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What Works

Funding the Future in China

By Suzie Boss

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Action What Works



Calvin Chin, founder and CEO of Qifang, didn't want to "exploit China by riding the gravy train."

Funding the Future in China

Qifang, an online peer-to-peer lending platform, expands access to education for the world's largest student population

BY SUZIE BOSS

GROWING UP IN a small farming village in rural Jiangxi Province, Liao Zhicheng dreamed of becoming China's "outstanding entrepreneur" so he could "change the fate of the poor family," he writes on a Web site. His rags-to-riches hopes started to come true when he enrolled at the Finance and Economic Vocational College of Jiangxi and earned top academic honors, including a national scholarship to supplement family support. His father encouraged him to use the extra funds "to eat a little better."

But when his father fell ill, the family budget got even tighter. Liao, 21, realized he needed to borrow 6,000 yuan (about \$875) to make ends meet. A small loan would mean the difference between staying in school and going back to the village. Pondering how far he might go with a little help, he remembered a Chinese saying: "Give me a drip, I'll return you the wellspring."

Liao's saga—and his earnest promises to study hard, make prompt repayments, and bring honor to his ancestors—has con-

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vinced 18 Chinese lenders to pool their money and invest in his future. Their goodwill comes with terms: 8 percent annual interest and regular payments spread over 13 months, all tracked on a Web site.

Liao and his financiers came together via a peer-to-peer lending start-up called Qifang. Launched in Shanghai by American-born entrepreneur Calvin Chin, Qifang combines familiar elements of Web-based social networking and microlending. Although it runs on a Web 2.0 platform, the site speaks to traditional Chinese values. Qifang translates as "to bloom," riffing on Chairman Mao's call to "let a hundred flowers bloom." According to Chin, Qifang's CEO, the company's goal is to "do something that's good for China but with a very pragmatic business angle."

For the 25 million Chinese currently in college, and for twice as many who cannot afford to attend, Qifang offers a new way to fund the future. So far, 2,500 students have become borrowers through the social enterprise, with loans totaling about \$1 million. But the untapped student loan market is in the billions of dollars. Higher education currently reaches less than 20 percent of Chinese youth, compared with nearly 50 percent in the United States and Japan. Recognizing the potential social benefits of expanding access to college for China's young adults, the World Economic Forum named Qifang one of its Technology Pioneers for 2009—the first made-in-China enterprise to earn that distinction.

BRINGING IT HOME

Chin knows firsthand about the transformative power of student loans. The son of Chinese-American restaurant owners in Michigan, he tapped student loans first to attend Yale University, and later to pay for an MBA through a global executive program called TRIUM, jointly offered by New York University, the London School of Economics, and HEC Paris. "If I hadn't had the ability to borrow from the U.S. government," he says, "I wouldn't have been able to attend."

Before starting Qifang, Chin, now 35, taught middle school algebra in Brooklyn, N.Y., worked in finance on Wall Street, and then labored in technology start-ups in Silicon Valley. In 2004, he moved to China to join a semiconductor business, where he wrote business plans and wooed investors. Eventually, Chin began comparing notes with two friends who had followed similar paths from West to East.

"We're all Chinese, but we were born or raised overseas. We didn't want to come back and exploit China by riding the gravy train," Chin says. "How could we contribute to China's sustainable and equitable growth?" Inspired by microlending pioneer Muhammad Yunus and

the concept of social ventures, Chin and his friends started looking for ways to combine their business acumen with their shared desire “to do something we would care about deeply. How could we take the profit motive to drive social change?”

It wasn't long before they hit on the idea of creating a new financial product that would expand access to higher education. Cofounders Tim Chen and Jake Hsu came on as board members and investors when privately held Qifang launched in 2007.

FINE-TUNING THE MODEL

The founders initially envisioned Qifang as a sustainable nonprofit, only to discover that Chinese regulations make it more difficult to start a nonprofit than a for-profit business. What's more, government officials seemed intrigued by the notion of for-profit, peer-to-peer lending. “They are encouraging us to experiment and see what's going to work,” Chin says, “and work with them as the regulatory picture becomes more clear.”

Qifang's business model stands on three legs: philosophy, product, and market. Philosophy is the company's social mission, which Chin sums up as “getting everyone a way to pay for their education.”

When it comes to delivering a good product, Qifang borrows ideas that have worked elsewhere. Kiva, the popular microlending site, is an obvious source of inspiration. (For a case study about Kiva, see the summer 2009 issue of the *Stanford Social Innovation Review*.) Qifang's Web site has a Kiva-like flavor, with would-be borrowers telling their stories to potential lenders about why they need loans and what makes them creditworthy.

Another source of ideas is Prosper, a pioneer in peer-to-peer lending for consumer loans. Prosper's online auctions have raised \$178 million for U.S. borrowers since 2006.

Qifang has had to modify these models to work in China, which lacks infrastructure for servicing loans and tracking consumer credit histories. “We have to do all the credit servicing that a bank or lending institution would do,” Chin explains. Qifang makes tuition payments directly to schools that have signed on as partners. “It's great to have product inspiration,” he adds, “but we realized early on that we're going to have to tweak any model pretty significantly to make it work in China.”

And as for its market, Qifang has a ready pool of potential customers, with 6 million new students starting postsecondary studies each year. The Chinese cultural emphasis on education is also in Qifang's favor. “Urban families spend more of their money on education than on anything except food,” Chin notes.

Despite massive expansion of higher education in China since 1999, government subsidies reach only about 10 percent of students, primarily from the poorest and most rural regions. An international panel of economists last year cited “difficulties in implementation” of existing student loan programs. “Chinese banks have been reluctant to lend money to poor students, and often ask them to return the loan before they graduate,” explained authors in a 2008 *National Bureau of Economic Research* study. Without formal lenders, Chinese

EXTEND MICROLENDING

Tailor products to cultural values and practices

Work closely with regulators

Educate new borrowers

Appeal to both profit and philanthropic motives

students have traditionally turned to informal networks, borrowing from extended family, friends, or even loan sharks. The current situation leaves many families footing tuition bills that range from \$400 to \$2,000 annually. “At the end of the day,” Chin says, “the family has a tremendous burden to pay.”

A TWIST ON TRADITIONS

To convince millions of underbanked consumers to take advantage of its product,

Qifang must create new traditions. “The Chinese concept of ‘face’ can make it hard for people to ask [strangers] for help,” Chin admits. “But we think it's easier to swallow your pride if you know you can transform your life.”

That same pride mitigates risks to lenders. In their online profiles, students disclose family name, college, and hometown. “Borrowers don't want to embarrass their school, family, or people from home,” Chin says. Posting a photo along with their loan request means borrowers literally put their face on the line.

As Qifang opens the credit spigot for first-time borrowers, it is mindful about its own responsibilities. To avoid sticker shock, the company encourages students to begin making small payments while they are still enrolled. Students also learn about financial literacy and career planning.

The prospect of earning social benefits along with interest especially appeals to lenders motivated by corporate social responsibility. The Taiwan-based semiconductor company VIA Technologies Inc. encourages its employees to become not only lenders on the Qifang platform but also mentors to student borrowers from a rural region of western China. “Qifang will enable our staff to engage in the lives of the students and help them through this critical time in their lives,” says Richard Brown, vice president of marketing for VIA.

Lenders in tune with Qifang's mission seem willing to accept below-average interest rates, which range from 5 percent to 10 percent. Given the risks associated with first-time borrowers with no credit histories, Chin estimates the market rate “should be around 10 percent to 12 percent. Students are getting a philanthropic discount.”

EXPERIMENT, ADJUST, SCALE

So far, Qifang can boast zero loan defaults. That perfect record could change when loans actually start coming due, Chin acknowledges. The company “is still in a learning mode,” he adds. Early adopters tend to be those who are already tech savvy, such as bloggers and computer students. Reaching the less technically fluent may require offline outreach, such as storefronts or campus lending clubs. A mobile version of Qifang is in the planning stages to reach the millions who don't have ready computer access but do have cell phones.

The biggest short-term challenge for Qifang may be staying focused on its mission. The young company's early success has brought interested partners to its door, eager to offer other products to the same customer base that Qifang is building. “Do we want to offer student credit cards? Other interesting financial products?” Chin muses. The trick will be “remembering who our customers are,” he says, “and knowing when to say no.” ■