

A micro-lender in China



Jeremy Goldkorn has more than a decade of experience working in the Chinese media, and is the founding editor of *Danwei.org*, a website about media, advertising and urban life in China.

Maya Alexandri is an intellectual property attorney, novelist and contributing editor at *Danwei.org*.

Calvin Chin hopes to become poor Chinese students' banker through his site, Qifang.cn

By **Jeremy Goldkorn** and **Maya Alexandri**

Borrowing money in China isn't easy. Bank managers don't see lone entrepreneurs or students as worthy borrowers. Commercial and government loans remain beyond the reach of most in need. Very few consumers can obtain a real credit card. One persistent problem that hampers the growth of the consumer finance industry is the lack of a mature credit rating system.

In this challenging financing environment, Chinese university students are increasingly finding themselves in need of student loans. While tuition fees in China have historically been low, they are growing faster than the incomes of the parents who pay them. The Chinese government offers student loans through three different programs, but they are insufficient to meet the demand. Scholarships are also in short supply. Parents trying to raise the money needed to send their son or daughter to university often fall short of the full amount.

A new internet company founded by a soft-spoken, 34-year-old American-born Chinese entrepreneur named Calvin Chin hopes to be the online platform that will solve such problems. Still in its pre-launch testing stage, Qifang.cn is pioneering methods for matching Chinese university students in need of tuition money with investors seeking small-denomination fixed-income investment options. Qifang aims to launch in the second quarter of 2008 with a series of controlled pilot experiments that will work roughly along the following lines:

1. A student enrolled in university will post his or her profile on Qifang, providing information about his or her major, graduation date, the amount of money sought, the interest rate he or she is willing to pay, and the amount of time in which he or she will repay the loan.

2. Investors – primarily individuals, but also possibly institutions – will review the student profiles. If the investor is satisfied with the terms a student has specified, the investor will bid on the loan, indicating the amount the investor is willing to contribute, the interest rate he or she wants, and the time period in which the investor desires repayment.

3. Qifang's software then evaluates the investment bids and develops, through the application of an algorithm, a loan structure that most closely satisfies the terms stated by both student and investor. Because the loans involved are micro-loans, a particular student's loan package might include investment by multiple lenders.

The loan arranger

In its first phase, Qifang will only permit students to borrow for tuition payment. All loans will be unsecured, and loan proceeds will be paid from the lender's bank account directly to the university. Chin says most loans made during this initial phase will probably range from RMB3,000-10,000 (€290-950; US\$400-1,400). For regulatory reasons, investors at this stage are limited to Chinese citizens.

Students will repay the loan directly to the lender. According to Chin, most loan repayment should begin around six months after the loan has been made; repayment should be complete within three to five years. Qifang will structure the loan repayment such that the monthly repayment amount will be very small. Students with part-time jobs (or "more likely, their parents", says Chin) should thus be able to satisfy their loan repayment obligations.

Chin hopes that, as students repay tuition loans and demonstrate themselves to be trustworthy, Qifang can offer a broader

array of loan options, including loans in larger amounts, for educational expenses other than tuition. Of course, trustworthiness is the biggest unknown in a student's risk profile. Once a student has borrowed and repaid a loan through Qifang, investors may be satisfied that loaning additional amounts to the student is a reasonable risk. At the outset, however, Qifang relies on social networks to provide both indicia of the student's loan-worthiness and a social structure that encourages repayment.

Chin says that Web 2.0 social networking features built into Qifang.cn are important to inspire investor trust. Students are encouraged to provide extensive personal information about themselves in their profiles, which they can embellish with "community endorsements" from those in the Qifang.cn community. Students must also provide Qifang.cn with a copy of their

national identification card and proof of enrollment in a university.

Offline social networks are also important to ensure repayment. Chin explains that an "affiliation" between the student-borrower and the investor-lender – for example, that they both come from the same hometown – would be one type of connection that would reduce the risk associated with the loan. And "association" – for example, if both the student and investor belonged to the same trade or professional association – is another offline social connection that would provide assurances of repayment.

Credit where it's due

Chin cites Muhammad Yunus and the Grameen Bank as inspirations for his venture. Yunus developed methods of micro-financing that relied on social networks to guarantee loan repayment; Grameen Bank's loan

repayment rates exceed 98 percent. Chin hopes Qifang will prove that Yunus's ground-breaking methods can work just as well online, with Web 2.0 social networks.

In this mission, Qifang has accepted an admirable challenge. While the value of Web 2.0 networks for socialising, entertainment and information distribution has been widely recognised, Qifang is innovating the use of online social networks to remedy banking and finance institutional shortfalls. If it succeeds, it will provide a financial structure to support higher education in China. At the same time, Qifang will give Chinese investors an option for investing in a fixed-income vehicle that also yields significant social benefits. If it can accomplish these ends, perhaps it may also stand – along with Facebook and YouTube – as a leading exemplar of the ways in which Web 2.0 is changing the world.



SHANGHAI COMMUNITY
INTERNATIONAL SCHOOLS

Visit
www.scischina.org
or call our
admissions office at
5812-9888



Actors take center stage at SCIS

Hongqiao • Pudong • Hangzhou Preschool • Grade 12

SCIS is fully accredited by the Western Association of Schools and Colleges and the National Council for Curriculum and Textbooks