



MICROFINANCE HELPS POVERTY REDUCTION AND FISHERIES MANAGEMENT

POLICIES TO SUPPORT MICROFINANCE, LIVELIHOODS AND RESOURCES MANAGEMENT





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The aim of this policy brief is to:

**Analyze trends in thinking and practice
on finance for poverty reduction**

**Examine how small-scale fisherfolk use financial
services, with a focus on West Africa**

**Identify the main issues and challenges in providing
microfinancial services to fishing communities**

**Show that microfinance can be used
to support fisheries management**

**Outline recommendations to improve
the availability of suitable financial services
in small-scale fisheries**

FINANCE FOR POVERTY REDUCTION: A BRIEF HISTORY

Initial attempts to reduce poverty through state-mediated and subsidized agricultural credit in the 1950s and 1960s were swept aside by the wave of deregulation of financial markets in the 1980s. Microcredit schemes for small enterprise development, which begun in the 1980s, have evolved to include other financial services, such as insurance and savings, delivered by microfinance institutions (MFIs).

DEFINING MICROFINANCE, MICROCREDIT AND MICROFINANCE INSTITUTIONS

Microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low-income people.

Microcredit refers to a small loan from a bank or other institution.

A microfinance institution (MFI) provides these types of services. Although MFIs vary considerably, they all share a commitment to supply financial services to clients that are poorer and more vulnerable than clients of a regular bank.

Unlike their predecessors, MFIs are independent of government and/or have a high degree of autonomy from bureaucrats and politicians. Many are financially successful, offer innovative financial products and accept the fact that credit does not need to be below market rates to attract the poor. MFIs are now estimated to have a total of 85 million clients worldwide.

Further opportunities to improve and innovate are still necessary if microfinance is to have a more positive impact. Indeed, a major concern is that microfinance does

not reach the poorest, most vulnerable people. Based on the assumption that the poor need credit to increase their income, microfinance has mainly focused on the design and institutionalization of a microcredit delivery model. It is now argued that the poorer people are, the greater the likelihood that credit is merely used to smooth household cash flows or as an insurance substitute. The contribution of financial services to coping with risk is more important than any expected return in the form of increased income. In order to truly assist the poor, more useful and varied financial products must therefore be developed.

FISHERFOLK AND FINANCIAL SERVICES

Who are fisherfolk?

Most fisherfolk are involved in micro-enterprises or wage labour. The majority of the men are crewmembers who often own no fishing gear and depend on a relatively small portion of the catch that is shared among themselves. Most fish processors, vendors and transporters (both women and men) are micro-entrepreneurs or labourers operating at the lower end of the market chain. Relatively few fisherfolk own canoes, outboard engines and other fishing equipment, or run capital-intensive fish processing and trading enterprises.

The diversity among fisherfolk is reflected in the level and types of risk faced by different socio-professional categories, their access to different types of financial services, the way they use financial services and the extent to which they have benefited from development interventions. Fisherfolk's capacity to affect the pressure on fisheries resources, in a positive or negative way, also varies – as does the opportunity or risk for financial services to support or undermine fisheries management goals.



The role of informal financial services

Currently, financial services to fisherfolk are provided mostly by the informal sector in the form of 'group finance' and 'intermittent lending'. People are often both lenders and borrowers. This dual role and the flexibility of such arrangements enable fisherfolk to anticipate lifecycle needs, emergencies and opportunities. The system creates an informal insurance network which helps people to survive.

EXAMPLES OF INFORMAL FINANCIAL SERVICES IN FISHING COMMUNITIES

Intermittent lending by individuals on a non-profit basis is very common among fisherfolk, irrespective of their socio-professional status. It is done among family members, friends and people involved in the same activity, but captains also lend to crewmembers and fish processors and traders to their assistants. These loans are used to finance day-to-day needs such as raising some working capital, paying a medical bill or school fees, or daily saving with a deposit collector. The terms of repayment are flexible and often left to the borrower.

Guarding money or collecting deposits is also very common, both on a non-profit and for-profit basis. Many fisherfolk act as money guards by keeping savings for family members, friends, colleagues or their workers. In West African small-scale fisheries, itinerant professional deposit collectors who make daily rounds are common. Savings do not generate any interest; instead, a collector charges the value of one daily contribution per month for his services. They may also provide small loans or 'advances to savings' to regular clients.

Intermittent for-profit lending by individuals with a temporary surplus can be in the form of an advance sale of fish by captains to fish processors and traders. These are a sort of financing as the buyer provides a loan against the yet-to-be caught fish. A captain may use such advances to finance the fishing trip or equipment required to provide that fish. Usually, a profit and the buyer's risk are included in the agreed quantity of fish.

Group finance refers to arrangements where groups or individuals pool their savings and lend primarily to each other. Rotating savings and credit associations (RoSCAs) pool equal periodic savings of members and give these to each member in turn. They pool as many times as there are members and the cycle automatically ends once all members have received their turn. In an accumulating savings and credit association (ASCrA) the pooled savings accumulate until one or more members are willing to take them on loan. Membership can vary from as little as three to several hundreds of people. Savings and loans are used in various ways: to finance day-to-day needs, a medical bill, school fees, life-cycle events (such as baptism, marriage and funerals), religious feasts or to obtain working capital.

Although popular, informal financial services have weaknesses, mainly:

- Access is conditional and not available to all. Personal relations, reputation and social networks are important. Typical situations of high labour mobility limit who fisherfolk will entrust their savings to. Membership to savings and credit associations is often restricted and itinerant deposit collectors do not extend advances against savings to all clients. Overall, there is likely to be a bias against the more vulnerable and marginalized.
- Fisherfolk who do qualify for membership to savings and credit associations do not always receive required services. The relatively large lump sums of cash needed to replace an outboard engine or fishing gear, for example, are seldom available.
- Informal finance does not help fisherfolk deal with all types of insecurity and risk. It can be reasonably successful in managing income and expenses, or with household-specific risk factors such as loss of earnings through sickness, loss of fishing equipment due to accidents or bad weather, urgent medical expenses, death of income-earners in the family, theft and insecure employment conditions. But informal finance is limited in assisting fisherfolk with the insecurity and risk associated with depleting fisheries resources or other environmental factors facing fishing communities as a whole.



The impact of formal financial services

Small-scale fisherfolk first experienced formal financial services in the 1950s as part of programmes aimed at increasing small-scale fisheries' productivity and developing the sector as a whole. Results were disappointing: credit schemes were unsustainable due to high default rates and mismanagement; they were biased towards canoe owners, representing only a small and generally better off part of a fishing community; and dependence on 'easy' money undermined the viability of financial institutions.

Deregulation and market-led interest rates, coupled with capital intensification in small-scale fishing caused in part by these programmes, meant that subsidized credit has created a demand for services that are no longer available. In addition, it has contributed to the increased fishing capacity of both small-scale and industrial fleets without considering the longer-term effects on fisheries resources. Presently, the increased pressure on fisheries resources, combined with the unsettled issue of user rights, is perceived as an immediate threat to fisherfolk's livelihoods. This type of risk is particularly problematic as it weakens the capacity of community-based insurance networks, including informal financial services, to provide support.

The growth of microfinance in fishing communities

Failure of previous credit programmes and a growing concern with poverty and vulnerability in the fisheries sector have drawn attention to making microfinancial services available to fisherfolk. Two types of MFIs have become involved in the fisheries sector: those focusing exclusively on fishing communities and those with fisherfolk among their clients, referred to as specialized and non-specialized MFIs, respectively.

Non-specialized MFIs generally associate small-scale fisheries with high risk and limit the number of fisherfolk among their clients. These tend to be predominantly urban-based women involved in fish processing and trading.

The first specialized MFIs emerged in the 1980s, usually with the help of a national Fisheries Department, a non-governmental organization (NGO) or a project. Many are based on cooperative principles and initiated by owners of fishing equipment and more influential fish processors and traders, in an attempt to address their demand for investment loans. They are concentrated at larger landing sites near urban centers and are relatively small in number. Such MFIs generally have a relatively small capital base and limited outreach. Members do not represent the poor. These MFIs typically face a loan demand that far exceeds the resources available for lending. As a result of the failure



to meet demand, members stop saving and discourage others, whether poor or less poor, from joining. Few have proven to be sustainable.

Financial services actually began serving the poorest when some MFIs also started offering savings and insurance products, business advice and support for organizational development – services that can be more vital to the poor than credit itself. The challenge for MFIs has been to find ways of providing such services while remaining financially sustainable. Examples of success are given further.

Microfinance and fisheries management

Small-scale fisheries make important contributions to national economies in many developing countries. But, marginalization, insecure rights of access to resources, dependence on uncertain production systems and the risky nature of many fishing operations make fisherfolk vulnerable. This vulnerability not only undermines fisherfolk's contribution to the local and national economy, it also reduces their motivation in participating in fisheries management. This is where microfinance can play a useful role in at least three different ways:

- Helping fisherfolk deal with vulnerability, thus increasing their capacity and interest to participate in fisheries management*.
- Promoting or supporting livelihood diversification out of the fisheries sector by developing financial products for this particular purpose.
- Contributing to responsible investments in small-scale fisheries where fisheries management plans act as a guide in evaluating loan applications.

* For further explanation see Policy Brief N°1 in this series

SUCCESSFUL MICROFINANCE FOR POVERTY REDUCTION AND RESPONSIBLE FISHERIES

MFIs, working with fishing communities, governments, NGOs and development agencies, have responded positively to the challenges of providing financial services to help the poor strengthen their livelihoods in ways that are compatible with resource management needs.

Building on existing informal microfinance institutions: Benin

In an attempt to reach poorer fisherfolk, Maritime Microfinance (MMF) in Benin has developed a new savings product that targets the informal rotating savings and credit associations that many of the poor engage in. These informal associations, known as 'tontine' are now offered the possibility to deposit group savings into a special 'tontine' account. This new product has tripled the total number of clients for its microfinance products and the additional resources are almost equal to those mobilized through individual accounts. According to MMF, 80% of the informal 'tontine' savers have benefited from loans in 2005.

OVERVIEW OF THE ACTIVITIES AND CLIENTS OF THE MARITIME MICROFINANCE (2003)

Product	Number of clients	Total budget (in CFAF)
Savings		
Individual deposit (current account)	81 male, 193 female	31 606 540
Tontine account	279 male, 829 female	30 385 950
Total	1 382	61 992 490
Credits	26 male, 256 female	34 250 000
Total	282	

Source: General financial summary report, Maritime Microfinance, 2003

*1 US\$ = 542 CFA F (November 2005)



NGOs AND SELF-HELP GROUPS LINKED TO THE NATIONAL BANKING SYSTEM IN INDIA

The National Bank for Agriculture and Rural Development (NABARD) in India launched the SHG (Self-help Group) Bank Linkage Programme in February 1992 with policy backing from the Reserve Bank of India and was able to mainstream this credit delivery mechanism by April 1996. Under this programme, more than 3 000 NGOs and 35 000 bank branches were associated by March 2004. Three models of SHG bank linkages are emerging:

- Banks as SHGPIs (Self-help Group Promoting Institution): banks promote, train and provide credit support to SHGs;
- NGOs as SHGPIs: NGOs promote, train and help SHGs link with banks;
- NGOs as financial intermediaries: NGOs promote, train and approach banks for bulk loans for onward lending to SHGs.

The Government of Orissa launched a self-help mission, "Mission Shakti", during International Women's Day of 2001 to strengthen existing SHGs and encourage new groups among poor women. NABARD provides guidance to government officials on training modules and the establishment of linkages between SHGs and banks. There were some 2 663 SHGs of fisherwomen by the end of October 2004, comprising 10 percent of the total SHGs in the coastal districts of the state.

Source: NABARD Consultancy Services, 2005. Draft study report on livelihood assessment and microfinance programme for women in coastal fishing community in Orissa State, India. Study supported by FAO.

MICROFINANCE SUPPORTS LIVELIHOOD DIVERSIFICATION IN THE PHILIPPINES

In 1990, local government units implemented a project targeting women in fishing communities in two provinces in the Philippines. In Pangasinan, the provincial government set up a partnership with the Land Bank of the Philippines (LBP). The continuous credit line administered by LBP provided a steady source of capital for the women which extended after the project's termination in 1994. Their good repayment record has enabled them to continue accessing this credit line. By 2003 some women were up to their eighth round of lending. A majority of the activities financed involved trading and marketing – notably fish but also rice, salt and other basic commodities. Hog-fattening was a common project. Some women progressed from fish trading to owning fishing gears, engines and boats. Others diversified into activities such as buying and selling ready-to-wear clothes, processed food and even running a photo/video shop. The positive impact of these changes on the women and their families was sometimes dramatic.

Source: "Improving the Status of Disadvantaged Women in the Small-Scale Fishing Communities of Capiz and Pangasinan", project funded by the United Nations Population Fund (UNFPA) and executed by FAO, Tietze, U. and L. Villareal (2003). Microfinance in fisheries and aquaculture: guidelines and case studies. FAO, Rome.

THE MULTIPLE USES OF MICROFINANCE IN ERE, CHAD

Ere is a village of 7 000 inhabitants situated 325 kilometres south of the capital N'Djamena. People fish in the river Logone and cultivate rice during the rainy season. They also grow vegetables and sorghum, and keep small livestock.

SFLP has supported microfinance development in Ere which previously had no access to such services. The Walta* group, consisting of 24 men and 60 women and formed in 1995, are the beneficiaries and APIBASE, a local NGO, is the service provider. At first it was agreed that microfinance services would go hand-in-hand with actions favoring the responsible use of the fisheries resource. The Walta group established a community savings and credit bank and developed fishing management rules and systems for the fisheries concessions exploited.

APIBASE has assisted the Walta Group manage a 6.3 million CFA francs revolving fund. Part of this money was invested in a

two-hectare rice farm for the group. The income generated goes back into the fund. Another part was used to purchase rice, which was sold to members during periods of shortage. The largest part of the money was invested in legal fishing gear that were otherwise difficult to obtain in Ere. Today, the Walta Group is managing its own stock of fishing materials, thereby guaranteeing availability and making a small profit on sales. The last part of the fund was used to set up a microcredit scheme. Loans are used to finance fishing and processing equipment and to diversify into other income generating activities such as small trade.

Regular monitoring by APIBASE has helped to measure the impact on household spending. Walta group members can now afford to buy more, satisfying both household consumption needs and increasing their contribution to the local economy.

TYPE OF EXPENDITURE	BEFORE THE PROJECT	AT THE END OF THE PROJECT	
Food	925	2 015	CFA F/day
Clothing	2 850	3 855	CFA F/month
Housing	3 375	5 565	CFA F/month
Health	2 045	4 085	CFA F/month
Schooling	3 100	5 800	CFA F/annum

Source: SFLP monitoring reports, APIBASE

During the project implementation, APIBASE was recognized as an MFI by the Ministry of Finance and has been successful in expanding its activities to two other communities, independent of any external support.

* In the Ere language, this name means "to take responsibility for oneself"



In Benin, Initiative Développement (ID) is an MFI whose clients include people living with AIDS. To ensure the provision of medical and social services required to reduce the risk of financial service delivery to this category of clients, ID entered into a partnership with Racine, a national NGO that provides HIV and AIDS-affected households with psychological and social assistance, health care and access to antiretroviral drugs.

In Congo the National AIDS Council (NAC) has undertaken a study in two fisheries communities, Pointe Noire (marine) and Makotipoko (inland), on how savings and credit schemes and technical training on alternative livelihoods could help households affected by chronic diseases, including HIV/AIDS. Fisherfolk households confronted with chronic disease may be faced with loss of their means of production, as fishing canoes, nets and fish processing equipment are often sold to meet medical costs. Affected families cope with such risks by accepting support from community members or by undertaking less physically demanding work, often resulting in a substantial loss of income. Interviewed families admitted that children and women in such households become involved in 'transactional sex' or become professional sex workers to contribute to family income. The NAC is supporting people living with AIDS in finding alternative sources of livelihood and has promoted the involvement of an MFI. To help HIV/AIDS-affected clients meet MFI terms, the NAC ensures delivery of medical services.

These case studies show that microfinance initiatives in the fisheries sector are now beginning to respond imaginatively to the needs of the poorest and most vulnerable people in fishing communities. By facilitating livelihood diversification and working with fishery management stakeholders, they are also addressing concerns for sustainable resource management. These good practices can be built upon to extend the reach of MFIs in fisheries.

EXPANDING THE ROLE OF MICROFINANCE IN THE FISHERIES SECTOR



Although there are notable successes, before microfinance can significantly contribute to poverty reduction and fisheries management, there are a number of constraints to be overcome:

- Informal financial services meet some needs but not all and formal financial services are usually beyond fisherfolk's range.
- MFIs have potential but at present their scope is limited. Member-owned institutions have difficulty reaching the poor and their operational and financial capacity is often weak, while non-specialized MFIs perceive service delivery to fisherfolk as risky.
- Increased outreach and pro-poor growth should be supported by both an MFI operational and business development plan and a professional development plan.
- Lack of knowledge about fisheries and resource management and the inexistence or ineffectiveness of fisheries management efforts limit both the willingness of MFIs to become involved in the fishery sector and their potential to contribute to responsible fisheries.
- The limited availability of social services in fishing communities that could support financial service delivery contributes to the reluctance of MFIs.

WHO CAN DO WHAT?

These constraints can be surmounted through active partnerships between fisherfolk, MFIs and other actors in the development and fishery sectors.

Ministries in charge of fisheries can:

- Take a pro-active role in learning about microfinance and build relationships with the Ministry of Finance, MFI umbrella organizations and individual MFIs.
- Introduce MFIs to locations where fisherfolk are attempting to diversify into other activities, or making efforts to manage fisheries resources in other ways, as in the Chad case study.
- Recognise MFIs as key stakeholders in fisheries management and invite them to participate in the development and implementation of fisheries management plans.
- From their knowledge of the fisheries sector, identify other interventions and/or services that are needed to support and sustain financial service delivery to fisherfolk and seek partnerships with those capable of providing such services. The work of fisheries personnel, national AIDS programmes, NGOs and MFIs in AIDS-affected fishing communities in Benin and Congo is an example.

MFIs can:

- Take the initiative to learn about the small-scale fisheries sector, the different socio-professional categories involved and the status of existing efforts to manage fisheries resources. All the MFIs mentioned in the case studies, both specialized and non-specialized, built good working relationships with fisheries organizations in developing their services.
- Develop appropriate financial services, including the adaptation of existing products and services to the fisheries sector. This includes: setting interest rates based on knowledge of financial flows and risks in the fishery, establishing repayment schedules according to seasonality and uncertainty in returns, and providing services such as medical insurance schemes and insurance of fishing gear.
- Explore ways to contribute to poverty reduction and fisheries management in fishery-dependent areas and develop services to provide these contributions. To ensure breadth of outreach, emphasis should be on attracting the poor and strengthening the 'protective role' of microfinance. Such an expansion requires the development and promotion of products and services that respond to the requirements of the poor.
- Identify other interventions and/or services that are needed to support and sustain financial service delivery to fisherfolk and seek partnerships with organizations capable of providing such services accordingly.



Formal financial institutions can:

- Finance upon demand eligible MFIs operating in the small-scale fisheries sector. Indeed, there seems to be some potential in expanding a broad range of financial services to fisherfolk through commercial bank linkages in places with well functioning MFIs and NGOs active in fishing communities, as demonstrated by the India case study.

Development agencies, NGOs and community-based organizations can:

- Provide capacity building, training and advisory services on the supply and demand side of MFIs.
- Help provide social services to fisherfolk that increase outreach and the depth of outreach. For example, literacy training and a better understanding of how an MFI operates may give fisherfolk the confidence to actually visit and use the services of an MFI. Improved education and health services can not only increase fisherfolk's opportunities on the labour market, but also reduce the risks for financial service delivery. The same is true for access to business development services and investments in infrastructure.
- Explore ways of linking financial products and services available from MFIs with existing informal finance providers, as with the 'tontine' in Benin.

In summary, partnerships between MFIs, fisheries-sector stakeholders and social service providers have the potential to make significant contributions to both poverty reduction and responsible fisheries.

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- Microfinance gateway: <http://www.microfinancegateway.org>
- Rural finance learning centre: <http://www.ruralfinance.org>
- Sustainable Fisheries Livelihoods Programme: <http://www.sflp.org>



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