. Emei. So that most of the tourists would visit Wannian temple area if visiting Mt. Emei. Farmers around Wannian temple area has found the business opportunity of opening Nongjiale. The area where researcher has conducted fieldwork has more than 30 Nongjiale ranging from luxury styles to rustic styles. Researcher has randomly picked a middle sized, medium level



Figure 3.3: Picture of the Nature Surrounds Nongjiale

Nongjiale as the fieldwork target because middle sized Nongjiale is still the main size of the Nongjiale.

The name of the field work master is Yu Fenglin. She is a 33 years old female who has born and raised up in Mt. Emei. Fengling has been lived there with family for 33 years. She got married in 2010 and has a three year-old daughter. She is a high school graduate and has started working since 18 years old in the local town center. After 5 years of working, she changed her job as a beautician at a local skin care salon. At the age of 30, she decided to go back to her hometown and to refurbish her country house to open a Nongjiale. She wanted to have a more free job and to make more money. Also, having a Nongjiale means that she could run her business by herself so she would have a chance to apply what she has learn in the past 12 years. Her Nongjiale has been opened for 3 years already. The guest house is their private property.

It was a typical busy day for Yu Fenglin during the summer peak season. In order to be able to observe Yu Fenglin's full daily routine, researcher has lived at the Nongjiale in August 6th. Yu Fenglin woke up at 4 am in the morning because

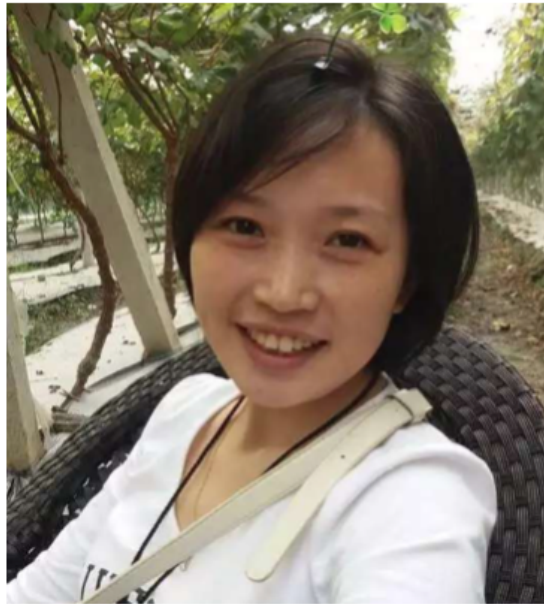


Figure 3.4: Picture of the Fieldwork Master Yu Fenglin

she has to wake up the customers to tell them it is now the time to start climbing the mountain. She knocked on the doors that requested wake up services one by one. She needed to wait until the customers answered her then she could move to the next door. After she had finished all the waking up services, she went to bed to sleep for a few more hours until 7 am.

She woke up completely at this time. She first washed her face and brushed her teeth, then she had a simple breakfast a bowl of noodle. Then she started preparing breakfast for customers. She is in charge with boiling porridge and boiling eggs this morning. She first started with washing the rice, and then she started boiling the water. Meanwhile, she washed eggs. She has prepared 50 eggs for this morning. She told me that if there were extra needs for eggs, she could boil the egg immediately upon request. Then she put rice into the water and waited until the water boiled and turned down the fire to small fire. At the side of the porridge, she put eggs into the boiling water. She has took a glance of her watch to see what was the time. She told me that after 9 minutes, she would stop the fire of eggs. While waiting for the egg, Yu Fenglin started checking Weibo and Weixin at her phone. She was looking at what her friends were up to during the last few hours. 9 minutes has passed quickly and she turned off the fire for the egg and has took all the eggs out of the water.

After all this has done, she started preparing for the next mission—cleaning rooms. Because it was still quite early in the morning—8am, so she only needed to clean rooms of customers who went to climb the mountain. This morning, she has 4 such rooms. She went to the first room, which is room 102. It is a double room so there is two beds inside. She started cleaning taking off all the bed linens and collected all the used towels. She first took off the pillow covers, then duvet covers and then bed sheets. Then she went to the restroom to collect all the used towels. After she finished first room, she went to the second room, and then third room and then last room. She collected all the bed linens and put them into a big bag, and put all the used towels into a separate bag. She then brought them to the laundry room. She had to wash them as fast as possible to make sure all the bed linens could dry to their fastest speed. Then she went to the stocking room to take another small cart to collect all the used cups and collected used toiletries. She went to the first room and picked up all the used toothbrush, toothpaste, soap, tea bags and used slippers. She repeated the same steps for the four rooms. Then she went back to the stocking rooms to pick up stocks such as tea bags, tooth brush and slippers. Next, She went back to the first room to stock up all the utilities. After finished stocking up, she went to the cleaning room to take out broom, dustpan and cleaning towels. She went to the first room and she started cleaning the room by clean the floor. After this, she wiped all the surfaces. Then, she took out mop to clean the floor further more. After all those cleaning works have been done, it was already 11 am.

Yu Finagling has to start to help preparing the lunch for customers. She told me that because they have hired a chief, so her main mission is to clean the vegetables. She went to the kitchen area, took out a bucket of green vegetable (Snow Pea Shoots) and started picking up the eatable parts in the yard. Normally, people only eat the top part of Snow Pea Shoots so Fenglin has to pick up the top part one by one. Today, they have prepared 25 kg of Snow Pea Shoots because it is a popular vegetable during the summer. So it took her about an hour to finish picking up the vegetables.

After she finished the preparing part, she could finally take a short break and get ready for the lunch time.

My observation also ended at this time.

Fenglin told me that she is extremely busy all day long during the peak hour. She has to work all the time. During the lunch time, she has to serve customers in terms of taking out dishes, do some back-up works for the chiefs that include

fill out rice, and prepare side dishes. After lunch, she starts serving customers who want to play Majiang—A very popular Chinese gambling game. She serves tea, side dishes to customers who play Majiang. If she has time, she would help her sister to clean other rooms. Summer is the peak season for Nongjiale, so all the Nongjiale workers are extremely busy all day long. During the peak season, not only all the labors in the family have to come back to help work, they also need to hire two to three extra workers to help running the business. Normally, they need 7 to 8 people to guarantee the smooth of services.

Fenglin told me that she hopes to refurbish her Nongjiale so that she would be able to attract more customers for the next season. However, according to researcher's observation and Fenglin's own word, she was really busy with operating Nongjiale everyday. So she hoped there could have a convenient loan application process. In terms of convenience, her requests could be concluded as below:

1. Short and simple administration process.
2. Purely credit based loan. Firstly, Fenglin did not have qualified collateral. Secondly, Fenglin did not have time and energy for the administration process of making her property legal as a collateral.
3. Flexible repayment plan. Fenglin did not want to return the loan too frequently as it would influence the cash flow of running her Nongjiale.
4. Paired financial services. Other than the loan program, Fenglin hopes the bank could provide her some related financial services such as after loan wealth management consulting, settlement business service, and door-to-door deposit service. Fenglin does not have extra time for waiting at the branch's window to be served.

3.3.2 Fieldwork of Loan Officer from Zhongcheng Rural Bank

The second fieldwork has been conducted with a senior loan officer from Zhongcheng Rural Bank. The purpose was to understand the normal business routine for a loan officer. From the fieldwork, researcher observed how the loan officer has interacted with the client. After the observation, researcher has also conducted an interview with the loan officer to form a deeper understanding of

the loan issuing process. Researcher has concluded the weakness of the current traditional loan business model by herself without any external intervention.

The fieldwork master that researcher has selected was called Du Cao, who is a senior client manager of the micro finance program. Du Cao is born and grew up in Leshan city—a city that is 30km away from Emei city. He has lived in Leshan until 18 years old and then he went to university at Chengdu. He has studied at Chengdu—the capital city of Sichuan province for four years and he decided to come back to Leshan after graduation. He has passed the exam of Industrial and Commercial Bank of China (ICBC) so he has become a banker at ICBC smoothly. He got married 5 years ago and now has a 2 year old son. He is living at Leshan city and commute to Emei city everyday. The distance is about 30km and it takes 30 min to go to work from home by car.

Du Cao has started working as a bank teller at ICBC in Leshan and has been promoted as a loan client manager after 3 years of working. He was mainly in charge with small and medium size entrepreneurs' loan program. He has switched between 3 branched in 8 years due to the requirement of ICBC. Because of his extraordinary working history, he has been scout out to Zhongcheng Rural Bank in 2013 right after Zhongcheng has been established. Du Cao is now working as a loan client manager in charge with micro finance program towards farmers.

The fieldwork has been conducted in August 8th, 2014. It is a normal Friday morning, and Du Cao has arrived at office at 8:50 am as usual. He started his day by switching on the computer and preparing himself a cup of tea. At 9:00 am, he seated in front of his computer and started to browsing his schedule of the day. He would have a pre-loan client visit at around 10 am. Thus, he started checking for materials that he needed to bring for visit and also the basic client information. This client has been using Zhongcheng Rural Bank for 1 year so that Du Cao could have a basic understanding of the clients' financial status. While Du Cao is preparing for the material, he also has to answer some phones from clients and from his colleagues. If it is from the clients, it is mainly about administration process and if it is from the colleagues, it is mainly about the loan requirements.

At around 10am, Du Cao has been ready for a client visit. Because of the regulation, he has to visit the client with one of his colleagues—they could not have pre loan client visit individually. This time, he has scheduled the client visiting with Yu Qian, another client manager. They picked up a car and drove the car towards the client's business location—Qingyinge Temple area, which is about 30 minutes drive from the bank. On the way to the client, Du Cao and Yu

Qian were talking about some non-business related issue such as their weekend and their weekend plan.

After arrived at the client's, they got off of the car and the client was already there waiting for them. The Nongjiale owner greeted those two and shook hands with both of them. Can and Qian have entered Nongjiale with the owner and has started asking him some business related questions. Qian asked if there is any vacancy in the Nongjiale. The owner answered with a no and explained that it is the busiest months in the year so that he could not go to anywhere those days but look after the business. He has not have a chance to visit Emei city for half a month because the Nongjiale business is so busy. As the conversation goes on, Du Cao and Yu Qian are checking here and there of the Nongjiale. It is a middle sized Nongjiale, the full capacity is 20 rooms and each room has two beds. Sometimes, if customers have small children, one room would have more than 2 customers. The pick season of Nongjiale is during the summer, especially June, July and August and no vacancy almost everyday.



Figure 3.5: Du Cao and Yu Qian In Front of the Nongjiale

Du Cao and Yu Qian were taking pictures of the garden, the room and the building as they talked to the owner. They have entered the building and have taken pictures of the dining room and the guest room. Du Cao has asked the owner when did he start building this Nongjiale, how many children that she has and the monthly income of the Nongjiale.

The owner has answered those questions frankly: he has built this Nongjiale

in 2010, and he has 1 daughter, the profit during the pick season is approximately 10,000RMB and is 3000-4000 RMB in off season. Du Cao has also asked what is his plan to use the loan, The owner said he would like to refurbish his Nongjiale after this peak season to make the room more beautiful. He also wants to buy some good furnitures and to make the dining room and the appearance of the Nongjiale more attractive.

After visiting the guest rooms on the first floor, Du Cao asked owner to show his account book and they also took pictures of his account book. Du Cao then appreciated the cooperation of the owner. Du Cao needed the conversation by saying that they would inform him in a few days about the next steps.

Then we said goodbye to the owner and headed back to the bank. Researcher's observation has also ended at this point of time.



Figure 3.6: Yu Qian is Interacting With the Wife of the Nongjiale Ower

After the fieldwork, researcher has also asked several questions to Du Cao regarding the loan issuing process and his career plan. Du Cao told the researcher that he wants to be promoted to a higher position. Specifically speaking, Du Cao hopes to design a loan program that could attract more clients. He also hopes that the administration process could be shortened so that he could work more efficiently. Thirdly, he wishes that the loan quality is good so that he would not be punished due to non-performing loan.

In conclusion, from the fieldwork with Du Cao, researcher has discovered that the connection between the loan officer and the farmer was quite weak. The

visiting time to the Nongjiale was only less than one hour. It was difficult to understand the business situation and the personality of the farmer if the conversation was that short. Compare to other kind of self-employed farmer, Nongjiale is comparatively stable in terms of income resource, the location. So the loan was issued to the Nongjiale owner successfully. However, for other small individual farmers, it would be difficult for a bank to trust him or her by only checking the property that he or she owns. Another problem is that the farmer has treated the loan officer extremely respectful and he had a tendency to only show the loan officer the good aspect of his business. As a result, the loan officer might only form positive image from the visiting. The problems from the field work are concluded as followed:

1. How to improve the communication between clients and loan officers.
2. How to have a comprehensive understanding of farmer's credit worthiness and business in a short period of time.
3. How to shorten the administration process for issuing a loan.
4. How to improve the loan officer's confidence toward a loan.

3.4 Study of Grammeen Bank in China

Talking about micro finance, one could not ignore the pilot of micro finance concept—Grammeen Bank. Grammeen Bank was established by Muhammad Yunus at Bangladesh in 1983 with a hope of solving the poorest of poor's financial problem. The micro loan program was designed to target female in a household. The repayment schedule is flexible but mostly very frequent. Weekly repayment is the basic repayment schedule for most of the loan. In order to solve the lack of collateral issue, Grammeen Bank has developed a five people credit group model to help avoid default. This group guarantee model works in a way that if one of the members in a group defaulted, other members in the group would not be able to apply for a loan in the future. Although members do not need to pay back the default amount of money of others, they will supervise each other for their own sake. As a result, the default ratio of Grammeen Bank is extremely low. Grammeen Bank has received great success in both Bangladesh and overseas. The founder of Grammeen Bank, Muhammad Yunus, has received

Nobel Prize Award in 2006 for his great achievement in helping poor people to solve their financial problems.²

Grammeen Bank's great success has also raised Chinese scholar's attention. China is one of the countries that have imported the Grammeen model in early days. China has also made several attempts of implementing the Grammeen model into different fields. In 1993, Chinese scholar Du Xiaoshan has went to Bangladesh and brought Grammeen's micro finance model to Hebei Province, China. However, this Grammeen model in China did not reach same effect as the original one. The management of the micro finance program was chaotic. Corruption and bribery have been out of control. The non-performing ratio was also extremely high. In 2004, Grammeen model has been used in the education field to help poor kids to pay for school. But it has failed as well. In 2006, Yunus has visited China and has designated Sichuan province as the experiment province of Grammen model. Grammeen Bank has also cooperated with few other Chinese non-profit micro finance organizations since. Bbut the result did not meet expectation. An announcement of shut down of business has been made in 2012. After several failures, Chinese scholars have invited Yunus to visit China again, and have tried to combine Grammeen model with the popular online P2P finance model. The program has just been launched and the result could not be seen at this moment.³

The failures and attempts of Grammeen model in China have given researchers many to think. Ji Shaogang, who has researched micro finance and Grammeen Bank in China for several years, has concluded what have made Grammeen Bank failed repeatedly in China.

The first reason he has pointed out is that Grammeen Bank is a social entrepreneur, which means it is not for profit. Thus the ultimate purpose of Grammeen Bank is creating social impact instead of generating monetary value. However, when Grammeen Bank entered China, many people have regarded it as a way to make money from the poor. When the return from making a loan was far lower than expectation, people started to questioning the correctness of the business model⁴

The second reason is that the success of Grammeen Bank relies on a continuous source of fund and the supportive from political perspective. However, in China, Grammeen Bank has missed the two most important elements. Therefore it is hard for the program to be succeed. Another reason is that the followers of Grammeen Bank in China have ignored the core of the business model—group credit system

and to focus on female. In China, financial institution has a tendency of lending to richer farmer and small medium entrepreneur. This is also the case of Grammeen Bank in China. As a result, the purpose of solving poor people's financial problem has been misunderstood⁵.

From the researcher's opinion, another reason of Grammeen's failure in China was that it has despised the importance of a longer repayment schedule. In the Grammeen loan program, borrowers are required to pay the interest every week. However, it is almost impossible for Chinese farmers to meet the schedule. On the one hand, Chinese farmers are used to borrow from friends and relatives. This kind of informal borrowing usually has a very flexible payment plan. Borrower would repay the loan until they have enough liquidity. On the other hand, farming business takes a longer cycle than usual business. If a farmer borrowed money for farming purpose such as buying plant or pesticide, it is impossible for a farmer to make a profit in one week and to pay some interest right after. So researcher's conclusion is that in China, the micro finance program should have a longer and more flexible payment plan.⁶

Based on the research on Grammeen Bank in China, researcher has concluded the following elements that a new micro finance program should have in the future.

1. Rural bank's business model should take monetary return into consideration. Thus, how to lower the transaction cost would be a significant topic for rural bank.
2. Group guarantee system is extremely important for the success of a micro finance program. However, to ask group members to bear the default amount of money for each other is not applicable.
3. Micro finance program should target on female in a household.
4. The education of poor people, especially the financial education of them is significant to the success of a loan program.
5. The payment plan should reflect the production cycle of local farmers. Compare to the weekly payback schedule of Grammeen Bank, rural bank should set a longer payment cycle.
6. Improving the management level is a must for the micro finance program. Corruption and bribery should be prevented from happening at the beginning.

3.5 Design of the Business Model

Having conducted fieldwork with farmer, rural bank employee, and studied the development of Grammeen Bank in China, the design process of the business model would be discussed in detail based on the fieldwork results. This section would first re conceive the needs and problems of rural financial services according to what have been observed from the fieldwork. Then, a new business model would be introduced. This business model would solve the problems, satisfy the needs, and eventually accelerate the revolution of rural financial services.

3.5.1 Redefine the Needs

Since the fieldwork have been conducted from two perspectives, the needs of the rural financial services would also be analyzed from two perspectives accordingly. The two perspectives are farmer's perspective, and rural bank's perspective. As the business model has emphasized that pre-loan preparation phase, administration phase and post-loan service phase are equally important, the needs would also be divided into three phases. In addition, long-term needs would be briefly discussed from the society's perspective.

The short run needs have been concluded in figure 3.7.

	Pre-loan	Administration	Post-loan
Farmers	<ol style="list-style-type: none"> 1. Be able to evaluate how much money is needed 2. Be qualified to a credit based loan products 	<ol style="list-style-type: none"> 1. Efficient administration process 2. Flexible payment plan 3. Appealing interest rate 	<ol style="list-style-type: none"> 1. Paired financial services 2. Tailor made comprehensive financial services.
Rural Banks	<ol style="list-style-type: none"> 1. Evaluating the creditability of a client precisely 2. Convincing prospective customers quickly 	<ol style="list-style-type: none"> 1. Efficient administration process 2. Generating revenues and reducing costs 	<ol style="list-style-type: none"> 1. Promoting extending financial products to clients 2. Developing a strong customer relationship 3. Organic growth of new customers

Figure 3.7: Analysis of the Needs

In the long run, farmers are expecting to acquire financial knowledge beyond basic information of loan programs. Farmers would be able to manage their wealth scientifically with the help of rural banks. From the rural bank's perspective, the long term need is that it could stand out from other rural financial institutions such as RCC and ABC. Even during the downturn of economy, rural banks could stay in the business based on its deep connection with farmers. In addition, rural bank's deep connection with farmers could be transformed to the next generation of farmers and bank employees. Eventually, the rural society would be the biggest beneficiary with the transformation of rural economic format and farmer's ideology.

3.5.2 Problems

Similar to the analysis of the needs, the problems behind the current rural financial system could also be divided into the pre-loan preparation phase, administration phase and post-loan service phase from the farmer's and the rural bank's perspectives. The analysis of the problems could be seen in figure 3.8.

	Pre-loan	Administration	Post-loan
Farmers	<ol style="list-style-type: none"> 1. Lack of collateral 2. Lack of understanding to rural bank 3. Lack of access to modern financial services 	<ol style="list-style-type: none"> 1. No time for non-business activities during the peak season 2. Loan is needed right after the peak season 	<ol style="list-style-type: none"> 1. Payment schedule has been stabilised 2. No understanding of related financial services
Rural Banks	<ol style="list-style-type: none"> 1. Lack of understanding to farmers 2. Low brand recognition 	<ol style="list-style-type: none"> 1. Low business capabilities of employees 2. Limited service range 	<ol style="list-style-type: none"> 1. Unable to promote other revenue generating extension services

Figure 3.8: Analysis of the Problems

In conclusion, the problems from the farmer's perspective is the lack of credibility issue in terms of collateral, and the lack of basic financial knowledge. From the rural bank's perspective, the major problem is the low brand recognition that prevent rural bank from promoting its business to more farmers.

3.5.3 Elements of the Business Model

After carefully examined the needs and problems of the current rural financial system, the value that the new business model would deliver has become clear. The value would not only be delivered to the customer—farmers, but also to the society. Since the business model i.e. the loan program is a value co-creation business model. It should be able to benefit both farmers, banks and the society. In order to reach the goal of generating values for the three parties, the business model should involve the following areas:

1. Products and services
2. Education
3. Community construction

The researcher has concluded eight steps from pre-loan preparation phase, to administration phase until post-loan service phase that covered one or more than one areas that mentioned above. A brief summary of the seven steps have been presented in table 3.1.

In the following section, the seven elements would be explained in detail.

Step 1: Enhancing banker's understanding to farmers.

In order to enhance rural bank employee's understanding of local farmers, loan officers would be sent to the countryside to conduct thoroughly fieldwork of local farmers. Loan officer must select a typical target customer and observe the entire activities of the customers during the fieldwork. During the observation process, the loan officer should not conduct interviews, instead, the loan officer has to record what he or she has observed completely. After the observation, loan officer is allowed to ask target customer questions so that he or she could understand the rationale behind customer's actions better. The fieldwork would be recorded in the pre-loan interview form.

In addition, In Chinese countryside, no one understands the rural residents better than the local government officials, therefore, the loan officers would also schedule meetings with local officers. The topics of the meeting include but not limited to the credibility of each individual farmers, the average amount of money that each farmer might need and the production cycle of the agricultural business. The meeting with local officers have two purposes. First, it would serve as an

Table 3.1: Lists inside a table

Phases	Steps	Products and Services	Educa- tion	Com- munity Con- struction
Pre-loan preparation phase	1. Enhancing bankers' understanding to farmers.			✓
	2. Forming financial community with different kinds of farmers.			✓
	3. Providing financial education to the farmer's community.		✓	✓
	4. No collateral requirement. Batched credit instead.	✓		✓
Administration phase	5. Improving the efficiency of administration process.	✓		
	6. Providing flexible payment plan and the payment schedule should reflect farmer's production needs.	✓		
Post-loan service phase	7. Providing financial advisory service and after loan wealth management service.	✓	✓	✓
	8. Introducing paired financial services to farmers	✓	✓	✓

opportunity for bankers' to form a deep understanding with local community. Secondly, it would help bank's employee to make a judgment of the words from farmers.

Step 2: Forming financial community with different kinds of farmers

This step is important to the success of the business model. Naturally, farmers are scattered among the countryside even though they are living in the same county. Therefore, the communication between each individual farmers, and between farmers and banks are extremely inefficient. The loan program is a batched credit program so that it is a must for rural bank to group similar farmers together. Rural bank would group scattered farmers based on their farming type and their production capabilities. The grouped farmers would be invited to meet each other in the town center frequently.

The purposes of grouping farmers are that first, it would make batched credit applicable. Second, rural bank could provide customized financial knowledge lecture based on the specific needs of different groups. Eventually, rural bank could provide comprehensive customized services to each group. Moreover, farmers could communicate with similar ones so that experiences could be shared among each other.

Step 3: Providing financial education to the farmer's community

A fundamental reason that prevent farmers from using modern financial services is the limited education level among rural residents. If the people did not even know what is financial service, one would never start using it. Therefore, only by lifting up the entire intelligence level of the clients could rural bank promote its business more efficiently.

The financial education should start from an information session about the rural bank and the upcoming lecture. During the information session, some basic topics such as how to distinguish fake money should be introduced to arise people's interest. The information session should deliver a message that rural bank would help farmers to live a better life. Then, general lectures about economics and agricultural business should be conducted. The loan program and other financial services should be mentioned continuously during the session.

The session not only helps to create needs from consumers, but also helps rural bank to establish brand image and reputation.

Step 4: No collateral requirement but batched credit instead

One of the most important goals of the business program is to solving the credit issue of farmers. Batched credit would be a way to solve this issue. Batched credit means that instead of checking the qualification of each loan applicant, bank would first check the credibility of a group of clients who are running similar business. Then bank would decide the amount of money that is needed by each individual within the group, and estimate the number of clients in the group. A total amount of loan would be calculated based on the estimation. Clients that belong to this credit group would be able to apply for a loan according to their production needs. Because the credibility of the group has been evaluated in advance, the application process of each individual would be much easier than normal collateral required loan program.

Although batched credit is no longer a new concept in micro finance field, the amount of loan is mostly limited to a small number. Farmers would not be able to use such small amount of money to effectively expand their businesses. Thus, this business model would increase the amount of credit based loan to a large degree. This business model has emphasized a lot on the preparation phase to form a deep understanding with farmers, the risks would be reduced to respectively.

Step 5: Improving the efficiency of administration process

Based on the comprehensive field research of local farmers, rural bank would be able to form a deep understanding of its operation situations. Therefore, the supporting materials in the administration process could be largely reduced. A simplified the administration process is possible:

1. Simplified the requirement for administration materials. Applicants only need to fill a two page form and to provide the original and copy of national ID card, national residence registration card, marriage certificate and certificate of business.
2. Guaranteed that the application process would be less than two weeks. This including pre-loan examination, application and processing phases.

Sample application forms are presented in the appendix.

Step 6: Providing flexible payment plan and the payment schedule should reflect farmer's production needs

The loan program would be a one year period loan program. The interest payment would be collected at least once in a season, which is 3 months. This payment schedule has guaranteed liquidity of most farming activities. Also, consider the travel distance from rural area to the rural bank, rural bank would offer door-to-door service when making a payment. In addition, rural bank would allow farmers to reuse the credit permission in a certain period of time. That is to say, if the farmer has paid back all the money in six months, and the farmer decide to have another loan in the eighth month, the farmer is still qualified as a member in the batched credit program.

Step 7: Providing financial advisory service and after loan wealth management service

Rural bank would continue taking care of the clients even after the loan issuance. First, rural bank would check the condition of the business at least once in two months. The result would be recorded in post-loan examination form.

Also, if the farmer has claimed certain usage of the loan, rural bank would supervise or facilitate farmer to reach the goal. For example, if the farmer has claimed that he would use 10,000 RMB to pay for furniture, rural bank would directly transfer the amount of money to the furniture supplier for farmer. This would not only guarantee the money has been used in a correct way, but also save transaction cost.

Step 8: Introducing paired financial services to farmers

Rural bank should also introduce related financial products and services to farmers such as natural disaster insurance plan and medical insurance plan. Through consuming extended financial services, the connections between farmers and rural bank would be deepen. Also, rural bank would introduce business partners to clients if possible. For example, rural bank could introduce mushroom growers to local pickle manufacture.

3.5.4 Sum of the Business Model

The sum up of the business model is based on a framework that is developed by Osterwalder in 2010.⁷ The key resources of the business model are rural bank's deep understanding of farmers and the local farmer's community. The key activities in this business model are the loan product, education and financial advisory services. The key partnership is with the client—farmers. So the farmer is not only rural bank's customer, but also an important resource, and business partner. On the one hand, rural bank generates profit by serving farmers, on the other hand, rural bank create social value together with farmers. Moreover, existing clients could help rural bank to reach new prospective clients and expand the influence of rural bank by words of mouth effect. In order to successfully transform farmers from target customer to key partners, an efficient customer relationship management is required. Therefore, the three phases key activities must be implemented thoroughly.

3.6 Benefit of the Business Model

Quantitative and qualitative benefits could be expected from this business model. Similar to the analysis of demand, the benefit would also be divided into three parts—farmer, rural bank and the society.

To the farmers, the quantitative benefit is that their financial needs could be satisfied without presenting physical collateral. Farmers could expand their business, and eventually improve the living quality. The qualitative benefit would be that farmers would be able to gain financial knowledge about how to manage their business in a scientific way.

From the perspective of the rural bank, it would be able to generate profit from the loan activities. Moreover, by promoting related financial products and services to farmers, rural bank would have an opportunity to develop different revenue streams. The qualitative benefit would be a stronger connection with the farmer's community that resulted from a series of efforts in education and community constructions. Eventually, the brand image of rural bank could be successfully planted among farmers. As a result, the identification of the rural bank would be much clear and detailed than before.

The biggest benefits to the society would be the transformation of agricultural economy and the transformation of farmers' ideology. However, those two effects

are more long-term results. So the benefit to the society should be evaluated in the long run.

Notes

- 1 China Banking Regulatory Commission (2006). *CBRC's Opinion on Lifting the Restrictions of Rural Banking Financial Institution In Order to Support the Construction of New Rural China*. http://www.cbrc.gov.cn/chinese/home/docDOC_ReadView/2923.html (in Chinese).
- 2 Grameen Bank (2015). *About Us*. <http://www.grameen-info.org/about-us/> (Accessed 27 November 2015).
- 3 Investorchina. *Having been to the market for 22 years, only one is still alive—The development of Grammeen Bank in China*. <http://www.investorchina.com.cn/article-22635-1.html> (Accessed 27 November 2015).
- 4 Ji, Shaofeng (2015). *The Truth Behind Grammeen Bank in China and the Pain of Chinese Rural Finance System*. <http://opinion.caixin.com/2015-10-21/100865111.html> (in Chinese).
- 5 Ibid.
- 6 Ibid.
- 7 Osterwalder, Alexander and Pigneur, Yves (2010). *Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers*. New York: John Wiley and Son.

Chapter 4

Implementation and Results

This research is an action research on business model design for rural bank in China. Through cooperating with Zhongcheng rural bank in Emei city, Sichuan province, China, the effectiveness of a three phases value co-creation business model would be examined. Three action researches i.e. three loan programs have been designed and implemented with Zhongcheng Rural Bank from August 2014 to August 2015. The design phase and previous work phase were from August 2014 to December 2014. The implementation phase was from January 2014 to August 2015. The action research has targeted different farmer groups and the difficulties were gradually increasing. Specifically speaking, the first target group was comparatively economically stable and less risky than the second, and the second one was comparatively stable and less risky than the third. So the difficulty of the action research was increasing. Each action research has specific goals and focuses. The details of each action research would be discussed below.

4.1 Action Research I: Nongjiale Loan Program

The first loan program was designed to target one of the biggest farmer group at Mt Emei—Nongjiale Owner. Because it was the first time for Zhongcheng to issue batched credit loan, a comparatively reliable and less risky client group was picked. In stead of forming a financial community with farmers, an already existed farmer’s community was chosen in order to lower the difficulty of the loan program. The first action research has involved four steps that introduced in chapter three—no collateral requirements, flexible payment plan, efficient administration process and to enhance bank employee’s understanding of farmers. The goals of this action research were 1. to examine the reliability of group credit system, 2. to design an administration process that meet farmers’ needs , and 3. to promote Zhongcheng Rural Bank among the farmers community.

The focus Nongjiale group was Nongjiale that located at Qingyin temple area of Mt Emei. These area is closer to the city but still has lower temperature than that of the city area. Thus this area is an attractive weekend vacation destination for urban residents.

In order to enhance Zhongcheng employee's understanding of local farmers, Zhongcheng Rural Bank's loan officers would be sent to Qingyin temple area to conduct a thoroughly fieldwork of local farmers. Every two employees would form one group so that they could share their findings with each other. The fieldwork should be recorded in the pre-loan interview form. A sample pre-loan interview form could be found in the appendix. Also, because the local government officials are the ones that understand the local situation the best, loan officers would have to schedule meetings with the local officials. With the help of local government officials, loan officers would be able to make a fair judgment about the average fund demand of farmers and the general credit worthiness of the clients.

The next step of the loan program was the group or batched credit characteristic. Loan officers need to carefully analyze the business model of Nongjiale so that loan officers could make correct decision of whether issuing group credit loan to the local Nongjiale owners or not. According to the research that conducted on Nongjiale owners and on local government officials, the following information has been collected. There existed 65 registered Nongjiale at the Qingyin temple area. Most of them have been running business for more than 3 years. Their main services include accommodation, restaurant, small supermarket and entertainment room (Majiang game). Most of the business are paying by cash, and approximately 20% of the Nongjiale has installed POS machine already. Thus, we could conclude that the cash flow of Nongjiale business is comparatively stable. As for the financial needs, the range is from 100,000 RMB to 1000,000 RMB and the average financial need is 500,000 RMB. The main purpose of a loan is for the renovation of Nongjiale. Nongjiale usually renovate their facilities every 3-5 years. Therefore, the demand for loan is stable in this area. The business cycle of Nongjiale is fixed. The peak season is during the summer time and during spring festival period, which are from June to September and from January to February. The renovation is often during the off season period. According to the field research, around 10 Nongjiale have expressed willingness of applying for a loan from Zhongcheng Rural Bank. According to the research, Zhongcheng Rural Bank could expect to attract around 20% of the Nongjiale as future customers. Therefore, the total group loan demand would be: $65 * 20%*$

500,000RMB=4,550,000RMB. The interest rate should be around 12% in order to compete against Rural Credit Cooperation.

The third step of this loan program was the flexible repayment plan. The loan would be a one year loan. The interest payment would be collected at least once a season, which is 3 months. This payment schedule has guaranteed liquidity of Nongjiale owner. Also, consider the travel distance from Qingyin temple area to Emei city, Zhongcheng Rural Bank would offer door to door service when making a payment. In addition, Zhongcheng would allow farmers to reuse the credit permission within a certain period of time.

After carefully examined the operation situation of local Nongjiale, Zhongcheng Rural Bank has decided to issue loan to farmers that meet the following criteria:

1. Prospective Nongjiale should be located at Qingyin temple area.
2. Prospective Nongjiale that requires less than 100,000RMB loan should at least have operated for one peak season. Prospective Nongjiale that requires more than 100,000RMB loan should at least have operated for a year.
3. Zhongcheng would reject the following clients:
 - Prospective clients have any default or non-performing loan at the moment of applying for a loan.
 - Prospective clients have any negative record at national court homepage.
 - Prospective clients have 3 continuous or in total 6 times of not on time payment history within 24 months.

The last step of the loan program was the efficient administration process. Based on the comprehensive field research of local Nongjiale owner, Zhongcheng Rural Bank has already formed a deep understanding of their operation situations so that the supporting materials in the administration process could be largely reduced. In this case, researcher and Zhongcheng Rural Bank has simplified the administration process by the following ways:

1. Simplified the requirement for administration materials. Applicants only need to fill a two page form and to provide the original and copy of national ID card, national residence registration card, marriage certificate and certificate of business.

2. Zhongcheng Rural Bank would guarantee that the application process would be less than two weeks. This include pre-loan examination, application and processing phases.

Sample application forms with sample answers are presented in the appendix.

In conclusion, the loan product for Nongjiale owner could be summarized in following table 4.1.

Period	From February 2015
Target customer	Nongjiale Owner that located at Qingyin Temple area of Mt Emei
Elements	No collateral requirements, Flexible payment plan, Efficient administration process, Enhance bank employee's understanding of farmers.
Goals	Examine the reliability of group credit system, Design an administration process that meet farmers' needs Promote Zhongcheng Rural Bank among the farmers community.
Restrictions	<ol style="list-style-type: none"> 1. Prospective Nongjiale should located at Qingyin temple area. 2. Prospective Nongjiale which require less than 100,000RMB loan should at least operate one peak season. Prospective Nongjiale which require more than 100,000RMB should at least operate for a year. 3. Zhongcheng would reject the following clients: <ol style="list-style-type: none"> 1. Prospective clients have any default or non-performing loan at the moment of applying for a loan 2. Prospective clients have any negative record at national court homepage. 3. Prospective clients have 3 continuous or in total 6 times of not on time payment history within 24 months.
Loan range	100,000RMB—500,000RMB
Interest rate	Less than 15%
Loan duration	One year
Payment schedule	Flexible, basically interest rate should be paid at least once in a season
Application materials	Original and copy of ID card, residence registration card, marriage certificate and business operation certificate

Figure 4.1: Summary of the Action Research I

4.2 Action Research II: Poultry Husbandry Farmers Loan Program

The second loan program was designed to target the poultry husbandry farmers that located at Gaoqiao village of Mt Emei. Compare to Nongjiale owner, poultry husbandry farmers are less stable in terms of income. They also face higher natural risks, such as weather and sickness of chicken. The steps involved in this action were more complicated than the first action. The extra steps are forming financial community, providing financial education to the farmer's community, and providing financial advisory services. No collateral requirement, Batched credit, efficient administration process, deeper understanding to farmers were the same as the first action. So the focus of this action research was community construction and education. The goal of this action research was to test the effectiveness of forming a financial community with farmers before launching the loan program. Through financial education, researcher and Zhongcheng would like to examine the marketing effect of community construction activities. Furthermore, after-loan financial advisory services have been provided in order to test whether it could help strengthen the bond between banks and clients.

The fieldwork process was similar to the first action research. The results are as followed: currently, there are 59 poultry husbandry farmers in the area. The total area of the poultry husbandry farm is around 400 mu. The total production capacity of chicken per year is approximately 60,000 chicken. The production cycle of a chicken is approximately 7 months so farmers would need a longer repayment period. The main clients are mostly in Leshan and Emei city. They have cooperated with local restaurants and Nongjiale to guarantee the sales of the chicken. Besides meat products, poultry husbandry farmers also sell side products such as eggs. The average price of a chicken is 80 RMB. The main risk is natural disaster, and the sickness of the chicken. Farmers are most likely to use the loan for purchasing feeds for chicken. The basic loan requirement from farmers are from 5,000RMB to 50,000RMB. Fig 4.2 is a picture of a typical poultry husbandry farm.

Unlike Nongjiale owners, the poultry husbandry farmers are mostly scattered around the village. A farmer's society was naturally existed. Thus, in order to be able to issue batched credit, the first thing that researcher and Zhongcheng need to consider was to help farmers to organize a financial community. After conducting the fieldwork with local poultry husbandry farmers, loan officers have found out that there is one leading poultry husbandry farmer that is much larger



Figure 4.2: A Typical Poultry Husbandry Farm

than the other farmers in size. So Zhongcheng has helped to form a financial community by having this large farmer as a leader.

Providing financial education service would be the next step of this action research. Specifically speaking, Zhongcheng has scheduled one open financial knowledge session in February 1st, 2015 prior to the launch of the loan program. The contents of the information session were introducing Zhongcheng rural bank, introducing the available financial products and services to farmers, and teaching farmers how to distinguish fake Renminbi. Also, Zhongcheng's staff were available for answering all kinds of financial questions. The information session has successfully attracted many farmers. Many of farmers have showed interest in further financial knowledge lectures. Picture of the information session can be seen in figure 4.3.

In addition, financial advisory services have been implemented in this action research after loan has been issued to farmers. In order to save the transportation time of farmers, Zhongcheng's staff would provide advisory and consultancy when visit farmers every two months. Before visiting farmers, Zhongcheng's staff would inform farmers in advance, and to remind them that if they have any questions and concerns, so that they could ask Zhongcheng's staff during the examination time. Another approach of the financial advisory service would be introducing extended financial products and services to farmers. For example, if poultry hus-



Figure 4.3: Information Session

bandry farmers would use the loan for purchasing feed, Zhongcheng could facilitate farmers to transfer the payment to feeds supplier. That is to say, Zhongcheng would directly deduct money from the loan amount and transfer the money to the feeds supplier. In addition, Zhongcheng's staff would introduce poultry husbandry farmers some prospective buyers of their meat products. If they have any need for transaction services, Zhongcheng rural bank would provide tailor made services to both parties. An extra service that Zhongcheng provided to farmers was to remind farmers to conduct epidemic prevention of chicken. As sickness of one chicken would be quickly spread to the entire chicken farm, the prevention of sickness is extremely important to chicken feeding farmers.

Similar to the first action research, the administration process has been simplified a lot due to the batched credit policy. As long as the poultry husbandry farmers have had a size of 1000 chicken in their chicken farm and have one year experience in feeding chicken, they could apply for this credit based loan.

The characteristics of the loan product for poultry husbandry farmers are concluded in figure 4.4.

Period	From April 2015
Target customer	Poultry husbandry farmers at Gaoqiao Village area in Mt. Emei
Elements	Construction of financial community Financial education to the farmer's community Financial advisory services No collateral requirements, Flexible payment plan, Efficient administration process, Enhance bank employee's understanding of farmers.
Goals	Examine whether it is possible to form a financial community with farmers before launching the loan product; The effect on marketing by conducting financial education services; Whether financial advisory services could improve the bond between banks and farmers.
Restrictions	<ol style="list-style-type: none"> 1. Prospective farmers should located at Gaoqiao Village area. 2. The production capacity of prospective farmers is at least 1000 chicken. Minimum experience in feeding chicken should be one year. 3. Zhongcheng would reject the following clients: <ol style="list-style-type: none"> 1. Prospective clients have any default or non-performing loan at the moment of applying for a loan 2. Prospective clients have any negative record at national court homepage. 3. Prospective clients have 3 continuous or in total 6 times of not on time payment history within 24 months.
Loan range	5,000RMB-50,000RMB
Interest rate	Minimum 10%
Loan duration	36 months
Payment schedule	Flexible, basically interest rate should be paid at least once in a season
Application materials	Original and copy of ID card, residence registration card, marriage certificate and business operation certificate

Figure 4.4: Summary of the Action Research II

4.3 Action Research III: Loan Program for Mushroom Growers

The third loan program was designed for mushroom growers that live in Xinning Village of Mt. Emei. This action research included all the steps that have introduced in chapter three. Enhancing bankers' understanding to farmers, forming financial community with different kinds of farmers, providing financial education to the farmer's community, no collateral requirement, batched credit instead, improving the efficiency of administration process, providing flexible payment plan and the payment schedule should reflect farmer's production needs, providing financial advisory service and after loan wealth management service and introducing paired financial services to farmers. The goal of this action research was to examine if the entire processes are effective in terms of solving farmer's lack of credit issue and improving the efficiency of marketing activities for rural banks.

This action research was the most difficult one among all the three. Firstly, the mushroom growers have small production capacity, which means their financial need is also quite low compare to Nongjiale owner and poultry husbandry farmers. Therefore, the interest revenue from the loan program would be limited. Secondly, mushroom growers are comparatively the poorest among all the three farmers group. As a result, the creditworthiness of this group has been doubted before loan issuance. Also, the mushroom growers has lived in the mountain area for years and many of them are aged farmers. Therefore, they have very limited access to modern financial services and modern financial knowledge. This action research needs to tackle those difficulties when implementing all the steps.

Fieldwork has been conducted before designing the loan program in order to form a better understanding of the mushroom growing farmers. Most of the mushroom growers at Xinning village are from the local area. They have been planted mushrooms for more than ten years. 15% of the local residents are involved in the mushroom growing business. The unit to count the production of mushroom is by bag. Generally, 70% of the mushroom growers have an annual production capacity from 10,000-30,000 bags. 20% of the mushroom growers have an annual production capacity from 30,000-50,000 bags. 10% of the mushroom growers have an annual production capacity that is over 100,000 bags. The production cycle of mushroom could be divided into three phases. April-August is the material preparation phase, September to December is the mushroom growing phase and December to March is the selling phase of mushroom. The demand for

loan is mostly between April to August. The average demand of money is from 10,000RMB to 50,000RMB. In total, Zhongcheng would issue a group credit of 1.5 million RMB, and the estimate number of customers are 20 farms. The main risks of mushroom growing business are natural disaster, and the income risk that comes from the lack of bargaining power of mushroom growers. Figure 4.5 is the picture of a typical mushroom farm.



Figure 4.5: A Typical Mushroom Farm

Education and community construction were extremely important for the success of this loan program. As the average age of the prospective loan applicants were older than the other two programs, a more comprehensive financial knowledge class has been conducted. Besides the information session that was similar to the one for poultry husbandry farmers, mushroom growers were gathered together at the local government activity room to have a further in detailed financial class. The lecture included basic micro and macro economic knowledge such as supply and demand of a product. Also, Zhongcheng has introduced the specific financial plan for the farmers during the lecture: a loan program, a comprehensive after-loan customer service, and a reference service that connect farmers to mushroom buyers.

In terms of community construction, farmers have been divided into different groups according to their production capacity. Mushroom growers that have an annual production capacity between 10,000-30,000 bags are all in group A. Mushroom growers that have an annual production capacity that are more than 30,000 bags are in group B. Zhongcheng has helped them to set up offices, and suggested each group to select their own leaders. After leader has been selected, Zhongcheng suggested farmers to work together to negotiate price with their clients. Because they are no longer individual farmers, they have been able to negotiate a guaranteed purchasing price of their mushrooms. The price has been settled as 6 RMB per bag eventually. Also, mushroom buyers have guaranteed to prioritize mushroom purchasing from Xinping village's mushroom growers.

Through the community construction activities, mushroom growers have acquired basic marketing and negotiation skills. Therefore, they would be able to expand their business scientifically in the future. In return, local mushroom growers have formed a familiarity of Zhongcheng rural bank so the brand image of Zhongcheng has been improved a lot.

The loan program for mushroom growers that are located at Xinping village has been summarized in figure 4.6.

4.4 Evaluation of the Business Model

4.4.1 Methodology

As introduced in chapter three, the expected benefits from the business model could be divided into monetary part and non-monetary part. For the bank, the benefits are both monetary and non-monetary: increasing of the loan outstanding amount, rising of the loan account, and growing of profit are all positive signals to bank's business. The non-monetary benefit for the bank would be a more clear brand image, a strengthened customer relationship and expanded influence in the local financial service market. To the farmer, the benefit are mostly non-monetary. The financial knowledge that farmers gained from the education program could benefit farmers for a life time. Also, the business skills that farmers developed with rural bank would play a significant role in farmers' future business activities.

In detail, The monetary benefit for the bank could be evaluated by general KPIs that evaluate the performance of a bank. Because the business model is mostly about loan program, so the loan outstanding amount, loan account num-

Period	From August 2015
Target customer	Mushroom growing farmers at Xinning village of Mt. Emei.
Elements	<p>Enhancing bankers' understanding to farmers</p> <p>Forming financial community with different kinds of farmers</p> <p>Providing financial education to the farmer's community,</p> <p>No collateral requirement, batched credit instead,</p> <p>Improving the efficiency of administration process,</p> <p>Providing flexible payment plan</p> <p>Providing financial advisory service and after loan wealth management service</p> <p>Introducing paired financial services to farmers.</p>
Goals	<p>To examine if the entire processes are effective in terms of solving farmer's lack of credit issue;</p> <p>Improving the efficiency of marketing activities for rural banks.</p>
Restrictions	<ol style="list-style-type: none"> 1. Prospective farmers should located at Xinning Village area. 2. Minimum experience in growing mushroom should be three years. 3. Every 10,000 bags of mushroom are qualified for 10,000RMB's loan. 4. Zhongcheng would reject the following clients: <ol style="list-style-type: none"> 1. Prospective clients have any default or non-performing loan at the moment of applying for a loan 2. Prospective clients have any negative record at national court homepage. 3. Prospective clients have 3 continuous or in total 6 times of not on time payment history within 24 months.
Loan range	10,000RMB-50,000RMB. Collateral is required if the loan exceeds 50,000RMB
Interest rate	Around 10%
Loan duration	36 months
Payment schedule	Flexible, basically interest rate should be paid at least once in a season
Application materials	Original and copy of ID card, residence registration card, marriage certificate and business operation certificate

Figure 4.6: Summary of the Action Research III

ber, the percentage of non-performing loan would be examined. Also, the profitability of the bank would be used to see if the loan program has helped the bank to improve the general business performance. In addition, sum of saving's account would be referred. This KPI is related to the general operation of the bank. Although we could not tell if the change of the saving's account is purely due to the loan program, but we could evaluate if a bank's influence on the local area has been improved by looking at the change in number of the saving's account.

For the non-monetary part, researcher has designed a in-depth interview and an attitude scale form. The in-depth interviews were with two Zhongcheng rural bank's loan officers. A five grades Likert scale survey has been used to ask farmer's opinion about the loan program¹. In the following section, the results of the three action research would be introduced.

4.4.2 Quantitative Results

This research would refer to the KPIs that are often used to examine the performance of a bank. The main KPIs are the profitability of the entire business, increasing of loan outstanding, and increasing of saving's account.

Until July 2015, the net profit of Zhongcheng Rural Bank is -390,000 RMB. Although this is a negative number, but compared to 2014, which was -830,000 RMB, the profitability has been improved by 113%. In 2014, Zhongcheng was still focus on issuing loan to small medium entrepreneur, but this client group has already been crowded by major banks so that the expanding of business was difficult for Zhongcheng. In 2015, Zhongcheng has changed its business focus to rural residents, therefore, Zhongcheng was able to expand its business rapidly.

The percentage of non-performing loan has decreased to 0% compare to 10.7 million RMB at the beginning of the year. There were 3 non-performing loans by small medium entrepreneurs in early 2015. Zhongcheng had made great effort on recalling the loan so the percentage of non-performing loan has been decreased to 0%.

The amount of loan outstanding is 70.14 million RMB in July 2015. Among the loan outstanding, Loan for agricultural is 48.18 million RMB. In 2014, the loan outstanding for agricultural was 25.15 million RMB. The loan for agricultural has increased for 91.57% percent in seven months.

The average amount of loan per client has been decreased from 0.97 million RMB to 0.49 million RMB due to a change of business strategy to focus on small individual farmers.

The rural credit account has increased steadily from January 2015 to July 2015. How the loan accounts have grown through the seven months has been illustrated in figure 4.7.

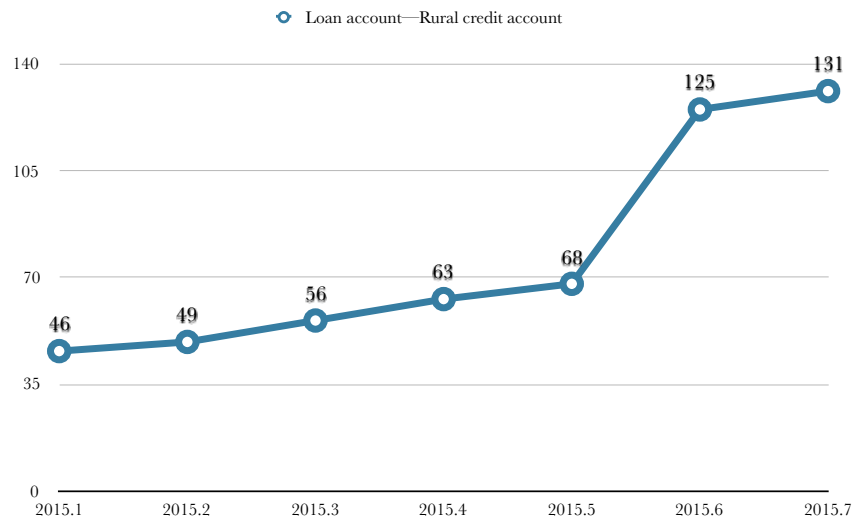


Figure 4.7: Number of Loan Accounts

Accordingly, the number of saving's account has been increased steadily in 2015 as well. The result has showed that the number of saving's account is positively correlated to number of loan's account. As a result, an increase in any one of the accounts would result in an increase in another. From the numbers, one could see that the performance of the bank has been improved in general. The changing of saving's account over 2015 could be found at figure 4.8.

4.4.3 Qualitative results

Interviews and attitude scales have been used to evaluate the qualitative effect of the business model. Two Zhongcheng rural bank's officers have been interviewed to ask their opinions about the loan programs. 50 loan recipients have been asked to finish an attitude scale about the loan programs. Among the 50 loan recipients, three have been interviewed about their opinions toward the loan programs in detail. In the following section, interviews with the loan officers would be discussed first. Then, the result of the attitude scale would be analysed. Finally, the rationale behind the scores would be introduced with the interview results of

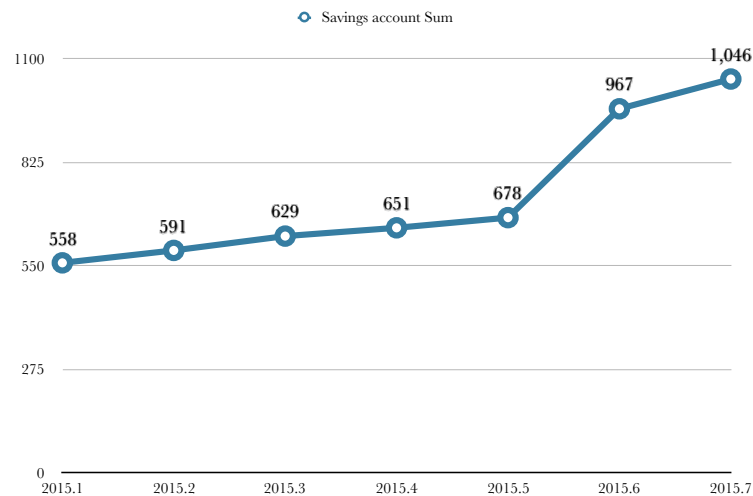


Figure 4.8: Number of Saving's Accounts

farmers.

Interviews with Loan Officers

In October 23rd, 2015, two Zhongcheng rural bank's loan officers have been interviewed. The interview was about loan officers' opinions on the loan programs. The interviews have been divided into three parts and covered the three elements of the loan program. The three parts are products and services, education programs, and community construction activities. Researcher has designed a question list before the interviews. Not every question has been asked during the interview. If the interviewee has talked about something that covered the question, similar question would not be asked. However, the answers would be concluded under certain question after the interview. The potential question sets are concluded in figure 4.9.

Tingting Wang and Cao Du have been selected as the interviewees. Both of them have started working at Zhongcheng rural bank since it started business. They have comprehensive understanding of the rural bank's business so that they would have better understanding about the changes within the rural bank. The interviews were lasting for about an hour and have been conducted at local Zhongcheng branch.

Tingting Wang regarded the success factor of the loan programs as always

About the loan program	About the education program	About the community construction activities	Other comments
What is the success factor for this loan program?	Your responsibility in current finance knowledge education program?	Have you formed deep understanding about farmers and agriculture?	
How do you manage the client relationship?	Farmers' opinion toward this education program.	Do you think if you would like to trust farmers even during the downturn of agricultural markets?	
What is the most important factor for farmers to be qualified for a loan program?	Do they have any concern towards this program?		
What have you done for after loan service/work	Do you have any concern towards this program?		
Have you made any effort in order to help farmers to receive a loan successfully?			

Figure 4.9: Question List



Figure 4.10: Picture of Tingting Wang

go to the countryside to deep the understanding of farmers and their businesses. She stated that it is also very important to have close relationship with head of the county officers. Then bankers could have a better understanding of the general credibility of farmers. Tingting has managed the client relationship by go to the countryside frequently, and have casual meals with farmers. She and her colleagues will offer door-to-door services such as exchange and deposit of money upon requirement. Regarding to develop new customers, she frequently goes to the countryside to look for farmers who have financial needs. Farmers also come to her by reference or after hearing about their financial education sessions. After loan service is very important according to Tingting. She has visited each clients at least every two months to check if they have used the money in the way that they claimed. She would also provide some suggestions based on farmers' current production conditions. In addition, she has introduced buyers to farmers if possible. Customized financial services such as door to door money exchange service to meet farmers' individual needs are quite often in their works. She also ask farmers if their transaction services are at her bank. If not, she would actively introduce Zhongcheng's products and services to the farmers.

Tingting has made some comments on the education program. She was in charge with setting up consulting booth, teach farmers to distinguish fake RMB, and to introduce internet and mobile banking services. She was impressed by how active farmers were during the session. Farmers were first attracted by the souvenirs and fliers that Zhongcheng provided, then they showed great interest in the contents of the session. So Tingting agreed that the education session is a good way to connect rural bank to the customers. However, She suggested that Zhongcheng should increase the frequency of the education session so that farmers would be able to know the bank more.

As for the community construction program, Tingting has mostly talked about her change during the activities. Before forming the community with farmers, as a city girl, Tingting has little understanding about agricultural activities and farmer's daily life. After a set of activities, Tingting has recognized that her knowledge about rural area and agriculture has been improved to a large degree. Because of the deep understanding of farmers, Tingting could eventually trust farmers and prove their applications for credit based loan. She has mentioned that even if a farmer could not payback on time, once they paid back, she would issue a loan to him or her again in the future. One of the reason is that it is a common thing for farmers to work as a migrant worker in the city area, thus

many farmers have a tendency of forgetting to return the money on time. But she still believes that those migrant workers would eventually payback all the money. Tingting never lost her trust to the individual farmer.

In general, Tingting has agreed that the business model is effective in terms of understanding farmers and improving the bank's image. She has confessed that it is because of this business model, she has known more about farmers. Now, she could trust a farmer even if he or she has little asset and little income.

The second interview was conducted with Cao Du, a senior loan officer at Zhongcheng rural bank. Figure 4.11 is a picture of Cao du at work.



Figure 4.11: Picture of Cao Du

In Cao's opinion, the success factor of the loan programs is on the careful analysis of local economic characteristics. Mt. Emei is a famous Buddhism tourist spot in China, thus the main industry here is tourism. The number of tourists are increasing constantly every year, so the future of tourist industry is bright. A stable business is the fundamental for the credit based loan program. Zhongcheng also have formed deep understanding of the clients by frequently visit their clients, experience their Nongjiale, and have deep conversations with owners. Cao's way of managing customer relationship is by providing personalized financial service to customers. For example, to provid discount for transaction service, and to install POS machine for free. Similar to Tingting, Cao has also visited farmers frequently.

Cao would like to have a causal meal or have a cup of tea with farmers if time allows. Moreover, Cao and his colleagues obtain detailed record of their operation business. They would check if farmers have complete administration qualification of their businesses, and to ask their neighborhoods if the loan applicants are trustworthy. For Cao, whether a farmer is qualified for a loan program is heavily related to his or her business operation. Therefore, their business must have a bright future. Farmers must be trustworthy, and must have certain production capacity. Cao also regarded the after-loan service phase as an important part. Cao would check if farmers have used the loan according to their statement. For example, if Nongjiale owners claim that they are going to refurnish their real estate, Zhongcheng would track if farmers have transferred the exact amount of money to interior agency. In order to expand their business to more customers, Cao and his team has also made great effort. First, they have approached potential clients actively. If they have spotted any under construction Nongjiale, they would approach the owner to see if he or she has any financial needs. If the owner did not have a good understanding of the bank, Cao would introduce them what Zhongcheng could offer. Zhongcheng also gain new clients by friends reference. In addition, promotion activities such as flier distribution, provide exchange service of small bill, door-to-door money collection service have been conducted. Another effort that Cao has made was the POS machine campaign. The campaign is the free installation of the machine, and a discount transaction fee for using the POS machine. Cao has mentioned that he is very patient in terms of collecting interest and loan payment during off-season.

When commented on education, Cao has mentioned that farmers are usually quite active about the education session. However, he has recognized the importance of souvenirs in terms of raising farmer's attention towards the education program. Other than that, Cao has suggested that it is worth increasing the number of staffs that involve in the education program. In Cao's opinion, the education session is a chance for rural bank's employee to get to know the local farmers better.

In general, Cao has claimed that he has formed deeper understanding with farmers and their agricultural businesses. He has got used to go into the mountain area when he has time. He would like to support farmers even though a farmer has just started his or her business. "It is a great pleasure to grow up together with our clients", Cao has ended the interview with this sentence.

Interviews with Farmers

A five level attitude scale questionnaire has been designed to ask farmer's opinion towards the loan programs. Similar to the interview, the questionnaire is also composed by three part: products and services, the education programs and the community construction program. 50 farmers that have used Zhongcheng's micro finance program have been randomly selected. The survey has been conducted between October 27th to October 29th in 2015 at Mt. Emei area in China. The question list and results are presented in figure 4.12.

As shown in the chart, most of the farmers are satisfied with the loan program. Especially regarding the products and services, farmers showed strong satisfaction mostly. They have agreed that Zhongcheng was able to provide products and services that meet their production needs and provide tailored products for farmers. Farmers have also agreed that Zhongcheng's staff have showed great attention to their agricultural activities, which is accordance with the interview results with Zhongcheng's loan officer. One thing worth noting is that farmers have claimed that they would rather use formal financial resource to satisfy their production needs than borrow from friends and relatives. A gradual transformation of ideology could be observed from this answer. However, compare to the general satisfaction with the products and services, farmers were having some disagreement with the education program. Although farmers have agreed that they have acquired some financial knowledge from the education program and have become more familiar with Zhongcheng rural bank, they were not able to form a systematic financial knowledge. This result means that Zhongcheng has a lot space to improve in terms of financial education service.

In order to understand the rationale behind farmer's grades, researcher has interviewed three farmers randomly to ask for comments on the scale. The interviews have all taken place in October 27th 2015 at Mt. Emei area in China. The basic information of the interviewees and the interview results are concluded in figure 4.13, 4.14, and 4.15.

As a conclusion of the interviews, farmers have agreed that they have experienced some changes of their ideology towards borrowing money from a bank. Those three farmers have also confirmed the community construction effort made by Zhongcheng Rural Bank. As for the education program, farmers have mentioned that the current contents are too general and too short. Farmers would like to have more financial education courses with Zhongcheng if Zhongcheng could provide any. One thing worth mentioning is that although some farmers have

Questions	Strongly Agree	Agree	Average	Disagree	Strongly Disagree
Services					
I am satisfied with the services in general	37	13			
Zhongcheng cares about farming activities	12	33	5		
Zhongcheng would be there and support us even during the downturn of agricultural	11	29	10		
The administration time has been shortened and I found the application process is easier now	15	27	8		
It is easier to access Zhongcheng's stuff	17	27	6		
Zhongcheng cares about my opinions and my complaints.	11	30	8	1	
I could receive enough money from Zhongcheng for business and farming purposes	16	21	11	2	
I feel like looking for finance support from Zhongcheng instead of informal borrowing if you have any finance need	14	29	6	1	
I would like to experience other financial services that provided by Zhongcheng	8	34	8		
Education					
I have acquired necessary finance knowledge from zhongcheng	14	25	11		
I have become more familiar to Zhongcheng	8	27	13	2	
I am satisfied with your finance class	9	20	21		
I am willing to have further lessons if Zhongcheng offer any.	6	30	12	2	
I have an idea of how to manage my wealth now.	7	24	19		
I am satisfied with Zhongcheng's wealth management services	12	23	15		
Community					
I think it is not guilty to borrow money from a bank to support my farming activities	21	27	1	1	
I would refer my friends or relatives to a bank to apply for a loan if they have any finance needs	14	32	3	1	
I have a better understanding of my neighbour's business	14	31	5		
Loan Products					
I think Zhongcheng has a very competitive interest rates	7	34	8	1	
Zhongcheng provides loan products that are flexible enough to meet my production cycle	10	32	8		

Figure 4.12: Attitude Scale for Farmers

picked “no difference” regarding to the wealth management service. The reason was not that they are not interested in the service, but they do not have any extra money for non-agricultural investment activities currently.

4.4.4 Summary of the Results

In conclusion, both quantitative data and qualitative data has proved the effectiveness of the business model that researcher has designed with Zhongcheng Rural Bank.

The business model has been proved most effective in terms of expanding bank’s business to normal individual farmers, improving the profitability of the rural bank, and strengthening bank employee’s understanding to farmers and agricultural businesses. Although the education program has been proved effective to some degree, further development of the contents and the frequency of the education program are still needed.

From the farmer’s perspective, the demand of money to develop business has been satisfied through borrowing money from the rural bank. Also, farmer’s has successfully established creditworthiness without providing collateral to the bank. More importantly, farmers have gradually changed their opinion on borrowing money from a bank. Many of the farmers have agreed that it is not a shame to borrow money from the bank to expand their businesses.

In this business model, value has been created by an active interaction between service provider and clients. Parties that have been involved in this business model—farmers, rural bank, and the rural community, are all been better-off because of the loan program.

Interview for Nongjiale Owner	Mr. Li Weidong
Date, Location, Methodology	2015.10.27, Mt. Emei (Donghui Nongjiale), face to face interview
Basic information	
Age	46
Year of running Nongjiale	almost 8 years
Annual income	approximately 200,000 RMB
Location of Nongjiale	Wannian temple area of Mt. Emei
Comments on attitude scale form	
Zhongcheng cares about farming actives	I tickled “strongly agree” because the loan manager from Zhongcheng came to our Nongjiale quite often since I talked him about my interest in applying a loan my from Zhongcheng. Before I gained the loan, he came to my place regularly in order to get a deep understanding of my business and also to promote Zhongcheng. After I gained my loan, he kept coming to my place to trace how did I use money, and also to give me some suggestions on how to use the money more efficiently. Also, he would ask me if I have any concerns towards the loan plan that I have
I think it is not guilty to borrow money from a bank to support my farming activities	I picked “agreed” because there are still some influences from my parents. In their generation, farmers were still very conservative so that farmers were hesitate expanding business by making an investment in advance. However, in my age, the law has prohibited farmers in Mt. Emei area from doing traditional farming activities. As a result, we have to come up with a new way to make a living. The only business that we could do is tourism so that we had no choice but to develop accommodation and dining business. As we have developed our business, we got to know market economy and we were also experiencing the transition from planned economy to market competition. We understood that if we wanted to live a better life, we had to make an investment first, to expand our production capacity, then we would be able to serve more customers and eventually to make more money. As a result, we gradually accept the idea that to borrow money from bank was not a guilty but a good choice. We do not need to owe our relatives’ money so that we do not owe any debt of gratitude. But still, compare to the younger generation, we would are more risk averse person in terms of making investment decisions.
I would refer my friends or relatives to a bank to apply for a loan if they have any finance needs I feel like looking for finance support from our bank instead of informal borrowing if you have any finance need	I picked “strongly agreed” of both. People at my age has face great financial pressure: our children are in the age of getting married and form their own families so that we need to save money in order to buy house and buy car for our children. On the other hand, we have ran Nongjiale for few years so we need to renovate our property in order to compete in the market. Also, we wanted to start planning for our retirement. As you could see, we have to prepare money for many purposes. Thus, I am highly unwilling to borrow money from my friends and relatives. I understand that everyone is having his or her own difficulties in terms of wealth management so that I do not want to trouble others and I do not want to owe any debt of gratitude.
Zhongcheng would be there and support us even during the downturn of agricultural	I picked “agreed”. As I have told you before, Zhongcheng’s stuff came to visit us quite often so he has a deep understanding of my business and my personality. He has told me once that his bank would always be there and support my business so he asked me to put all my effort in the renovating work of my Nongjiale. He also mentioned that recently, the Chinese economy is in its downturn, so he would like to overcome this difficult time with us. He supported our business in the good time, and he would not leave us during the bad time. As long as I am running my business systematically and I do not do any illegal activity, Zhongcheng would like to support me. So I have a strong confidence that even if I had some bad year in terms of profitability, Zhongcheng would not press me badly.

Figure 4.13: Interview Results I

Interview for Nongjiale Owner	Mr. Gou Zhiqian
Date, Location, Methodology	2015.10.27 Mt. Emei (Fenglinyue Nongjiale), face to face interview
Basic information	
Age	29
Year of running Nongjiale	about 3 years
Annual income	Approximately 180,000 RMB
Location of Nongjiale	Qingyin temple area of Mt. Emei
Comments on attitude scale form	
I would like to experience other financial services that provided by our bank	I picked "no difference" because I do not have extra money for financial investment activities. If I had extra money, I would like to experience the financial services.
I feel like looking for finance support from our bank instead of informal borrowing if you have any finance need	I picked "strongly agreed" because among our generation, it is now the time (around 30s) for us to try our best to make money. Almost all my friends around me are having pressure in terms of financial usage. We have housing and car mortgage to pay, and our child is in the age of attending elementary school so the education spending would be a great portion of our spending. Also, we are still young so we would like to enjoy our life, thus we are also saving for travelling and other entertainment purpose such as dinning out and buying some advanced electronic devices (such as iPhone).
I think it is not guilty to borrow money from a bank to support my farming activities	I picked "strongly agreed" of this. I strongly agreed because I am trying to make a better living by investment activity. Everyone wants to live a better life, and I am trying to realise this by a legal approach so I do not feel it is a guilt to borrow money from a bank. I borrowed the money not for personal consumption reason such as wasting money on expensive wedding ceremony so I do not feel it is not appropriate.
I have acquired necessary finance knowledge from Zhongcheng	I picked "agreed" of this because I did acquire financial knowledge through Zhongcheng's financial services. However, I feel it is not enough for me. Zhongcheng has taught us how to operate POS machine, how to operate online banking, and also how to manage our money more organised. However, it is still at a very basic level and general level. We hope that in the future, Zhongcheng could have more specific lecture about Nongjiale, and more detailed instructions about how to manage our extra money wisely. I would like to try other financial services from Zhongcheng, but I do not have the ability now. I hope that Zhongcheng could help me to reach this goal.

Figure 4.14: Interview Results II

Interview for Nongjiale Owner	Ms. Yu Fenglin
Date, Location, Methodology	2015.10.27, Mt. Emei (Yaju Nongjiale), face to face interview
Basic information	
Age	33
Year of running Nongjiale	5 years
Annual income	~100,000RMB
Location of Nongjiale	Wannian temple area of Mt. Emei
Comments on attitude scale form	
The administration time has been shortened and I found the application process is easier now	I picked “agreed” to this. The whole application process and processing time has been only two weeks and it was much faster than I expected. The materials that I need to submit is very simple: my national ID card, my ownership certificate of the Nongjiale, the operation permission and my marriage certificate, etc. It has really helped me a lot in terms of saving my time and my energy. As you could see from your fieldwork with me, we are extremely busy during the peak season so that we do not have much extra time for loan administration work. But we need the money right after the peak season so that we could meet the time restriction. I really appreciate the credit loan program, it has made my life much easier.
I would refer my friends or relatives to a bank to apply for a loan if they have any finance needs	I choose “strongly agree” to this. I totally agree with the idea that it is better to borrow money from a bank than from friends and relatives especially if you are using the money for investment purpose. The amount of money that we need for renovation or building a new house very large, so if we tried to borrow the money from our friends and relatives, it would be a very difficult task. Although the money would not involve any interest rate spending, I am still hesitate doing so. First of all, you need to talk to more than one friends and relatives, so it means that you owe a lot of human gratuities. So in the future, if those people want to borrow money from me, it would be very hard for me to say “no” even though I am under financial pressure. So I would like to refer all my friends and relatives who have financial needs to borrow money from banks so that all of us could be better off together.
I have become more familiar to Zhongcheng	I picked “agreed”. Before the financial education class, I only knew those major financial institutions such as RCC, ABC and PSBC. After listening to your financial class, I have formed an understanding with your bank, I realised that you are not some those micro finance institutions but formal financial institutions. I could borrow money from you with a good interest rate and a flexible payback plan. I think you have done a quite good job in terms of promoting yourself during the financial knowledge class.
I am satisfied with your finance class	I picked “no difference”. Actually, since I have worked in Emei city for a while, I have already had some basic financial knowledge. Especially that I have worked as a beautician and a sales person, I am quite familiar with how to distinguish fake RMB. I feel like the financial class that you have provided is too basic sometimes. Maybe you could consider to further divide the financial class into two parts—for those who have no basic understanding and for those who have already gained some knowledge. However, I am very interested in the financial knowledge class in general if you could offer more choices and more detailed lectures.

Figure 4.15: Interview Results III

Chapter 5

Conclusion

5.1 The Business Model

This research has collaborated with Emeishan Zhongcheng Rural Bank in Emei city, Sichuan Province, China to develop a business model. The business model has redefined the business strategy for rural banks in China. This research has explored the possibility of developing business by creating social value with the core clients through the implementation of three action researches. The business model contains three phases, which are pre-loan preparation phase, administration phase and post-loan service phase. The three phases are equally important and are depend on each other. Therefore, none of the phases could be excluded when implementing the business model. The loan programs that implemented in this action research has carefully considered all the three phases. Research has designed eight steps in total for the three phases.

The action research has followed an easy to difficult approach. Experiences and feedback have been collected after each action research. Researcher and the rural bank have analyzed the results of each action research. The lessons that gained from the previous action research have been reflected in the next action research. Through the three action researches, researcher has not only got to know the farmers more, but also the rural bank better. As a result, a business model that reflect both the needs of farmers and rural bank have been concluded.

Through providing products and services that reflect farmer's financial and non-financial needs, conducting education session, and involving in community construction services, rural bank has been able to acquire new customers and retain existing customers effectively. The KPIs and interviews discussed in chapter 4 could support the above argument. The long term effect i.e. the social impact could also be observed from the action research. From the survey result, the social effect that this business model was meant to create could be proved. Farmers have recognized that they have acquired basic financial knowledge from the education

program. Also, farmers were glad to see that they have formed some basic wealth management knowledge and business skill. For example, farmers have acquired the negotiation skill and fund allocation skill through the help of Zhongcheng Rural Bank's employees. In addition, through the interaction with rural bank, farmers have understood the benefit of borrowing money from a formal financial institution. Farmers have mentioned in the survey that they are glad to not owe anyone any favor. Therefore, the ideology towards financial activities is gradually changing among farmer's community. More importantly, farmers are able to expand their businesses and implement modern production methodologies after receiving the loan from the rural bank. Therefore, a transformation from traditional agricultural activity to modern agricultural business could be expected in the future.

5.2 Discussion

5.2.1 The Action Research Approach

This research is largely different from the existing studies that focus on rural credit market in the sense that this research has chosen an action research approach to testify the feasibility of the research problems. Most of the time, the design of a business model has been limited to literature review, theoretical study and interviews. However, whether a business model would work in the real business world should be proved by practicing it in a real business setting. Therefore, this research has conducted three action researches with a typical Chinese rural bank to prove that the value co-creation business model the researcher has designed is applicable for Chinese rural banks.

Another thing worth mentioning is that the business model design in this research has heavily relied on fieldwork research. Through closely observing the typical daily routine of a client, researcher and the rural bank employees were able to conclude the characteristics of the customers. Thus, researcher was able to define the rationale behind farmer's activities. As a result, products and services that truly reflect farmer's need could be successfully developed. Besides the fieldwork on clients, fieldwork research on rural bank's employee has been carefully conducted. According Christopher's research on the triangle relationship among bank, employee and clients; employee is an important stakeholder of the bank's business model. Thus their activities would heavily influence the success of

the business model.¹ The fieldwork research on bank's employee aimed on finding out how does bank employee finish their daily work and how does bank employee interact with clients. After carefully observed a typical day of a bank employee, a three phases and eight steps business model that have heavily involved bank employee has been designed.

5.2.2 Limitations

This research has taken place in Sichuan province, China. Although Sichuan province is one of the most important agricultural provinces in China, and it could represent the general situation of Chinese rural area. It still cannot conclude all the agricultural activities in China. Therefore, when implementing this business model in other part of China, one should carefully conduct field research on local farmers to clearly redefine the needs of them. However, the three phases and eight steps should always be included in the business model design.

According to the attitude scale by the farmers, farmers were glad to attend the education session conducted by Zhongcheng rural bank. However, farmers have suggested that the deepness of the financial class should be enhanced. In order to achieve this goal, rural bank should first cultivate employees to get familiar with more professional financial knowledge so that employees would be able to conduct high qualify education courses to farmers in the future.

The business model that created in this research is a value co-creation business model. A long term positive effect to the society could be expected. However, the evaluation of social impact has been a problem for a while so that instead of quantitative result, only qualitative result could be observed for most of the time. Therefore, compare to the benefit to banks, the social impact is more abstract and more blur.

5.3 Future Outlook

This research has designed a business model for rural banks in China. It is a general business model that target all the rural residents. However, agriculture is a complicated economic field, farmers that run different kinds of agricultural business are different a lot among each other. Therefore, an extension of this business model research could be to focus on designing a system to meet the specific needs of different farmers automatically. Moreover, the regional differences

in China are still quite huge, so a possible direction for the future research would be a more detailed design of the business model to help avoid homogeneity of the Chinese farmers.

New attempt could also go beyond the current for profit business model design. This business model would eventually benefit the society from a value co-creation approach. However, rural bank still needs to consider the profitability of the business because it has to generate monetary value for its shareholders. If the business model design has no need to consider generating monetary value for shareholders, the focus could be on designing a social business model to help farmers fund their businesses more independently. The potential new business model do not necessarily need to consider only borrow money from a bank, but to consider other fund raising methods such as crowd funding.

- 1 Christopher, Martin, Payne, Adrian, and Ballantyne, David (1991). *Relationship Marketing: Creating Stakeholder Value*. New York: Butterworth Heinemann.

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Appendix

A Pre-loan Interview Form

Pre-Loan Interview Form

Time of Interview		Location of Interview	
Loan Applicant		Co-applicant	
Guarantor (If Applicable)		Investigator	
To Loan Applicant			
1. National ID Card Number			
2. Current family phone number			
3. Current employer' s phone number			
4. What is the major business of your current employer? What do you do?			
5. Main resource for repaying the loan.			
<input type="checkbox"/> Salary and bonus <input type="checkbox"/> Profit from self-employee business <input type="checkbox"/> Investment income <input type="checkbox"/> Rent income <input type="checkbox"/> Others			
6. Would you like to use entrusted payment service?			
<input type="checkbox"/> Yes <input type="checkbox"/> No. Reasons:			
7. Do you have any concern or opinion?			
For Co-Applicant			
1. Number of National ID Card?			
2. What is the major business of your current employer? What do you do?			
3. Main resource for repaying the loan.			
<input type="checkbox"/> Salary and bonus <input type="checkbox"/> Profit from self-employee business <input type="checkbox"/> Investment income <input type="checkbox"/> Rent income <input type="checkbox"/> Others			
4. Do you have any concern or opinion?			
For Guarantor (if applicable)			
1. Number of National ID Card			
2. What is the major business of your current employer? What do you do?			

3. Volunteer to be the guarantor of loan applicant?

Yes No

4. Do you understand the responsibility of being a guarantor?

Yes Unclear No

5. Do you have any concern or opinion?

The above information is true and is all based on the investigation.

Loan applicant (Signature and Fingerprint):

Spouse (Signature and Fingerprint):

Date:

Co-Applicant (Signature and Fingerprint):

Date:

Guarantor (Signature and Fingerprint):

Date:

Loan Investigator:

Date

B Pre-Loan Investigation Form

Comment from Loan Manager	Name: Date
Comment from Management Level	Name: Date

C Loan Application Form

Personal Loan Application Form

(Applicant):

Name		Gender	<input type="checkbox"/> Male <input type="checkbox"/> Female	Nation	
ID number					
Location of household register					
Spouse		Gender	<input type="checkbox"/> Male <input type="checkbox"/> Female	Nation	
ID Number					
Location of household register					
Loan application					
Amount (RMB)	In Chinese		Arabic Number		
Term					
Usage					
Basic information of loan applicant					
Health status	<input type="checkbox"/> Good <input type="checkbox"/> OK <input type="checkbox"/> Bad		Occupation		
Living condition					
Joined health insurance?	<input type="checkbox"/> Yes <input type="checkbox"/> No		Home phone		
Mobile			Fax		
Business and income of loan applicant					
Name of Nongjiale			Address		
Capacity (# of beds)			Yearly revenue		
Yearly cost			Yearly profit		

Household assets		Household equity	
Loan pattern	<input type="checkbox"/> Mortgage		Proof:
	<input type="checkbox"/> Pledge		Proof:
	<input type="checkbox"/> Guarantor		Name:
	<input type="checkbox"/> Credit		

Declaration of loan applicant

1、 I promise that the informtaion and material that I provided are all true. I promise to fullfill the obligations of the loan.

2 I agree that Zhongcheng Rural Bank to upload my personal credit information to National Personal Credit History Database.

Signature:

Date:

D Post-loan Examination Form

Post-loan Examination Form

(For the First Examination Only)

Date:

Loan Applicant Name		Guarantee Method		Loan Product	
Loan Amount		Contract Number		Receipt of Loan Number	
Purpose of Loan	Self-claim purpose of loan by applicant:				
	Current usage of loan				
Current Situation of Extra Requirements (if applicable)					
Problems and Suggestions	Person in Charge:				
Opinion from Management Level	Name:				

Post-Loan Examination Form

Date:

Basic Loan Information	Name		Contract Number	
	Loan Amount		Loan Outstanding	
	Method of Guarantee		Any Overdue?	
Situation Change of Loan Applicant	Any change in health condition. Any change in the situation of family member?			
	If involved in any illegal activity			
Change in Business Operation Situation				
Condition of Business / Assets				
Change in Guarantee				

Any problem during the examination?	Person in Charge:
Opinion of Management Level	Name: