How Participation in China’s Poverty Alleviation Campaign Affected Firm Performance and Access to Credit


China’s leadership launched the Targeted Poverty Alleviation (TPA) program in 2013 to deliver tailored aid projects to poor areas in their bid to eradicate extreme poverty in China by 2020. Promotion of local leaders was implicitly tied to their achievement of anti-poverty targets, and local governments actively urged enterprises to take part in the program. Massive firm involvement in TPA started in 2016. How did corporate participation in TPA affect company access to state credit allocation, and what were the economic outcomes for these firms?

The data. Past research shows that government intervention significantly influences lending by state banks in China. Local governments can often dictate loan amounts, loan recipients, and even the loan terms. As such, this study analyzes the causal impact of firm participation in TPA on loan outcomes for firms. More specifically, the author developed an analytical strategy based on the profiles of the firms’ top executives, then compared the loan outcomes of firms before and after they participated in the TPA program with those of firms that did not participate during the sample period (from 2010 to 2020). The author accessed the Chinese Research Data Service (CNRDS) platform, a widely used database on China’s publicly listed firms, to obtain information on loans provided to each individual firm between 2010 and 2020. The platform also provides annual data on the financial statements, production, and profits and losses of firms as well as decisions to make corporate investments in the TPA program, including the first year that firms participated in the program, and the amount of money they invested in the TPA. The author supplemented the CNRDS with more detailed loan-level data provided by Wind, a business information company in China. The total dataset used in the research included 13,479 firm-year observations.

**INSIGHTS**

- China’s leadership launched the Targeted Poverty Alleviation (TPA) program in 2013 to deliver targeted aid projects to poor areas in their bid to end extreme poverty in China by 2020.

- Massive firm involvement in TPA started in 2016 at the urging of local officials whose promotions were implicitly tied to achieving anti-poverty targets.

- Productive private firms were more likely to participate in the TPA. Their access to credit from state banks rose by 27% and their borrowing costs declined by 0.06 percentage points.

TPA participation improved firm credit access and reduced borrowing costs. The author first found that the benefits of TPA participation (specifically in the form of improved access to bank credit and loan terms — detailed below) were more salient for privately-owned enterprises than for state-owned firms. Such an outcome aligns with expectations because private firms in China generally face heightened need to cater to government interests to secure lending from state-owned banks. According to the analysis, TPA participation led to a statistically significant increase in total new loans approved for those firms participating in the TPA compared to firms that did not participate in the TPA. Specifically, company investment in the TPA led to a 27% increase in total new loans for participating firms compared to non-participating firms.

New loans approved before and after participation in TPA

[Graph showing the change in new loans compared to the year before TPA participation, with 90% confidence interval bars.]

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- Participating firms used new loans to expand production, which increased their return on assets by 1.5 percentage points. A 1% increase in TPA spending led to a 0.03% increase in firm value.

- Given the greater involvement of productive private firms in TPA, preferential treatment by state banks for participating firms generated general improvements in credit allocation, which spurred industry-wide welfare gains.

Industry-wide efficiency gains from TPA. Assessing the industry-wide impact of TPA participation by firms, the author first provides evidence that more productive firms were, in fact, more inclined to participate in the TPA. As a result, the preferential treatment by state banks for TPA firms improved the quality of credit allocation across each industry. Such evidence implies that the TPA program not only brought specific gains in the form of improved credit access and loan terms to borrowing firms, but may have also generated industry-wide benefits. The author cautions, however, that the analysis only involved publicly-listed firms, which comprise a relatively small proportion of firms in any given industry.

TPA program fosters positive forms of favor exchange. The author finds that the TPA program fostered a favor-exchange relationship between firms and governments whereby local officials benefited from the help of firms to achieve their political goals (i.e., poverty alleviation) instead of mere personal interests. In return, firms obtained political influence in the form of resource allocation. Existing research generally focuses on the darker side of favor exchanges between firms and governments — namely, diverting valuable resources and undermining productivity — which together lead to welfare losses. This research, on the other hand, underscores a positive example from China’s anti-poverty program: corporate participation in the TPA constituted a successful example from a government program that deployed the exchange of favors strategically to realize a private provision of public goods that also enhanced social welfare.