Microfinance in fisheries and aquaculture

Guidelines and case studies

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PREFACE

The reduction of food insecurity and rural poverty and the promotion of sustainable rural livelihoods and more equitable access to resources are major strategies within the Strategic Framework for FAO 2000-2015. Small-scale fisheries are critical for food security and poverty reduction as highlighted again by the FAO Committee on Fisheries at its Twenty-fifth Session.

Poverty is a complex concept and process characterized by low incomes, poor health, low literacy levels, undernutrition and inadequate housing and living conditions; people move in and out of poverty. A high proportion of small-scale fishers are poor.

The United Nations General Assembly Resolution 52/94 of 18 December 1997 acknowledged the important contribution that microfinance programmes have made to poverty eradication and empowerment of the poor. It called upon the organizations of the United Nations system to include a microfinance approach in their programmes. Microfinance is defined as the provision of a broad range of services including loans, savings and insurance.

Microfinance programmes can be a powerful tool in poverty alleviation. In the case of fishing and fish farming communities, the alleviation of poverty is an important precondition for their participation in efforts to rehabilitate and conserve aquatic environment and fisheries resources. This again is likely to create conducive conditions for the implementation of the Code of Conduct for Responsible Fisheries and a sustainable use of fisheries resources.

It is hoped that the guidelines and case studies presented in this publication will be of help to those concerned with providing microfinance services to fisheries and aquaculture. The guidelines elaborate on lending models, methodologies and policies that are applicable to fisheries and address concerns that are particular to the sector while adhering to the best practices in the microfinance field.

Though comprehensive, the guidelines should not be followed rigidly, but creatively adapted to the various situations and circumstances under which they are being used, and so contribute to the ultimate objectives of achieving food security and a sustainable use of aquatic resources.

Jeremy Turner
Chief
FAO Fishing Technology Service

PREPARATION OF THIS DOCUMENT

This Fisheries Technical Paper is divided into four parts. Part I places microfinance in the global context of poverty reduction in general and its role in and contribution to small-scale fishing and fish farming communities in particular. Part II contains guidelines on microfinance programmes in fisheries and aquaculture. Part III summarizes the proceedings and recommendations of the Regional Workshop on Microfinance Programmes in Support of Responsible Aquaculture and Marine Capture Fisheries in Asia, held in Chiang Mai, Thailand from 16 to 20 December 2002. Two annexes contain conceptual papers on microfinance, both globally and in the context of India, which were presented and discussed at the workshop. Part IV consists of two case studies of FAO-executed projects – one on artisanal marine fisheries and the other on small-scale fish farming.

Dr Uwe Tietze of the Fishery Industries Division and Lolita V. Villareal, FAO Consultant, jointly wrote the guidelines and case studies. The summary of the proceedings and recommendations of the regional workshop was written by Lolita V. Villareal and the conceptual papers presented at the workshop were written by Shreekantha Shetty, M.A. Upare and S.K. Bhatnagar.

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ABSTRACT

These guidelines provide general principles and basic considerations for those involved in providing microfinance services to fisheries and aquaculture and for those who intend to include fishing and fish farming communities as part of the client base of their operation. The guidelines further elaborate on lending models, methodologies and policies that have applicability to fisheries and address concerns that are particular to the sector, while adhering to best practices in the microfinance field.

The publication also contains a summary of the proceedings and recommendations of the Report of the Regional Workshop on Microfinance Programmes in Support of Responsible Aquaculture and Marine Capture Fisheries in Asia. The workshop was held in Chiang Mai, Thailand from 16 to 20 December 2002. An overview of recent experiences with microfinance programmes in fisheries and aquaculture in Asia is given and conclusions are drawn regarding future directions and initiatives in this field. The workshop was attended by 31 participants from eight South and Southeast Asian countries: Bangladesh, India, Malaysia, Nepal, the Philippines, Sri Lanka, Thailand and Viet Nam. It brought together experts representing fisheries government institutions, financial institutions, academic and research institutions, NGOs, cooperatives, women‘s unions, fishermen’s associations and technical staff of foreign-assisted projects in aquaculture in the region.

The publication concludes with two examples of successful FAO-executed projects that incorporated microfinance programmes in fishing community development in the Philippines and in small-scale aquaculture development in Viet Nam, with a special focus on gender and poverty alleviation. The case studies provide practical examples of how microcredit can contribute to the empowerment of women in fishing and fish farming communities, help alleviate poverty and contribute to the socio-economic well-being and food security of fishers and fish farmers.

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ACRONYMS AND ABBREVIATIONS

ABC	Allied Banking Corporation (Philippines)
ACG	Aquaculture credit group
ADB	Asian Development Bank
ADBN	Agricultural Development Bank of Nepal
ADP	Aquaculture Development Project (Viet Nam)
AFA	Area Fishermen's Association (Malaysia)
AMC	Agricultural marketing cooperative
APRACA	Asia Pacific Rural and Agricultural Credit Association
BAAC	Bank for Agriculture and Agricultural Cooperatives (Thailand)
BFAR	Bureau of Fisheries and Aquatic Resources (Philippines)
CACMC	Commune Aquaculture Credit Management Committee
CBCRM	Community-based coastal resource management
CCRF	Code of Conduct for Responsible Fisheries
CGAP	Consultative Group to Assist the Poorest
DAF	Development Assistance Fund
DANIDA	Danish International Development Agency
DOF	Department of Fisheries (Thailand)
DWU	District Women's Union
FDAM	Fisheries Development Authority of Malaysia
FA	Fishermen's Association (Malaysia)
FF	Fishermen's Fund (Malaysia)
FSPS	Fisheries Sector Programme Support (Viet Nam)
IFAD	International Fund for Agricultural Development
IOI	International Ocean Institute
KVK	Krishi Vigyan Kendra (Farm Science Centre – India)
LAEB	Loan Application Examination Board
LBP	Land Bank of the Philippines
MAEP	Myemensingh Aquaculture Extension Project (Bangladesh)
MCH	Maternal and child health
MCS	Microcredit schemes
MFI	Microfinance institution
MFP	Microfinance programme
MIS	Management information system
MOA	Memorandum of Agreement
MOAC	Ministry of Agriculture and Cooperatives (Thailand)
MOF	Ministry of Fisheries
MYRADA	Mysore Resettlement and Development Agency

NABARD	National Bank for Agriculture and Rural Development (India)
NGO	Non-governmental organization
PPO	Provincial Project Office
PWU	Provincial Women's Union
RBI	Reserve Bank of India
RMK	Rashtriya Mahila Kosh (National Credit Fund for Women – India)
SHG	Self-help group
SHGPI	Self-help group promoting institution
SIDBI	Small Industrial Development Bank of India
SUFA	Support to Freshwater Aquaculture (Viet Nam)
TCP	Technical Cooperation Programme
TRCP	Traditional rural credit programme
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UPV	University of the Philippines in the Visayas
VBARD	Viet Nam Bank of Agriculture and Rural Development
VSPB	Viet Nam Social Policy Bank
WB	World Bank
WWB	Women's World Banking
WG	Women's group
WU	Women's Union

Part I
Introduction

Recognition of the importance of microfinance as a crucial development tool for poverty reduction has increased during the last two decades. The United Nations, in its General Assembly Resolution 52/94, passed on 18 December 1997, noted in particular that in many countries of the world microcredit programmes have succeeded in generating productive self-employment by providing access to small capital for people living in poverty, as well as increased participation in the mainstream economic and political process of society. The resolution welcomed the launching of different microcredit initiatives and acknowledged their important contribution to poverty eradication, empowerment of women and social elevation. It called upon the relevant organs, organizations and bodies of the UN system, particularly its funds and programmes, to explore the inclusion of the microcredit approach in their programmes as a tool for the eradication of poverty and further developing, where appropriate, other microfinance instruments. Microfinance is defined as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance.

FAO, as part of the UN system, has been involved in credit initiatives for the fisheries, forestry and agriculture sector, consistent with its mandate of raising standards of living and improving the conditions of rural populations. Based on experiences gained through FAO-executed field projects and through the cooperation with national financial institutions and non-governmental organizations (NGOs), guidelines have been prepared and widely distributed on the management of revolving loan funds and credit programmes for fishing communities, and a number of regional and national workshops have been organized to provide guidance and facilitate access of the fisheries sector to institutional credit.[1]

More recently, FAO formulated a strategic framework for 2000-2015 that identifies the reduction of food insecurity and rural poverty as a major strategy. Among others, the strategy involves the promotion of sustainable rural livelihoods and more equitable access to resources, particularly of the vulnerable and disadvantaged groups, such as small-scale fishing and fish farming households. Microfinance programmes are seen as a means for such communities to gain access to much-needed and appropriate credit services.

The demand for financial services in the fisheries sector is diverse and requires differential financial products and services. Microfinance is just one means in the continuum of providing financial services to cater for this demand. Characterized by small loans, microfinance has inherent limitations in terms of financing the capital investment needs of the fishing industry. It should therefore not replace traditional lending products from mainstream financial institutions, since they are still required to finance large-scale investment needs and priorities necessary for fisheries growth and development and, most important, for the implementation of the Code of Conduct for Responsible Fisheries (CCRF) and the related programmes of action, which are the priority concerns in the medium and long term (FAO, 1995b). With regard to these

[1] See FAO Fisheries Reports Nos 435, 480, 496, 516, 535, 540, 549 and 577 (FAO, 1990a; 1994a,b; 1995a; 1996a,b; 1997; 1998); FAO Fisheries Technical Paper No. 312 (FAO, 1990b); and FAO, 1989. Complete entries can be found in the Bibliography in Part II, pp. 20–21.

types of investment and credit needs, the FAO Management Guidelines on Revolving Loan Funds and Credit Programmes for Fishing Communities, first published in 1989, still remain valid.

It is in this context that the role and contribution of microfinance programmes in small-scale fishing and fish farming communities must be viewed. Most microfinance programmes are generally aimed to promote and protect income and empower specific sectors of the population. More specifically, the development objectives of microfinance for poor fishing communities are to enable fishing households to increase income, smoothen consumption, develop microenterprises, manage risks better and enhance earning capacities, thus reducing economic and social vulnerability. Because women constitute a significant proportion of poor fishing households, microfinance should also serve as an effective tool to assist and empower women in fishing communities.

Poverty is multidimensional and its removal is dependent on other factors. As a caveat and in the overall context of poverty reduction, microfinance therefore should be seen as just one tool, among many development tools, for alleviating poverty. The Table presents the results and impacts of microfinancial services in the reduction of poverty.

Guidelines and basic considerations in providing microfinance to fisheries and aquaculture comprise Part II of this publication. A brief background and the principles of microfinance are given, followed by an explanation of the factors that must be considered at the country, local and sector levels, for an effective delivery of microfinance services. Lending models, methodologies and policies relevant to fisheries as well as important considerations for implementing savings and deposit services are discussed, together with the roles of financial institutions, government and donors as partner institutions in microfinance delivery.

The Report of the Regional Workshop on Microfinance Programmes in Support of Responsible Aquaculture and Marine Capture Fisheries in Asia, held in Chiang Mai, Thailand from 16 to 20 December 2002, forms Part III of the publication. The workshop was attended by 31 participants from eight South and Southeast Asian countries: Bangladesh, India, Malaysia, Nepal, the Philippines, Sri Lanka, Thailand and Viet Nam. The purpose of the workshop was to draw conclusions from the experiences of these countries with microfinance programmes in fisheries in order to provide guidance on enhancing the contribution of microfinance to food security and poverty alleviation in fishing and farming communities, as well as the adoption of responsible fishing and aquaculture practices.

Part IV of the publication presents two case studies of microfinance programmes in the context of FAO-executed fisheries projects in the Philippines and Viet Nam.

Microfinance poverty reduction nexus

Financial service	Results	Impact on poverty
Credit facilities of microfinance institutions (MFIs)	Enable advantage to be taken of profitable investment opportunities Lead to adoption of better technology Enable expansion of microenterprises Diversification of economic activities Enable consumption smoothening Promote risk taking Reduce reliance on expensive informal sources Enhance ability to face external shocks Improve profitability of investments Reduce distress selling of assets Increase economic growth	Higher income More diversified income sources Less volatile income Less volatility in household consumption Increase household consumption Better education for children Reduce severity of poverty Empowerment Reduce social exclusion
Savings facilities	More financial savings Income from savings Greater capacity for self-investments Capacity to invest in better technology Enable consumption smoothening Enhance ability to face external shocks Reduce need to borrow from moneylenders at high interest rates Enable purchase of productive assets Reduce distress selling of assets Improve allocation of resources Increase economic growth	Reduce household vulnerability to risks/ external shocks Less volatility in household consumption Greater income Reduce severity of poverty Empowerment Reduce social exclusion
Insurance services	More savings in financial assets Reduce risks and potential losses Reduce distress selling of assets Reduce impact of external shocks Increase investments	Greater income Less volatility in household consumption Greater security
Payments/money transfer services	Facilitate trade and investments	Greater income Higher consumption

Source: Asian Development Bank, 2000.

Part II
Microfinance in fisheries and aquaculture: guidelines and basic considerations

1 PURPOSE OF THE GUIDELINES

Not much has been written about specific microfinance programmes for fisheries because they are usually subsumed in the overall discussion of microfinance for the rural poor. But while the concepts and principles of microfinance have a general applicability, there are particular considerations that are unique to fishing communities that may require special attention. The guidelines try to address these concerns while adhering to the generally acceptable "best practices" in the microfinance industry. However, the guidelines are by no means comprehensive and definitive since the microfinance field is still evolving and "best practices" change in response to changing contexts and environments. As mentioned in the introduction, the guidelines on microfinance in fisheries and aquaculture are complementary to the management guidelines on revolving loan funds and credit programmes for fishing communities first published by FAO in 1989.

The guidelines provide general principles and basic considerations for those involved in providing microfinance services to the fisheries sector or for those who intend to include fishing and fish farming communities as part of the client base of their operation. The focus is on credit and savings since these are the areas where donor support is concentrated. Because of the diversity of the demand for and suppliers of microfinance services, the guidelines do not prescribe nor subscribe to a particular methodology or an institutional mechanism but present options with the most relevance to fishing communities. The overall objective is for those concerned to tailor lending methodologies and procedures appropriately so that they best serve the financial needs of the fishing and fish farming communities concerned.

2 BACKGROUND AND PRINCIPLES OF MICROFINANCE

The emergence of microfinance as an alternative financial delivery mechanism was a response to the failure of past efforts by government and international agencies effectively to provide financial services to the poor. Subsidized and directed credit programmes implemented in the 1980s were saddled by poor loan recoveries, inefficiencies and high transaction costs, among others. This led to the piloting of bold experiments and new approaches utilizing market-based solutions to reach the majority of the poor who had been excluded from formal credit sources. From rapid disbursements of subsidized loans to target sectors and populations, the focus was shifted towards setting up and building local institutions that catered for the poor. This resulted in the emergence of microfinance institutions (MFIs)[1] that serve the poor. MFIs initially started out by providing microcredit but have now broadened their services to include other financial products. This is in recognition of the diverse

[1] In general, MFIs refer to a wide range of organizations and institutions, whether regulated or unregulated, which are dedicated to providing microfinance services.

demand of poor and low-income households for other financial aids such as safe and reliable deposit services.

The mechanics of a microfinance operation basically involve three levels: i) the borrowers who take out loans that they invest in microbusinesses; ii) the loan delivery and recovery system; and iii) the institution or organization that manages the delivery system. The successful operation of these levels is premised on the twin principles of client discipline, where borrowers take responsibility for their decisions and agreements made with the MFI; and institutional discipline where MFIs offer and provide products and services characterized by quality, efficiency and commitment.

A core principle that has been proved by successful microfinance programmes is that the poor have the capacity to repay loans, pay the real cost of loans and generate savings. And while the field of microfinance is diverse in its approach, methodology, organizational structure and culture, there are clear principles that are being established. These are summarized in Box 1. These principles are further clarified and elaborated upon in the following sections.

In addition to the principles shown in Box 1, the special characteristics of fisheries and aquaculture make it necessary to include two more principles – timeliness and linking microfinance to training and extension. Both capture fisheries and fish farming have distinctive seasons, i.e. fishing and fish culture seasons, which are related to the natural behaviour of fish and other aquatic species as well as to fisheries regulations. Therefore, production inputs and supporting credit must be available at the exact time when they are needed, otherwise the potential earnings from a particular fishing or fish culture season are endangered.

Both capture fisheries and fish farming require considerable vocational skills. In the case of the rural or urban poor who take up fishing as a new occupation or who want to make their fishing and fish farming activities economically more efficient and will use microfinance programmes in support of this purpose, proper vocational training and advice are crucial for the success of their endeavours. This is also made clear in the two case studies in Part IV of this publication.

3 CONTEXTUALIZING MICROFINANCE

3.1 Country context

The delivery of financial services to the poor is affected by a host of factors. At the macro level, Ledgerwood (1999) identified the contextual factors given below as important in placing microfinance in the overall country context.

3.1.1 Financial sector policies and the legal environment

Interest rate ceilings and restrictive usury laws, given the cost structure of microfinance, usually undermine the ability of an MFI to operate efficiently and competitively. To allow for full cost recovery, MFIs need to price their loan products and must charge higher interest rates. Government mandates that support certain sectors through subsidized interest rates discourage the emergence of viable MFIs. A clear legal framework for enforcing repayment is useful in a microfinance operation when clients do not adhere to their agreements.

3.1.2 Financial sector regulation

This refers to the principles, rules, standards and compliance procedures that apply to financial institutions. Financial supervision involves the examination and monitoring of organizations for compliance with financial regulations. MFIs that mobilize public savings require regulation; however, as they differ significantly from commercial banks in their institutional structures, a conventional banking sector regulatory framework may not accommodate microfinance operations appropriately. Governments considering regulating the microfinance sector must understand what is involved and how the MFIs will be affected. However, the temptation and the “rush to regulate” may

BOX 1

Principles of financially viable lending to poor entrepreneurs

Principle 1. Offer services that fit the preferences of poor entrepreneurs

These services could include the following:

- Short-term loans, compatible with enterprise outlay and income patterns
- Repeat loans – full repayment of one loan brings access to another. Repeat lending allows credit to support financial management as a process rather than as an isolated event
- Relatively unrestricted uses – while most programmes select customers with active enterprises, they recognize that clients may need to use funds for a mixture of household or enterprise purposes
- Very small loans, appropriate for meeting day-to-day business financial requirements
- A customer-friendly approach – locate outlets close to entrepreneurs, use simple applications and limit the time between application and disbursement to a few days
- Develop a public image of being approachable by poor people

Principle 2. Streamline operations to reduce unit costs

- Develop highly streamlined operations, minimizing staff time per loan
- Standardize the lending process
- Make applications very simple and approve on the basis of easily verifiable criteria, such as the existence of a going enterprise
- Decentralize loan approval
- Maintain inexpensive offices
- Select staff from local communities

Principle 3. Motivate clients to repay loans

Substitute for pre-loan project analysis and formal collateral by assuming that clients will be able to repay. Concentrate on providing motivation to repay such as:

- *Joint liability groups*. An arrangement whereby a handful of borrowers guarantee each other's loans is by far the most frequently used repayment motivation. Individual character lending can be effective when the social structure is cohesive
- *Incentives*. Guaranteeing access to loans motivates repayments, as do increases in loan sizes and preferential pricing in exchange for prompt repayment. Institutions that successfully motivate repayments develop staff competence and a public image signalling that they are serious about loan collection

Principle 4. Charge full-cost interest rates and fees

The small loan sizes necessary to serve the poor may result in costs per loan requiring interest rates that are significantly higher than commercial bank rates (although significantly lower than informal sector rates)

Source: Rhyne and Holt, as cited by Ledgerwood, 1999.

undermine the success of MFIs. Regulation may be required at a critical mass or size when failure would have consequences that reach far beyond owners and creditors.

3.1.3 Economic and social policy environment

Any microfinance operation needs to examine a country's economic and social policy environment. Policies that affect the rate of inflation, growth rates, the stability of financial and other markets, investments in and the presence of infrastructure and social services, all affect the ability of an MFI to provide financial services.

MFIs differ significantly from commercial banks in the risk factors they face, particularly in terms of the client base, lending models, ownership, management and governance. An assessment and understanding of the above factors will therefore influence how effectively MFIs are able to reach their clients.

3.2 Local context

In most parts of the world, fishing communities are often poor, geographically isolated and have little access to basic social services, including affordable financial services. The mutually reinforcing issues of resource depletion and persistent poverty have relegated small-scale fishers to being one of the most economically and socially disadvantaged groups in many societies.

If microfinance is to achieve its development goal of servicing the financial needs of unserved or underserved markets such as fishing communities, there must be a recognition and understanding of the community's unique characteristics. These include a wide range of sociocultural and demographic characteristics and arrangements within fishing communities, fishers' capacity to service debt, the estimated market size of the target community for financial services and the type of microenterprises and activities, including the level of development of the enterprises to be financed through microfinance. A determination and understanding of the local microcontext where microfinance operates ensure the design of appropriate financial products and services that meet the needs of fishing communities.

3.2.1 Sociocultural and demographic characteristics of fishing communities

The importance of a thorough understanding of the sociocultural context in fishing communities is made more critical in microfinance because it requires strong social bonds among the borrower groups to enforce discipline to repay loans. Peer group monitoring and group guarantee schemes, among other features of microfinance, all depend on strong social and organizational environments to succeed.

An FAO-commissioned study that formed part of *The State of World Fisheries and Aquaculture 2000* (FAO, 2000a) identified some of the most important and common cultural characteristics of fishing communities. The following may be useful when considering the design of microfinance services for the sector.

- Fishing communities undertake small-scale capital commitments and levels of production and have limited political power. This makes them vulnerable to external threats, especially the large-scale fishing sector.
- Fishing communities are dispersed along coastlines and, because they depend mainly on marine ecosystems that are close to home, they are particularly vulnerable to resource depletions.
- The nature of the ecosystems and the particular species that are exploited are important determinants of many cultural characteristics, including the social and economic organization and the fishing gear and technologies that are utilized.
- The various fishing occupations that community members pursue will be interwoven through the whole fabric of a community's culture.
- There is a systematic division of labour according to both gender and age, with corresponding role expectations regarding men, women, children, adults and the elderly.
- In most communities, the primary producers are men, while women are expected to play a dual role: as mainstays of their household and children, and as mainstays of fish processing, marketing and distribution systems.
- Access to credit and insurance is problematic in most small-scale fishing communities and constrains fishing effort and production.

- Contemporary small-scale fishing communities are increasingly stressed by external problems, including expanding globalization, marine pollution and, in some regions, the growth of a coastal tourism industry.

As there are a variety of socio-economic subgroups in fishing communities, there is a further need to identify properly the subgroups most in need of financial services to support their enterprises.

Apart from common sociocultural characteristics, important demographic and socio-economic changes have taken place in recent years in coastal fishing communities and these need to be taken into account in the design of microfinance programmes for the sector. Studies carried out in the context of a United Nations Population Fund (UNFPA)-funded and FAO-executed project in the Philippines, Malaysia, Bangladesh, India, the United Republic of Tanzania and Senegal as well as a review of national fisheries and population statistics, show that during the two decades from 1970 to 1990, the number of fishers and aquaculturists more than doubled, growing more quickly than the world's population.[2] The total number of fishers, including those involved in marine and inland fisheries and aquaculture, increased from 12.5 million in 1970 to 29 million in 1990. During the 1990s, however, increases were much smaller than in previous decades and the total number of fishers and aquaculturists is estimated to have reached about 30 million in 1997.

As far as coastal fishers are concerned, the increases in their numbers were both a result of population growth and of migration to coastal fishing and contributed to the overexploitation of local fisheries resources and deterioration of the coastal environment.

The studies carried out by FAO also revealed that contrary to the assumed global trend, the number of coastal fishers has recently started to decline or stagnate in four of the countries studied, while it is still increasing, although more slowly, in the other two. Also contrary to commonly held views, levels of fertility and infant mortality in fishing communities were found to be similar and not much higher than those in farming communities. However, adult mortality data seem to indicate that living and health conditions in fishing communities could be worse than average, in particular for women.

Investigations into occupational change within and between generations suggest further that artisanal fisheries are no longer a "last resort employment" for people in some coastal areas. Artisanal fisheries are one of a number of income-earning opportunities, including some outside the fisheries sector. In a number of countries, government policies aim at a reduction or limitation of fishing effort and at conservation or rehabilitation of fisheries resources. Such policies affect the options of fishing households in coastal areas regarding income opportunities and may take them out of their traditional main occupation.

Fishers are generally aware of the decline of fisheries resources and the deterioration of the coastal environment. They are also aware that an increase in their numbers has contributed to the present state of affairs, together with the intrusion of industrial fisheries in coastal waters and with industrial pollution. Fishers in the villages studied see an urgent need to introduce effective policies and measures for the management and conservation of fisheries resources and coastal environment and are keen to participate in their implementation.

A transition in attitudes regarding both family formation and future livelihoods is visible among the younger generations. A modernization of marriage and fertility norms is under way. As for fisheries, like farming they are no longer seen as a promising long-term option.

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[2] The results and discussion of the study are contained in FAO Fisheries Technical Paper No. 403 (FAO, 2000b).

3.2.2 Service debt capacity and market size

Microfinance is primarily a cash-based operation. Frequent repayments associated with successful microfinance programmes require borrowers to generate enough cash to repay the loan on time. This in turn involves a determination of a client's capacity to repay the loans without running the risk of insufficient cash flow that would consequently lead to defaulting on the loan. In fishing communities, fishing is a seasonal occupation and income streams from it; other related activities may not be as regular. During peak fishing seasons, on the one hand, cash is earned almost daily, while almost no income is earned during off-seasons.

In fish farming, on the other hand, particularly in the case of small-scale operations, the bulk of income is earned when the main harvest of the fish pond occurs, while during the initial months of the production cycle, hardly any cash income is realized. Corresponding adjustments on repayment schemes have to be considered.

An estimation of the market size for microenterprises and their products must be made to ensure that enough demand for financial services exists, thereby ensuring the long-term sustainability of microfinance operations.

3.2.3 Types of projects and microenterprises to be financed

Experience shows that microcredit best serves those who already have identified or existing microenterprises but who need financial services, either to expand or build up their asset base. Extremely poor people who do not have any stable source of income are not suitable microfinance clients, as they will only be pushed further into debt by loans that they cannot pay.

The type of economic activities and the level of development of the microenterprises to be financed will further define the types of products and services appropriate for the market.[3]

3.3 Sector context

Microfinance is a segment of the overall credit and other financial services that are being provided in the fisheries and aquaculture sector. For this reason, it needs to be seen in the overall context of credit and investment in fisheries and aquaculture.[4]

The fishery industry regularly invests in the modernization or replacement of fishing craft and gear, fish aggregating devices, navigational and safety equipment, equipment for onboard preservation and handling of catch, onshore facilities, fish processing plants and facilities, purchase of raw materials, fish transportation and marketing facilities, the promotion of fishery products, construction and repair of fish ponds and fish farms, fingerlings, fish feed, pond fertilizers and other items.

Part of the investment funds comes from savings within the industry or from informal sources of credit such as fish traders and processors. These sources, however, particularly in developing countries and even more so in the case of poor fishers and fish farmers, are not sufficient to meet increasing investment needs.

First, informal sources are limited regarding the type of credit they supply since they generally meet short-term credit needs rather than medium- and long-term financial requirements. Second, their terms of finance are often disadvantageous for fishers since they charge high rates of interest and credit is frequently linked to unfavourable terms of trade and the establishment of exploitive relationships.

This situation is particularly severe in the case of poor fishers and fish farmers since their indebtedness to moneylenders, in many cases, is one of the underlying causes of their poverty and a main obstacle to their escaping from it.

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[3] Examples of specific fisheries- and aquaculture-related activities and other activities and microenterprises to be catered for by microfinance programmes in fishing and fish farming communities can be found in section 5.3 on p. 14 as well as in Part IV of this publication.

[4] See also article on credit and economic incentives in *FAO World Fisheries and Aquaculture Atlas* (available at www.fao.org).

The ability to generate enough savings within the sector is seriously hampered by the fact that income patterns in fisheries are unpredictable and rarely match the needs for investments. Moreover, low profitability and poverty, particularly in the case of small-scale fisheries in many developing countries, make it difficult if not impossible to meet investment requirements originating from structural changes in the industry and processes of adaptation to these changes.

More important, the introduction of responsible fishing practices and the implementation of measures for the rehabilitation and conservation of fisheries resources and the coastal environment require further credit support to facilitate related investments. These are needed for the diversification of fishing effort away from overexploited and heavily exploited resources to less exploited ones; in support of occupational shift from capture fisheries to aquaculture or to occupations outside the fisheries sector; for the generation of self-employment opportunities for women in fishing communities; for the promotion of value-added processing and marketing with the objective of making better use of scarce or currently underutilized resources; and for a transition to sustainable, environmentally friendly and organic aquaculture practices.

Without appropriate institutional credit arrangements, an important link is missing in the fishery industry and the optimum utilization and allocation of human and marine resources and capital in the fishery industry are hampered. This applies to medium- and large-scale credit programmes as well as to microfinance and microcredit programmes.

All credit and finance programmes need to be designed so that they fulfil the criteria of timeliness, simplicity, flexibility and demand orientation and meet the actual needs of the fishery industry. Such programmes also need to be financially viable and sustainable to encourage the growth of economically and financially viable fishery enterprises without contributing to the overcapitalization of fisheries with resulting overexploitation of fisheries resources. This again applies to large- and medium-scale enterprises as well as to microenterprises.

While fisheries credit programmes, as a rule and for the above reasons, should not be subsidized but instead incorporate terms and conditions comparable with those of commercial lending operations, there can be exceptions under certain circumstances, such as the use of subsidized interest rates, waivers of collateral requirements and extension of loan repayment periods.

These circumstances may arise when there is a need to facilitate a shift from non-sustainable to responsible fishing practices and for diversion and reduction of fishing effort which result, in the short term, in an increase in the cost of fishing operations and a decline in revenue. They may also arise in the following situations: i) when an occupational shift of fishers out of fisheries because of overfishing, for example, needs to be supported; ii) when fisheries in structurally disadvantaged regions and regions where poverty poses a problem need to be developed; and iii) when special support for the artisanal fisheries sector needs to be provided to safeguard the sector from the negative impacts of globalization and other similar conditions.

4 LENDING MODELS AND METHODOLOGIES

The field of microfinance is diverse because it is still evolving. In terms of methodologies, there is no single model appropriate for all situations and therefore each model must be adapted to the local context to fit and reflect local needs.

There are two broad categories of credit delivery in microfinance, based on how loans are delivered and guaranteed. These are individual and group-based approaches. Individual lending is credit provision to individuals who are not members of a group that is jointly responsible for loan repayment. As it is documented and asset-based, lending is provided to individuals based on their ability to give the MFI assurances of repayment and some form of collateral, or a willing co-signer. As such, individual lending may have limited relevance to small-scale fishing communities, although it can be appropriate for production-oriented and medium-scale small businesses in fish farming and aquaculture.

Group-based lending may have a more practical applicability for small-scale fishers and fish farmers. This involves lending to groups of people, either to individuals who are members of a group who guarantee each other's loans, or to groups that subloan to their members. Group formation is an essential component of group-based lending and the use of peer pressure from other group members acts as a collateral substitute as well as a repayment incentive. Group lending may also reduce transaction costs and risks because of internal group monitoring and screening.

Group-based approaches have many variants and can take different forms. The specific lending technology is thus dictated by how the various models are put in practice. Lending technology is generally defined as the entire range of activities carried out by an MFI or the groups themselves in delivering credit. It involves activities from borrower selection, determination of loan terms and conditions for loan monitoring and recovery.

The following sections describe just three of the group-based models, differentiated by the role played by the groups in the lending process.

4.1 Groups as a financial intermediary

Self-help groups (SHGs) are prominent in this model. Essentially a member-based group, an SHG is a small, socially and economically homogeneous group composed of 15-20 members who voluntarily come together for mutual benefit and support. It is a self-managed group that practises collective leadership and decision-making in credit management, including the determination of loan size, interest rates to members and repayment periods and rates. The group also decides on its savings policies whereby members agree to save small amounts on a regular basis. Groups usually lend among themselves, initially using their savings, before obtaining external finance. In this model, loans are made to the group by the MFI, which acts as a sort of SHG-promoting institution. Because of the relative homogeneity of members, default risks are minimized. Members are familiar with each other, allowing for a fairly reliable source of information on potential loan diversions and defaults.

4.2 Groups as guarantors of loans

This model is also referred to as solidarity group lending. From four to seven group members collectively guarantee each other's loans, thus replacing traditional collateral requirements. Borrowers are small businesses and microbusinesses in need of small, short-term working capital loans. In fishing communities, fish vendors and traders could benefit from this kind of model. Group formation consists of an initial training course focusing on the responsibility of joint liability. Loan approval by the credit officers of the promoting MFI is based on the group's application. Loan disbursements are made to the group leader who then distributes the loan to individual members who usually receive equal amounts. Access to subsequent loans is dependent on successful repayment by all group members and can be increased depending on the ability of the borrower to take on a larger loan amount. Savings are usually required as a portion of the loan. Interest rates charged are relatively high.

4.3 Lending to individuals in solidarity groups

Exemplified by the Grameen Bank model, peer groups of five members, composed mostly of women, are organized and incorporated into village centres of up to eight peer groups. Membership is limited to people who live in the same village and who have similar economic resources. A chairperson is elected in each group who is responsible for the group's discipline. Weekly meetings are mandatory, as are weekly savings and group fund contributions. Group members perform loan appraisal. Access to loans is phased where two members initially receive the loans and subsequently to two more members after successful repayments. No collateral is required as group members mutually guarantee each other's loans. Progressive loan sizes are also provided. The Grameen Bank model has been replicated globally but incorporating adjustments to adapt to the local context.

5 LENDING POLICY

Flexibility and suitability for client demands and needs as well as responsiveness to changing environments characterize viable microfinance programmes. The following offer some basic considerations.

5.1 Target group selection

Direct targeting of specific groups or sectors, such as fishing and farming communities, has its own usefulness although there is also the disincentive of imposing some eligibility criteria. Most microfinance programmes prefer indirect targeting because products and services are aimed at people who require the services and not at particular groups that fit a specific profile. However, the many variants of group-based lending models that do not directly target specific groups have an implicit borrower self-selection criterion. Member-based groups are relatively homogeneous in terms of economic resources and standing in the community. Their similar backgrounds and the economic activities they are engaged in lend easily to group formation essential in these models. This also applies in fishing and fish farming communities where low-income and small-scale fishers (both men and women) are the appropriate target groups. Poverty and income levels could be used as criteria but there is a considerable variation in countries as to what and who constitute the poor. The consideration of who are the poor and the level of income to be used as eligibility criteria should be dependent on country and local contexts.

5.1.1 Targeting women

Globally, women constitute the majority of microfinance clients, primarily because of their better repayment records. This also makes them a particular target group for microfinance activities in fishing communities.[5] It is recognized that women play an important role in fishing communities, encompassing social and economic responsibilities and duties, both within and outside their households. Women are involved in productive activities directly related to fisheries production, processing and marketing as well as in non-fisheries livelihood activities that are very important in augmenting household income during periods of scarcity and seasonality often experienced in fishing communities. Because of women's multiple roles and demands on their time, they are more involved in trading/vending and marketing activities to generate continuous earnings to make up for the seasonal nature of their husbands' incomes. Loan size requirements are small, which makes them appropriate clients of microfinance. Other features of microfinance, such as no collateral, easy documentation requirements and simplified procedures benefit women who have had to face some barriers to access credit in the past. Women's involvement in microfinance has been shown not only to benefit them personally but their households and the community as well. Because they spend more of their income on their households, the welfare of their families is enhanced, thus generating a multiplier effect. Targeting women in microfinance programmes in fisheries is like investing in their empowerment and improving the well-being of their families and communities.

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[5] For practical suggestions on integrating a socio-economic and gender approach to microfinance, refer to *SEAGA guide to gender-sensitive microfinance*, by R. Boros & U. Murray, SEAGA Programme, FAO Gender and Population Division (2001). Another relevant document discussing women in fishing communities in detail as a special target group for development projects is *Women in fishing communities – guidelines*, by F. Haque & U. Tietze (FAO, 1988).

5.2 Interest rates and loan pricing

Global experience has demonstrated that subsidized interest rates are not financially sustainable. Borrowers have been found to be more concerned with access to credit issues than the cost of the service; thus they are generally not sensitive to interest rates. Fishers, themselves no strangers to informal credit arrangements that offer high interest rates, are concerned with MFIs that can offer efficient, flexible and convenient credit services. Therefore, a balance between a market-based interest rate regime that allows the MFIs to cover all their costs on the one hand and what the clients can afford and what the market will bear, on the other, must be reached.

Market-based interest rates charged on loans should be based on the MFI cost structure. For mature MFIs, effective interest rate calculations include all direct financial costs that are composed of the following items.

- *Financing and capital costs* – the actual cost of MFI funds when the MFI funds its portfolio with savings, commercial debt and equity. As most MFIs initially fund their portfolios with donated funds or equities, adjustments have to be made to account for these subsidies. Capital costs vary according to the market rate of interest and the inflation rate prevailing in the country.
- *Operating costs* – the annual recurrent costs incurred to run the credit service and include salaries, rents, utilities, depreciation and other administrative expenses.
- *Loan loss provision* – the amount provided to cover expected defaults of the loan portfolio.

There are several methods of calculating effective interest rates, as there are many loan variables that affect them. As such there are also different interpretations. It is thus important for an MFI to follow accepted accounting and auditing principles as well as performance standards that are available and being promoted by some donor agencies and other more established microfinance providers.

5.3 Loan size and loan purpose

Loan amounts should, in principle, be based on the loan purpose and the borrower's absorptive and debt capacities. Successful group-based lending usually starts with small loans, gradually increasing based on repayment history. Loan sizes vary from less than US$100 per borrower to a certain maximum amount. MFIs differ in offering credit limits but these are generally dependent on the capacity of the MFI to assume risk. In some countries, the law defines maximum amounts.[6] Some MFIs have started to introduce individual loan products for borrowers who have graduated and have the capacity to take on bigger loans for a growing microenterprise.

In fishing and fish farming communities, there is a demand for both working capital and fixed asset loans for fishery-based activities. For small-scale fish farming activities, working capital will be used to purchase production inputs such as fish seed, fingerlings and fish feed and for other production and marketing costs. In fishing, working capital to finance small-scale operations for inputs such as fuel and food for the crew and small fixed asset loans for the purchase of nets and small fishing equipment will be needed. In fish marketing and fish processing activities that are carried out mostly by women, loans for raw materials and trading advances as well as small-scale equipment for fish marketing and fish processing purposes will require both working capital and fixed asset loans. However, loans should not be limited to fishery-based activities only but to other livelihood opportunities that are available to members of the fishing communities. The guiding criteria for both fishery and non-fishery based projects should be the viability and profitability of the chosen economic activities.

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6 In the Philippines, for example, an equivalent of around $3 000 is set by law as the maximum capitalization of a microenterprise.

5.4 Loan term and repayment period

The loan term and frequency of loan repayments should ideally be based on the borrower's cash patterns. Microfinance loans are generally short-term, ranging from less than a year to two years, since most loans are small and are used for working capital purposes.

For most MFIs, repayments are made on an instalment basis (weekly, biweekly, monthly) for activities that generate ongoing revenues. In fishing communities, this would be appropriate for fish marketing and trading projects. For seasonal activities, such as in aquaculture and fish farming, where expected revenues are realized at harvest time, lump sum payments would be appropriate. There can also be variations where a combination of instalment and lump sum payments are made so that borrowers are not unduly burdened.

The design of repayment periods also depends on the ability of the MFI to collect and ensure repayments. The location and proximity of the MFI to the borrowers so that credit officers are able to make frequent visits to the clients and vice versa are also critical considerations. Whatever the design of the repayment schedule, the basic rule is that it should correspond to the income derived from the activity financed by the loan and therefore loan terms and repayment periods must be flexible enough to meet the client's needs.

6 SAVINGS AND DEPOSIT SERVICES

Fishing households, as in any poor household, save to manage risk, reduce their vulnerability against natural disasters and other emergencies, smoothen consumption during off-seasons, and for investment and many other purposes. That the poor have the capacity and willingness to save has been borne out by the success of informal saving schemes in mobilizing savings. There is, therefore, a demand for savings services for the poor that are safe, secure, convenient and liquid.

There are two kinds of savings services provided by MFIs: compulsory and voluntary savings. Compulsory savings are funds contributed by borrowers as a condition for receiving a loan. They are held either as a percentage of a loan or a nominal amount contributed to group funds. They are generally not available for withdrawal while a loan is outstanding, thus acting as a form of collateral as well as serving as an additional guarantee mechanism to ensure loan repayment. The premise underlying compulsory savings is that borrowers must learn financial discipline and therefore must be taught how to save. The downside is the limited scope of compulsory savings (for members only). Many borrowers stop saving once the loan has been received. MFIs also stand to lose potential clients who do not want a loan.

Voluntary savings operate on the principle that the poor already save and only require appropriate institutions and services to meet their needs. These savings are not mandatory for the poor to be able to participate and gain access to credit, and are therefore provided to borrowers and non-borrowers. However, very few financial NGOs are authorized to accept voluntary savings because of the administrative complexities and institutional requirements in providing this kind of product. Mobilizing voluntary savings requires an enabling environment that includes an appropriate legal and regulatory framework. MFIs need a licence to collect savings and must be subject to some form of regulation and supervision by a government entity. Most NGOs or semiformal institutions are not licensed to capture deposits. Savings collected from members are deposited in formal financial institutions that may or may not be available and accessible for poor households.

The risks and responsibilities of MFIs mobilizing voluntary savings in different capacities are listed in Box 2.

The design of voluntary savings products must strike a balance between the needs of the clients and the MFI's financial sustainability in providing the service. A Women's

BOX 2
Risks and responsibilities of mobilizing voluntary savings

	Risks	**Responsibilities**
MFI collects savings from borrowers only	• Fraud or misuse of funds by MFI • Inadequate liquidity • Capital recovery if all savings used for lending • Seasonal/emergency withdrawals • Government restrictions • Physical safety of deposit collectors	• Increase in borrower's income • Propose management of funds • Internal controls • Liquidity ratios • Building strong groups to withstand funding constraints • Safety of funds • Physical safety of funds • Physical safety of deposit collectors
MFI collects savings from public	• Fraud or misuse of funds by MFI • If unregulated, could lead to government sanctions/criminal charges • Large withdrawals at once	• Build self-regulation with internal and external audits and transparency • Work within legal structures if possible • Have a good management information system (MIS) • Build up public trust
NGO as an intermediary between borrowers and bank	• Choosing the wrong bank • Leakage in collections and deposit process • Not profitable: higher operational cost and no increased resource base	• Use banks with credibility • Provide deposit insurance • Ensure service meets a real need • Develop alternative sources of funds to meet any losses
MFI mobilizes savings and invests it for earnings	• Losses through unwise investment • Market risks (recession, political instability, or influence)	• Establish good investment policies • Provide deposit insurance • Conduct feasibility studies for prudent investment (short-term, long-term) • Ensure investment policy is coherent with mission • Hire qualified personnel
MFI uses savings to expand loan portfolio	• Loan loss resulting in poor credit quality • Natural disasters • Inadequate liquidity • Inadequate reserves	• Have a transparent accounting system and MIS • Set up reserve fund for emergencies • Ensure adequate liquidity and recovery on time

Source: Women's World Banking, 1999.

World Banking best practice workshop on microfinance (1999) identified how an MFI can build responsive savings mobilization products and processes, by:

- ensuring safe and flexible collection arrangements in terms of time, amount and place;
- providing products that motivate clients to save for specific purposes, e.g. education, housing, health and life insurance, holidays;
- motivating clients to save through education on product features and operating systems, counselling on benefits and strategies and marketing;
- building systems that ensure accountability, control and trust;
- ensuring client participation in product design, motivation strategies and collection methodology;

- performing market research for product design;
- building up a credible public image.

Aside from the legal requirements, an MFI must have the financial strength and stability as well as the institutional capacity to be licensed. Institutional capacity requires operational structures, adequate management and governance capabilities to be in place. Not many NGOs meet these requirements and this remains a challenge in the microfinance industry, particularly in the context of its integration in the mainstream and broader financial system and in attaining the goal of outreach and sustainability.

7 PARTNER INSTITUTIONS

The client base of microfinance services – poor women and men without tangible assets, who often live in remote areas and have low levels of literacy – usually requires more than financial services to ensure the successful operation of their businesses and their general well-being. The range of services can be broadly categorized as the following.

- *Financial intermediation* – refers to the provision of financial products and services, notably credit and savings.
- *Social intermediation* – the process of creating and building human and social capital required for sustainable financial intermediation. This is an intervention strategy that helps marginalized clients connect and link up with formal financial institutions.
- *Business and enterprise development services* – include a wide range of non-financial services and interventions that assist borrowers in running their microbusinesses.
- *Social services* – includes non-financial services such as health, nutrition, education and literacy training that aim to improve the well-being of target groups.

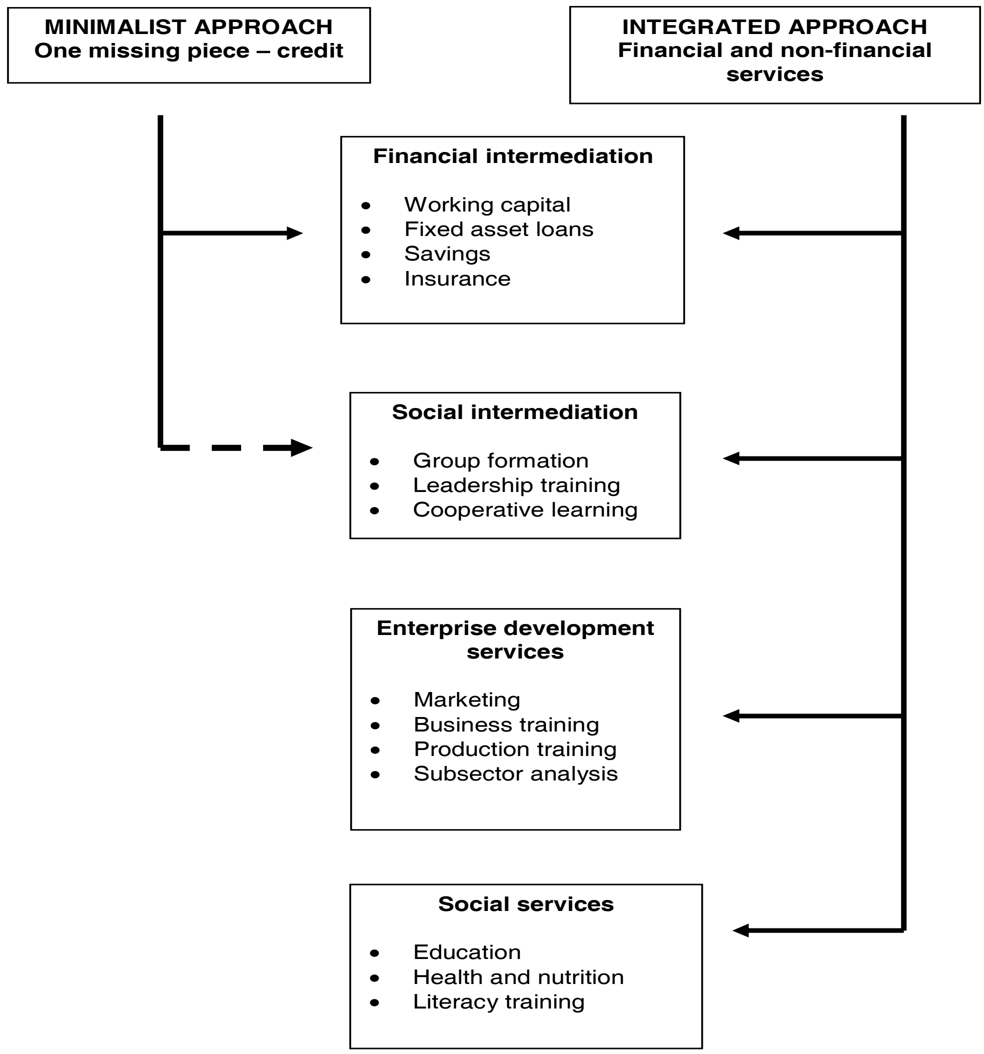
MFIs take on either one of two approaches in providing any of these services. One is the minimalist or "credit first" approach that holds credit as the single missing piece in poverty reduction programmes. Thus the provision of financial services is its primary intervention and, in some cases, there are limited social intermediation inputs in group formation. The second approach, called the integrated approach or "credit plus" approach, recognizes the importance of providing both financial and non-financial services in helping the poor (see Figure on p. 18). There is still an ongoing debate as to the merits of the two approaches but the decision on which approach to adopt depends upon the objectives of the MFI, the demand and supply situation in which it is operating, and the additional costs and feasibility of delivering such services. An important consideration is that, in terms of financial sustainability, costs incurred in providing financial services should be kept distinct and separate from those of non-financial intermediation activities, which are rarely financially sustainable and may require subsidies to keep them going.

Fishing communities, disadvantaged as they are, could benefit from both financial and non-financial interventions. Providing the range of services requires the participation of a number of institutions that each have a comparative advantage in what they do best. Local institutions are important because they are familiar with the local circumstances and environment while foreign partner agencies can contribute funding, technical assistance and training to the partnership.

7.1 Financial institutions

Microfinance services are provided by different institutional types. An institution has a well-defined function and certain permanence; thus a one-time activity such as a project is not defined as an institution. Based on whether there is a legal infrastructure that provides recourse to lenders and protection to depositors, microfinance providers can be classified as formal financial institutions, semiformal institutions and informal providers. Formal financial institutions are subject to banking regulation and supervision and include public and private development banks and commercial banks, among others. Semiformal financial institutions, notably NGOs, credit unions and

Minimalist and integrated approaches in microfinance



Source: Ledgerwood, 1999.

cooperatives and some SHGs, are not regulated by banking authorities but are usually licensed and registered entities and are thus supervised by other government agencies. Informal providers are those entities that operate outside the structure of government regulation and supervision.

Institutional microfinance includes microfinance services provided by both formal and semiformal institutions and serves more appropriately as a partner institution in microfinance provision. Semiformal institutions often receive donor or government support through technical assistance or subsidies for their operations. International organizations and donors also place some funds in commercial banks as guarantee/revolving funds to provide microcredit to target sectors.

Commercial banks in microfinance are considered relatively new actors in the field. The high costs of microlending, the high risk of default and other internal constraints such as the lack of institutional commitment, the existing organizational structure and the lack of financial methodologies and of specialized staff to cater to microborrowers, have been cited as reasons that have prevented their entry into microfinance. But some commercial banks have begun to see microfinance as a profitable venture and, of late, have started to offer a range of services for microfinance borrowers. They have integrated microfinance in their operations in different ways. Some work through intermediaries, acting as a wholesaler rather than a microcredit retailer by establishing linkage programmes with semiformal sources; some establish a separate window or a part of a branch office or a specialized unit or subsidiary that handles microfinance clients; and some have fully independent retail centres affiliated to the bank but with their own lending policies and staff. However, while some banks have introduced and instituted these innovations, many still need to make adjustments to their products, services and operating procedures to make them more appropriate for microfinance borrowers.

By far, NGOs have emerged as key players and are the most common institutional type for MFIs. They have received the bulk of donor funding and support through grants and subsidies for their operations. NGOs are basically service organizations and, as such, profit orientation is not a primary characteristic. Although not member-based organizations, their strength lies in the fact that they are close to the target group and are thus better placed to respond to their needs. Their weakness, however, is their limited capacity to expand the scope and outreach of services on a sustainable basis. Some NGOs also suffer from operational inefficiencies and governance problems. Financial viability is a major concern. While a few NGOs have expanded and evolved into more professional and formal institutions that have achieved financial sustainability, many still struggle to survive financially. Not all NGOs can transform themselves into banks and they should not attempt to do so because there are still valid roles for them to play, particularly in the areas of social mobilization and intermediation.

7.2 Role of government

Experience shows that governments are inefficient microfinance providers and therefore should not lend funds directly to poor borrowers. Government-implemented microfinance programmes that are usually subsidized and operated through state-run financial institutions are unsustainable, as they are often perceived as social welfare.

Most practitioners and donors agree that the government's main role in supporting the development of microfinance and MFIs is to create an enabling policy environment. This involves building the financial infrastructure to strengthen and ensure the sustainability of MFIs through the appropriate legal and regulatory framework. Instead of direct lending to the poor, governments should focus on the provision of technical assistance and capability-building resources to organizations and MFIs needing such services.

Governments can also provide enterprise development services to microfinance clients through their specialized bureaus and agencies promoting microenterprises and small businesses, as well as resources to improve their profitability through infrastructure development, research and technology and extension services. Governments should also facilitate the provision of or improved access to social services.

7.3 Role of donors

Donors, including local, bilateral and multilateral institutions, have been the primary funders of microfinance programmes. They provide support through: i) grants for institutional capacity building, to cover operational shortfalls and for loan capital or equity; ii) concessional loans for onlending; iii) lines of credit; iv) guarantees for commercial funds; and v) technical assistance. The failure of subsidized lending has changed the focus of donor assistance more on capacity building. Donor funds are usually disbursed into any of the types shown below (CGAP, 2002).

- A retail MFI that provides direct services to poor clients.
- A wholesale "apex" fund that finances various retail MFIs such as NGOs or private commercial banks.

- A component of a social fund or community development project that provides a revolving credit fund for local community organizations.
- A technical implementer, such as an international NGO, that conducts institutional capacity building, industry infrastructure and policy work.

In 1995, a World Bank-led Donor's Working Group on Financial Sector Development and the Committee of Donor Agencies for Small Enterprise Development put out a joint document that outlined some guiding principles for selecting and supporting intermediaries in micro and small enterprise finance. The purpose of the principles was to establish common standards for donor agencies to apply in support of broader access to financial services for micro and small enterprises. This was partly in an effort to prevent donors from duplicating and contradicting each other's efforts and also to create a consistent strategy towards microfinance.

The guiding principles focused on two important and complementary objectives of outreach and sustainability for MFIs. They identify characteristics that donors should seek in selecting institutions to support and the appropriate forms of donor support to those institutions. Intermediaries seeking donor support must demonstrate institutional characteristics, through acceptable institutional performance standards and plans. These include institutional strengths, quality of services and outreach and financial performance. Strategies for donor support identify the following critical areas: i) appropriate uses for grants, such as for institutional development, capitalization, operating losses and fixed assets; ii) appropriate uses of loans for lending-based institutions that meet performance standards; iii) commercial sourcing of funds through means such as investor equity, raising funds from commercial sources and onlending to MFIs and partial guarantees of loans; and iv) coherence of donor policies by way of more consultations and coordination with each other.

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Part III

Report of the Regional Workshop on Microfinance Programmes in Support of Responsible Aquaculture and Marine Capture Fisheries in Asia

1 BACKGROUND, PURPOSE AND PARTICIPATION

Over the past two decades, FAO has provided assistance to the fisheries sector in improving its access to institutional credit. Recent changes and developments have, however, prompted a consideration of new features in delivering credit to the sector. The most important of these relate to developments in microfinance and more recently to the commitments to the World Summit on Sustainable Development held in Rome in June 2002, which called for stepped-up investments in fisheries and increased productivity of small-scale fishers and access to productive resources. It is in this context that the regional workshop was organized.

The main purpose of the workshop was to analyse, document and facilitate the exchange of experiences among Asian countries with microfinance programmes in fisheries. The workshop also aimed to draw conclusions from these experiences and provide guidance on enhancing the contribution of microfinance to food security and poverty alleviation in fishing and farming communities as well as to the adoption of responsible fishing and aquaculture practices.

The regional workshop was the first of its kind in the Asia-Pacific region. It was attended by 31 participants from eight South and Southeast Asian countries: Bangladesh, India, Malaysia, Nepal, the Philippines, Sri Lanka, Thailand and Viet Nam. It brought together experts representing fisheries government institutions, financial institutions, academic and research institutions, NGOs, cooperatives, women's unions, fishermen's associations and technical staff of foreign-assisted projects in aquaculture in the region. The list of participants is given in Annex 1.

The workshop was organized and hosted by the Bank for Agriculture and Agricultural Cooperatives (BAAC) of Thailand, in close liaison and coordination with the Thai Department of Fisheries.

2 PROCEEDINGS

The workshop programme was divided into three parts: technical sessions where papers were presented and discussed, field visits and working group activities to formulate workshop recommendations, and follow-up proposals.

The workshop was opened by welcome and keynote addresses from FAO and BAAC. To start the technical sessions, a brief presentation on microfinance programmes was given by the Secretary-General of the Asia Pacific Rural and Agricultural Credit Association (APRACA). Technical papers on the role and activities of FAO and BAAC in support of microfinance programmes were subsequently presented.

The core activity of the workshop focused on the presentation and discussion of country papers and case studies on the implementation of microfinance programmes in fisheries and aquaculture in the region. These were preceded by a presentation on concepts and approaches in microfinance and their applicability to fisheries.

Three working groups were later formed with the task of formulating conclusions and recommendations related to microfinance policies, lending procedures and institutional arrangements. Follow-up activities and technical assistance needs and proposals were also identified. The outputs of the working groups were then presented in plenary where they were discussed and finalized.

Field visits to a BAAC client implementing a fish cage culture project, a Fisheries Research Facility and a rural development project of His Majesty the King of Thailand were undertaken.

The programme of the workshop is attached as Annex 2.

2.1 Opening ceremony

In his opening address, *Dr Uwe Tietze*, FAO Fishery Industries Officer, welcomed the participants to the workshop and expressed his thanks, on behalf of FAO, to BAAC for hosting and organizing the workshop, and to the Thai Fisheries Department for its valuable support. He began his welcome address by briefly explaining the mandate of FAO and its major programme on fisheries, which aims to promote the sustainable development of responsible fisheries and aquaculture, and contribute to food security. He pointed out that appropriate institutional credit arrangements are required to achieve these twin goals. In this regard, he identified investment areas that require credit support, particularly those related to the introduction of responsible fishing and aquaculture practices. With the recent changes and developments in fisheries and credit delivery systems, Dr Tietze hoped that the workshop would come up with practical recommendations that could provide guidance in improving microfinance programmes in the fisheries sector with the ultimate objective of contributing to poverty alleviation and food security. In closing, he wished the participants a fruitful and successful workshop.

Mr Pittayapol Nattaradol, BAAC President, first extended a warm welcome to the participants and then explained the role that the Bank plays in supporting the growth of small- and medium-scale farmers and fishers in Thailand. Established in 1966, the Bank has since provided financial services to about 93 percent of Thailand's total farm families by offering loans and banking services, together with managerial and technical guidance under a supervised credit scheme. In recognition of the need to help farmers produce at a low cost and improve efficiency, the Bank has recently expanded its role by establishing a new Marketing Support Department to help its clients improve their marketing activities. Towards this end, Mr Nattaradol announced the Bank's recent initiatives such as the signing of the Memorandum of Understanding with Maejo University of Chiang Mai to improve product quality and technology transfer. He also cited the Bank's support for agricultural marketing cooperatives (AMCs) and the Thai Agribusiness Company Ltd (TABCO) in assisting clients to access local and foreign markets. To support the grassroots economy, the Bank also offers loans for micro and small community-based enterprises and provides assistance to strengthen the operation of a National Village and Urban Community Fund. The Bank envisions this fund as a village bank that will serve as a future financial intermediary.

In his message during the dinner reception, Mr Nattaradol later elaborated on the expanded role and mandate of the Bank in uplifting Thailand's rural economy.

2.2 APRACA's experience with microfinance programmes

Mr Benedicto Bayaua, Secretary-General of APRACA, set the tone of the workshop by providing an overview of microfinance programmes. His presentation included a brief discussion of microfinance's target clients in fisheries, the different aspects of participation in microfinance programmes (from mere access to full ownership) and the characteristics and limitations of microfinance programmes in fisheries. He also shared some insights into the difficulties faced when participating in microfinance programmes in upland fisheries as well as by other ethnic groups. He suggested that workshop participants look into the following areas in their deliberations during the workshop: an integrated management strategy for areas with a common natural base; the needed policy and financial support from government and non-government agencies and all stakeholders involved; and measures to develop human resources and strengthen institutions concerned with microfinance programmes.

A brief discussion followed Mr Bayaua's presentation, touching on questions regarding the size of microfinance loans, an appropriate pricing policy, transaction costs and equity and efficiency considerations. Mr Bayaua clarified that each country has its own definitions and assessments and, as such, there is a need to come up with country- and industry-level requirements and standards.

2.3 The role and programmes of BAAC of Thailand

Mr Luck Wajananawat, Assistant President of BAAC, gave a detailed presentation on how BAAC operates as a specialized financial institution in Thailand, including the Bank's organizational structure, outreach, network and the different services and facilities it provides. In line with the Bank's new and expanded mandate of diversifying from an agricultural bank to a fully fledged rural development bank, Mr Wajananawat identified three key measures that the Bank intends to carry out: i) to fill the rural financial gap through lending in support of rural entrepreneurs/community enterprises/village funds and local governments; ii) be actively involved in marketing aspects through strengthening AMCs and TABCO; and iii) establish independent institutions for agriculture and rural development to provide farmer clients with technical assistance and social capital. Mr Wajananawat also briefly discussed the Bank's Farmer Debt Suspension Programme, which is being implemented by the Bank in coordination with the Department of Fisheries (DOF). While admitting that the programme was a "moral hazard" when seen against the financial discipline of borrowers, a total of 2.31 million farmers (representing around 80 percent of total farmers) have nevertheless joined the programme, using either the debt suspension or debt reduction options.

Following on from Mr Wajananawat's brief discussion of the Bank's Farmer Debt Suspension Programme, *Mr Wattana Leelapatra*, Director of the National Inland Fisheries Institute under the DOF, presented the status of DOF's farmer rehabilitation efforts since the programme's implementation in June 2001. Mr Leelapatra pointed out that the debt suspension programme was part of the present government's policy of alleviating poverty by enabling farmers to recover from debts, either by stopping debt payments on a 100 percent subsidized interest-bearing principle or by continuing to pay with reduced rates of interest. During the debt suspension period, eligible farmers are also given career development support through the career rehabilitation programme of the Ministry of Agriculture and Cooperatives (MOAC). Activities under the programme include training and technology transfer and a free supply of fish seeds. MOAC's career rehabilitation programme lasts for three years (2001-2003) and intends to reach around 1.27 million farmers. As of end 2001, approximately 14 900 farmers had been assisted.

2.4 FAO's strategies for fisheries and aquaculture development and the role of credit and investment support

Dr Tietze presented the policies and strategies of FAO and the role of credit in fisheries and aquaculture. He outlined FAO's strategic framework for 2000-2015 in the context of current global demographic and economic projections. The framework spells out FAO's goals and corporate strategies in fulfilment of its mandate to improve the conditions of rural populations. Focusing on fisheries, Dr Tietze explained FAO's major programme for the sector, which aims to promote the sustainable development of responsible fisheries and aquaculture and to contribute to food security.

More specifically, the FAO Fisheries Department focuses its programme on three medium-term strategic objectives, namely: promotion of responsible fishery sector management with priority given to the implementation of the Code of Conduct for Responsible Fisheries (CCRF), Compliance Agreements and International Plans of Action; promotion of an increased contribution from responsible fisheries and aquaculture to world food supplies and food security; and global monitoring and strategic analysis of fisheries with a focus on the development of databases and analysis of information.

Dr Tietze then identified the role of credit in fisheries and aquaculture by specifying the areas where investments are needed, particularly those related to the introduction of responsible fishing and aquaculture practices. In conclusion, he underscored the following considerations when designing credit programmes for fisheries: they should meet the criteria of timeliness, simplicity, flexibility and demand orientation; and they must be financially viable and sustainable.

In the discussion, questions were raised on the financial viability of projects to be financed in fisheries, given the high risks and other constraints faced in the sector. Dr Tietze emphasized that credit should not be equated with social welfare and therefore the identification of viable projects and microenterprises must be given primary consideration. It is also important, he added, that viable projects be identified with the people and/or the community and the aim should be towards enterprise development.

2.5 Concepts and strategies in microfinance and their application to fisheries and aquaculture development

To serve as overall background and to provide the context for the succeeding country presentations, a paper by *Mr Shreekantha Shetty*, FAO Consultant, who was unable to attend the workshop, was presented by Dr Tietze. The paper discussed concepts and approaches of microfinance programmes and their applicability to the fisheries sector. Dr Tietze began his presentation by establishing the need to make credit available in alleviating poverty and promoting economic development. Past fisheries credit programmes, however, have fallen short of expectations and did not reach the intended beneficiaries. This prompted the donor community and national governments to experiment and pilot test other models and alternatives, particularly the replication of successful microfinance methodologies. Before proceeding to explain the various microfinance methodologies and lending technologies, Dr Tietze reviewed the main financial service delivery forms in fisheries, both in the formal and informal sectors.

Dr Tietze briefly defined lending technology as covering the entire range of activities carried out by a credit granting institution that have to do with selecting borrowers, determining the type of loans to be granted, the loan amount and maturity and ways in which it is to be secured, as well as loan monitoring and recovery. He clarified that there are two classes of lending technologies or approaches that play a major role in financing small and microbusinesses in developing countries. These are the individual-based and group-based technologies. Of the two, the group-based technologies are more relevant in catering to the demands of the poor. They involve groups of borrowers in one form or another in the process of granting and recovering loans. Several variants of this type include the self-help groups (SHGs) that act as loan guarantors and lend to individuals in solidarity groups.

As to the applicability of these variants to the fisheries sector, particularly to very poor households living in remote areas, Mr Shetty's paper suggested that the SHGs and solidarity group models are the more appropriate group-based credit delivery approaches. However, for economic and subsector growth, traditional lending services by formal financial institutions should still be made available to cover financing for corporate or good-sized businesses, procurement of mechanized fishing boats, establishment of processing plants for export and other large investments. The full text of Mr Shetty's paper is in Annex 3.

2.6 Country presentations and case studies on microfinance programmes in support of responsible aquaculture and marine capture fisheries in Asia

Thailand

Dr Cherdsak Virapat, Director of the Thailand Operational Centre of the International Ocean Institute (IOI), presented an overview of the status of aquaculture development in Thailand as well as the problems, constraints and potential for further development of the sector. Dr Virapat highlighted two major programmes being implemented by the DOF that aimed to increase fish production and income for fish farmers in disadvantaged communities. The first is the Village Fishpond Development Programme (VFP). The VFP was designed to increase fish production for local consumption, provide opportunities for local employment and alleviate malnutrition and poverty. The main strategies involve the rehabilitation or construction of village ponds, training of local village committees, increasing the supply of fingerlings and providing technical advice. The second programme, the Adaptive Water Management for Community Fisheries Development, is a fairly new programme that focuses on people's participation in utilizing water resources for integrated aquaculture and agriculture for food security. Utilizing a community participatory approach, the programme envisions the involvement and use of local schools as community learning and technology transfer centres. Dr Virapat reported that the programme is still at the pilot stage but it has potential to serve as a model project for future microfinance programmes in aquaculture.

Mr Chavarin Sai-La, Section Chief of the Loan Quality Division of BAAC, gave a presentation on the Integrated Fish Farming Project being implemented by BAAC with funding assistance from the Belgian Administration for Development Cooperation. The project covers six provinces in the northeastern region of Thailand and aims primarily to increase the income of farmers through the promotion of integrated fish farming. A revolving fund of B100 (baht) million (about US$3.8 million) has been set up to finance long-term loans. Short-term loans are provided by BAAC through its normal lending operations.

India

A paper detailing the microfinance programmes in India, jointly prepared by *Mr M.K. Upare* and *Mr S. K. Bhatnagar*, General Manager and Deputy General Manager, respectively, of the National Bank for Agriculture and Rural Development (NABARD) was presented by Dr Tietze. Dr Tietze introduced his presentation by saying that the inability of credit institutions to cover a sizeable segment of the rural poor in India has prompted a number of NGOs to enter the rural credit scheme by organizing the poor into informal self-help groups (SHGs). An SHG is a small, economically homogeneous group of rural poor, generally not exceeding 20 members, voluntarily coming together for mutual help and benefit. There are three main linkage models involving the banks, NGOs and SHGs that promote microfinance in India.

The linkage models, also termed "relationship banking" by NABARD, aim to make improvements in the existing relationships between the poor and the banks, with the intermediation of NGOs, which either play the role of promoters of SHGs or of financial intermediaries. In Model I, the bank itself is the self-help group promoting institution (SHGPI) that trains and provides credit directly to SHGs. In Model II, the NGO acts as the SHGPI that trains and helps the SHG link with the banks. In Model III, the NGO acts as the financial intermediary between the bank and the SHG. As of March 2002, Dr Tietze reported that Model II was the most prevalent linkage mechanism, involving around 75 percent of the more than 460 000 SHGs organized in India, followed by Model I (16 percent) and Model III (9 percent). According to NABARD, the SGH-bank linkage programme could perhaps be the largest microfinance programme in the world in terms of outreach. NABARD's other microfinance initiatives were also summarized in the presentation.

Apart from NABARD, Dr Tietze also discussed the activities of two institutions that provide microfinance support to the poor in India. These are the Small Industrial Development Bank of India (SIDBI) and the National Credit Fund for Women or Rashtriya Mahila Kosh (RMK). SIDBI launched its microfinance scheme in 1994 and provides soft loan assistance to accredited NGOs for onlending to the poor, particularly women, for financing microenterprises. RMK likewise provides credit mainly to NGOs, women's development corporations and cooperative societies for onlending to poor women, using several schemes and modalities. The text of the paper by Mr Upare and Mr Bhatnagar is presented as Annex 4.

The presentation enumerated the indicative selection criteria for SHGs in linking with the banks as well as guidelines for using the microfinance mechanism in terms of group formation and characteristics, procedures and other support services required. An important lesson emphasized was that the poor can and do save. More important, the poor are also capable of using credit in a productive manner, provided an appropriate institutional mechanism exists that is simple, sensitive and responsive to their needs.

Ms Suchitra Marotrao Upare, Assistant Professor at Konkan Agricultural University, shared the microcredit experiences of Krishi Vigyan Kendra (KVK) of Ratnagiri district, Maharashtra, India. A KVK or a Farm Science Centre is a scientific-based institution that provides need-based training and serves as a demonstration centre for site-specific technologies. There are around 261 KVKs in India, 35 of which have a fisheries component. The KVK of Ratnagiri district is one of these. There are 99 fishing villages spread along the coastal plains in the district with fishing as the prime source of livelihood.

Ms Upare informed the group that the introduction of microfinance schemes in the district in 1999 was a new initiative by the district Rural Development Agency. SHGs composed of both men and women (from ten to 20 members) had been organized and were given credit by nationalized banks, regional rural banks and lead district banks. Some groups were given an initial revolving fund with a 50 percent subsidy on the total loan. Banks charged 12 percent on the loan that the groups onlend to members at 13 to 18 percent. For Ratnagiri district, Ms Upare reported that around 400 groups have been formed, 265 of which have been given revolving funds but only ten fisher groups have availed of microcredit to improve their fisheries economic activities. Loans have been used to finance advances for selling fresh fish, purchasing mechanized boats and better storage crates, mariculture and value-added fish processing preparations. Repayments have, so far, been satisfactory. In conclusion, Ms Upare said that the positive experiences of the KVK in the district, particularly the experience gained in capacity building, gender development, scientific technical training and motivational management for empowering fishers, both men and women, could be replicated in other KVKs in India.

In the discussion, the issue of subsidy was brought up. In the KVK experience, loans are subsidized and are given on a one-time basis only. Dr Tietze emphasized that subsidies as a strategy are now being discouraged and withdrawn. Repeat loans are also necessary if microenterprises are to develop and expand. He again underscored viability and profitability as critical considerations in the selection of projects and microenterprises to be financed.

Bangladesh

The experiences and lessons learned from an aquaculture extension project with a microfinance component were presented by *Mr Mohammad Ali Reja*, Training

Manager of the Myemensingh Aquaculture Extension Project (MAEP) in northeast Bangladesh. MAEP is being implemented by the Department of Fisheries with financial and technical assistance from the Danish International Development Agency (DANIDA). Launched in 1989, the objectives of the project are to increase fish production through the application of semi-intensive aquaculture techniques; improve the capacity for aquaculture promotion and extension at the village level; and improve the possibilities of obtaining production loans.

Now in its consolidation phase (the second phase ran from 1993 to 2000), the project provides extension, training and credit services through NGOs, using the group approach as the main extension strategy. Mr Reja reported that the microcredit support is meant to provide start-up capital for farmers' fish culture projects. In the initial phase of the project, credit was provided through commercial banks. This arrangement, however, did not prove to be successful since the banks depended entirely on project staff to organize the farmers and for loan recovery, thus hampering the project's extension and training components. There were also cases of loan use diversion because credit was used solely for fish culture activities. As a result, Mr Reja explained that a readjustment in credit policy has been made, allowing credit support to cover integrated aquaculture, to include poultry/duck rearing, cow/goat rearing and vegetable cultivation. Project experience showed, according to Mr Reja, that if farmers continue their fish culture activities for a period of two to three years, backed up by proper training and required microcredit support, they become sustainable both technically and financially. To achieve this, he put forward specific recommendations for the remaining years of the project.

Mr Abdul Hamid Buhiyan, Executive Director of the Society for Social Service, traced the history of institutional credit provision to the rural poor in Bangladesh, beginning in the late 1940s to the model now being adopted by microfinance institutions. Mr Buhiyan initially discussed in detail the social, economic and political background in Bangladesh to give the context for the credit system in operation during the early period of its history. He characterized the key features of the institutional credit system at that time as: its insignificance compared with informal loan sources; its inability to reach small farmers and other rural poor; and its very poor repayment record. He then drew the attention of the group to the lessons learned in providing credit to the poor, particularly in terms of reaching the target group, repayment, financial viability, interest rates and the organizational and delivery system.

In conclusion, Mr Buhiyan explained that the basic premise of present microcredit programmes in Bangladesh is that the poor need to have continuous access to credit for a period of eight to ten years in order to accumulate enough savings and assets to escape from the poverty trap and maintain a reasonable consumption once credit has been withdrawn.

A question was asked in the discussion, regarding possible linkages with financial institutions, NGOs and the fisheries sector in Bangladesh. Mr Buhiyan informed the group about the Palli Karma Sahayak Foundation, a quasi-government poverty foundation that lends to promising small- and medium-sized NGOs so they can expand their microcredit programmes. The Foundation is implementing a World Bank-supported poverty alleviation project where it acts as an apex wholesaler of microcredit funds to the poor, including the fisheries sector.

Nepal

The status of the fisheries credit system in Nepal was presented by *Mr Gagan BN Pradhan*, Senior Aquaculturist of the Directorate of Fisheries Development. He commenced his presentation with a brief status report on fisheries development in Nepal, and then proceeded to discuss the performance of two aquaculture development projects implemented by the Agricultural Development Bank of Nepal (ADBN) with funding from the Asian Development Bank (ADB) during 1987-1993. ADBN is the main banking institution that provides credit for fisheries in Nepal. Mr Pradhan reported that with the project's termination in 1993, ADBN's investments in fisheries had declined because of the low priority accorded to fisheries, high interest rates, cumbersome loan procedures and loan misuse, among others. In conclusion, he identified several recommendations for the effective administration of institutional fisheries credit in Nepal.

In the discussion, an observation was made that his presentation did not mention any existing microfinance programme for fisheries. Mr Pradhan replied that he was not aware of any existing programme for the sector and he hoped that the workshop could come up with workable modalities and mechanisms that might be applicable to Nepal. As regards the low priority given to fisheries by the banks, Dr Tietze explained that this might be the result of a shift in policy by the World Bank and ADB of not offering specialized lines of credit for specific sectors such as fisheries.

Sri Lanka

Ms Sumana Ediriweera, a socio-economist at the Sri Lankan Department of Fisheries and Aquatic Resources, reviewed the history of institutional fisheries credit programmes in her country, enumerated the reasons for their failure and offered suggestions for effective credit delivery and recovery. She pointed out that as early as 1947, the Government, through the Department of Fisheries, had provided credit both to individual fishers to acquire fishing boats and equipment and to fishing cooperative societies engaged in fish marketing. However, by the late 1970s, loans granted to fisheries had been reduced as a result of very poor recovery rates. Because of high financial losses, the Government had decided to write off all fisheries debts and suspended disbursements to the sector. Credit for fisheries is now channelled through commercial banks, regional rural development banks and the cooperative banking system.

Ms Ediriweera's presentation also covered institutional and informal credit arrangements in fisheries but did not specifically refer to any existing microfinance programme for the sector.

Malaysia

Mr Mohd. Zarudin Ab. Razak, Division Director of the Fisheries Development Authority of Malaysia (FDAM), gave a presentation on the implementation of the recently launched Fishermen's Fund (FF). The FF is an interest-free credit fund given to fishermen to improve their catches and incomes. FDAM acts as the secretariat and fund manager. It also supervises around 83 Fishermen's Associations (FAs) in Malaysia. Mr Razak explained the selection criteria, loan terms and uses of the Fund. A credit limit of $M25 000 per fisherman (who must be a member of an FA) was set for the first loan but fishermen can be eligible for a second loan after full settlement of the first loan. Loans are used to buy new equipment or replace old boats, engines, nets and equipment; as operating capital; and for emergency purposes. Repayment is from two to four years. Mr Razak reported that for the first year of implementation in 2001, only 25 FAs were selected for the programme, with a total approved fund release of $M8.9 million, involving 432 fishermen. Mr Razak identified some of the constraints in the implementation of the Fund, such as loss of fishing equipment, defaults in payment and loans not being covered by insurance.

In the discussion, it was clarified that the FF cannot strictly be categorized as a microfinance scheme but would be considered under normal bank lending. On the issue of fisheries insurance, Dr Tietze informed the group about an FAO-organized workshop on this subject. The implementation of insurance schemes for fisheries, he said, has been attempted in some countries but with little success because these schemes are still largely voluntary and not mandatory.

One of the recipients of the FF was the Kuantan Area Fishermen's Association (AFA) in the State of Pahang in Malaysia. *Mr Zakaria Mohd. Nor*, General Manager of the Kuantan AFA, shared the experiences of his AFA in utilizing the FF, as well as the AFA's other socio-economic activities. The Kuantan AFA has 1 350 active members from 12 fishing villages along the coastal area of Kuantan. The main economic projects being carried out by the association include providing fishing input supply such as fuel, lube oil, fishing equipment and ice; management of fish jetty and fish marketing; general trading; and management of credit schemes for members. Financial assistance to members is provided through direct and indirect financial facilities. Mr Nor explained that direct financial facilities are credit and loan schemes directly managed by the association while indirect financial facilities are grants and loans managed by other agencies but channelled through the AFA. The FF is one of the direct financial facilities being managed by the AFA. In 2002 it received $M607 000 from the Fund, given out to 29 members. Mr Nor cited AFA's strategic approach of integrating credit with its fish marketing project as a success factor in ensuring high recovery rates.

Philippines

Ms Lolita V. Villareal, an FAO Consultant, presented a case study of a project involving women in fishing communities in two provinces in the Philippines. As the then National Project Coordinator, Ms Villareal related the experiences of an integrated project with a microcredit component, focusing on the lessons and insights gained, particularly in one province which continued the credit programme for seven years after the project had been officially completed. Executed by FAO with funding support from the United Nations Population Fund (UNFPA), the project was implemented by the local government units of the provinces of Capiz and Pangasinan from 1990 to 1994. The project's long-term objective is to contribute to the Philippine national population plan of improving the living conditions of small-scale fishers, with particular emphasis on women.

Ms Villareal explained that the integrated approach of the project involved the introduction of economic and social development inputs to and through organized women's groups (WGs). Two banks, through a guarantee/revolving fund scheme, administered the project's credit component. One bank was a private commercial bank, the Allied Banking Corporation (ABC) in Capiz province, and the other was a government development bank devoted to agriculture and rural development, the Land Bank of the Philippines (LBP) in Pangasinan province. Ms Villareal reported that by the end of 1994, approximately US$553 000 had been disbursed to 78 WGs, involving more than 2 000 women, with an 83 percent repayment rate. Around 80 percent of the microenterprises financed were fishery-based and the loans were mostly used for working capital and trading advances.

Ms Villareal then shared the experience of Pangasinan (post-project 1995-2000), which had continued the programme with the LBP, even increasing the volume of lending five years after completion of the project. In Capiz, the linkage with ABC was discontinued with the termination of the Memorandum of Understanding at the end of the project. The continued credit line with the LBP in Pangasinan has enabled the women to expand and diversify into more asset-based microenterprises and federate themselves into more formal organizations such as cooperatives. In a synthesis of lessons learned, Ms Villareal gave importance to the following: microcredit as an entry point for improving women's status and welfare; and linking women to formal financial institutions for long-term project sustainability. In the latter case, project experience indicated that linking with a government development bank seemed to offer better prospects for ensuring and sustaining access to credit lines than a commercial bank. Ms Villareal's full paper is included as a case study in this publication.

Viet Nam

There were four presentations from Viet Nam: the first three dealt with microcredit programmes for aquaculture, utilizing the Vietnamese Women's Union (WU) as partners in credit management, while the fourth presentation was a credit and investment programme for offshore fishing and aquaculture implemented by a state-sponsored financial institution.

Mr Nguyen Huy Dien, Project Manager of the Aquaculture Development Project (ADP) in the northern uplands of Viet Nam, gave a briefing about the microcredit component of the project. The ADP, launched in 1999, is supported by the United Nations Development Programme (UNDP) and is targeted to reduce poverty through aquaculture development in the three mountainous provinces of Lai Chau, Son La and Hoa Binh. The three provinces belong to the most underdeveloped economic regions in Viet Nam. The microcredit and savings scheme is one of the five components of the project and aims to provide a timely and convenient credit source to upland and ethnic minorities for investment in aquaculture development.

Among other mass organizations in Viet Nam, the WU was selected to be partner in the management of the credit scheme principally because of the high quality of its work in other development projects and its extensive network, which reaches down to the commune and village levels. Mr Dien attributed the success of the microcredit scheme mostly to the committed and disciplined work of the WU. Participation in the microcredit programme has enhanced the capability and management abilities of both the WU and the direct beneficiaries at the communes. A recent project review has also shown significant increases in aquaculture production, generating higher incomes for households. In conclusion, Mr Dien believed that the success attained by the project was largely a result of the efficient integration of technical education and assistance, credit provision, credit management assistance and gender awareness among the beneficiaries.

Ms Lau Thi Mai, President of the WU of Lai Chau province, provided more details on the implementation and management of the microcredit scheme in the three provinces. Her presentation focused on the key activities, results and experiences of the WU. She briefly explained the organizational and management structure as well as the different roles and responsibilities of the WU from the provincial, district and finally the commune level. Ms Mai reported that the three provinces received a total of US$15 000 (approximately D2.1 billion) which it disbursed to around 4 000 beneficiaries. Repayment rates were very satisfactory, ranging from 98 to 100 percent. On average, more than 70 percent of the members were women (in one province, women members were over 90 percent). As a result of the high participation rates of women, the project impacted strongly in improving their skills, enhancing and boosting their self-confidence and improving their standing in the community.

Ms Mai reiterated the earlier observation of Mr Dien that women of ethnic minorities were quite capable of managing a microcredit scheme. More important, she underscored the enthusiasm and responsible attitudes of women as primary conditions for the success of their microcredit programme.

The ensuing discussion generated questions, concerns and interest with regard to the marketing of aquaculture products in the uplands, and the role of men and women in aquaculture and credit management. On how the WU ensured high repayment rates, Ms Mai explained its strict screening procedures; however, she recognized the need for training of credit groups on internal auditing. In this regard, the project and the WU plan to link up and cooperate with banks and ask them for training support as well as for possible collaboration to ensure credit access for WU members on a long-term basis.

Another project that utilized the WU as a partner in credit management was the Support to Freshwater Aquaculture (SUFA) project, presented by *Ms Le Thi Chau Dung*, Socio-economic Specialist of the project. SUFA is a component of the Fisheries Sector Programme Support (FSPS) being implemented by the Ministry of Fisheries with funding assistance from DANIDA. Begun in 2000, SUFA's immediate objective was to contribute to rural communities' increased consumption and income from sustainable freshwater aquaculture. The main component outputs are the establishment of broodstock centres and improvement of the technical capacity of hatcheries in the target provinces. SUFA's microcredit component is aimed at introducing a sustainable mechanism for providing credit to and mobilizing savings from rural households. The WU is responsible for the administration of the microcredit component through the concerned district WU. Disbursements from February to March 2000 totalled D2.23 billion, covering 1 740 farmers. Of these, only 36 percent were women because the aquaculture credit groups formed prior to the project were composed mostly of men. Loans were used for pond preparation, purchase of fish seeds and feeds. Loan repayments were to start in March 2003 and the project is still in the process of training WU members and further refining the policies and guidelines of the microcredit component.

A brief presentation on the concessionary credit programme on offshore fishing, ship building, aquaculture production and processing was made by *Ms Nguyen Thi Hong*, Head of the Local Credit Division of the Development Assistance Fund (DAF) in Hochiminh City. DAF, as a state financial institution, implements its policy on development assistance. DAF's main functions are to mobilize medium- and long-term funds and receive and manage the capital resources of the state that are allocated in the form of development investment credit. Ms Hong reported that from 1997 to 2002, DAF financed 778 projects for building and renovating fishing and service boats, amounting to a total of D1 047 billion. These investments have reduced pressure on inshore fishing and generated employment in fishing, shipbuilding and other allied services. At present, however, only 30 percent of the boats are operating on a continuous basis and around 19 percent of total outstanding loans are overdue. Ms Hong attributed these drawbacks to, among others, inconsistency in policy and lack of support for production and infrastructure facilities; lack of training for fishers; and insufficient coordination between the fishing industry and the relevant national and local government agencies.

As regards investments in aquaculture, DAF has provided loans to 472 projects, involving mostly intensive shrimp culture operations, totalling D787.5 billion. According to Ms Hong, uncontrolled production, pollution and other environmental problems have led to fish diseases and deaths, affecting repayments. As in offshore fishing operations, Ms Hong recommended more support and coordination from the Government and the provision of investments in infrastructure, training and research and regulations to ensure the economic effectiveness and sustainable development of Viet Nam's aquatic resources.

3 DISCUSSION AND ADOPTION OF WORKSHOP RECOMMENDATIONS

The participants were divided into three working groups to formulate conclusions and recommendations as well as to identify technical assistance needs and follow-up activities to the workshop. The working group outputs were then presented, discussed and finalized in plenary.

3.1 Working group outputs

Working group 1. Credit policies
Members
Mr Pongpat Boonchuwong, Thailand, Chair
Ms Lolita Villareal, Philippines, Rapporteur
Ms Le Thi Chau Dung, Viet Nam
Ms Quang Thi Dien, Viet Nam
Mr Zakaria Mohd. Nor, Malaysia
Mr Kungwal Niamsuwan, Thailand
Mr Khamdoung Chaisri, Thailand

Terms of reference
What are the most important credit needs in aquaculture and small-scale marine fisheries? What should be the most important target groups in terms of occupational/financial status, income, gender, etc.? Please rank in order of their importance.

Output
The working group recognized that each country has its own definition of what constitutes microfinance, particularly in terms of loan size and loan purpose. For purposes of discussion, however, indicative maximum amounts were identified, e.g. Thailand – B100 000 (US$2 500); Viet Nam – D2 000 000 (US$133); Malaysia – $M25 000 (US$6 500) and the Philippines – p150 000 (US$3 000). Given such indicative ceilings, the group also recognized the limitations of microfinance programmes in fisheries in that they best cater for the credit needs of small-scale operations in fishing, aquaculture and fish processing. Thus other capital investment needs of commercial fisheries and large-scale aquaculture and fish processing and marketing should still be provided by mainstream or traditional financial institutions.

Credit needs. The most important credit needs in the fisheries sector were identified as those relating to working capital and small fixed assets, specifically:

- For aquaculture: i) working capital for the purchase of production inputs such as fish seed, fingerlings and fish feed; labour for pond preparation and repair; nets and other small equipment for harvesting; ii) working capital to cover marketing costs such as ice, packaging/storage and transport costs; and iii) working capital for processing the harvest.
- For small-scale marine fisheries: i) working capital to cover fishing operations such as fuel, ice, labour for crew; repair and maintenance; ii) purchase of fishing gear/nets and small fishing equipment, radio for communication; iii) capital to cover marketing costs such as ice, packaging, storage; and iv) capital to cover fish processing activities, including fish trading advances.

Client/target groups. The working group identified those involved in small-scale operations for both aquaculture and marine fisheries who do not have adequate access to financial services as the major targets for microfinance. This target group also includes those involved in small-scale fish processing and marketing activities as well as in other livelihood activities such as petty trade and services in the community. The definition of small-scale fisheries and aquaculture varies for each country according to local context and situation.

In terms of income and financial status, the targets are the poor and vulnerable groups and generally those below or on the poverty line as this indicator is defined in each country.

Another important consideration is that the target groups must have identified viable economic activities that can provide a steady source of income. These groups must also demonstrate the ability or skill to undertake the proposed activity as well as a commitment to repay the loan.

Both men and women should be given equal access to microfinance, although for particular activities, priority must be given to women in recognition of their special needs and roles.

Working group 2. Lending procedures
Members
Mr Chanchai Bhuseriparp, Thailand, Chair
Ms Suchitra Marotrao Upare, India, Rapporteur
Mr Abdul Hamid Buhiyan, Bangladesh
Mr Nguyen Huy Dien, Viet Nam

Ms Lau Thi Mai, Viet Nam
Mr Gagan BN Pradhan, Nepal
Dr Cherdsak Virapat, Thailand
Ms Napaporn Sriputinibondh, Thailand
Mr Apinan Suvarnaraksha, Thailand

Terms of reference
How should lending procedures look like in fisheries/aquaculture microfinance in terms of eligibility, collateral and documentation requirements, equity contribution, interest rates and lending periods, repayment schedules, linkages with other agencies and their role, linkages with savings and monitoring and auditing?

Output
Eligibility. The working group recommends microfinance services to be delivered to poor fishing communities (including those belonging to ethnic groups) and generally the assetless and marginalized members who are inadequately served/reached by credit. The UN Human Development Index in the respective countries can be used as a criterion, among others, in identifying the poor and the marginalized.

Collateral and documentation requirements. Membership in self-help and solidarity groups (with ten to 15 members) is required to access credit. Documentation requirements should be simplified and at a minimum. As members of self-help groups, there will be peer screening as well as identity certification by local authorities and other authorized institutions, such as the census bureau. Loans are mutually guaranteed, involving joint liability of group members. Group guarantees thus serve as a collateral substitute.

Equity contribution. The equity contribution can take the form of cash, such as savings or in kind, such as labour, raw materials and other acceptable assets. The group should establish its own savings mobilization and capital buildup policies and mechanisms.

Interest rates. Interest rates to be charged should be market-based and reasonable to allow the financing institution to cover its operational and financial costs. The working group recommends no more than a 5 percent spread between interest on loans and deposit (savings).

Lending periods and repayment schedule. Depending on the type of projects to be financed, loans can be short-term (less than one year to a year) or medium-term (from one to three years). Correspondingly, repayment schedules will be flexible and dependent on the cash flow of the projects.

Linkages. The group identified and envisioned two-way linkages and the roles between the clientele/groups and the following:

- financial institutions – responsible for credit disbursement, monitoring, supervision and feedback as well as auditing;
- government agencies, NGOs, academic and research institutions – responsible for technical backstopping and provision of training and other support services, input management and supply, outreach services, information dissemination, monitoring, supervision and feedback;
- private sector – responsible for input supply, marketing services and promotion and information exchange.

As regards savings, the financial institutions will be responsible for savings performance evaluation while government institutions, NGOs and other social organizations will verify group performance.

To ensure transparency, standard internal and external auditing procedures will be adopted.

Working group 3. Institutional arrangements
Members
Mr Mohammad Ali Reja, Bangladesh, Chair
Mr Chavarin Sai-La, Thailand, Rapporteur
Ms Bui Hien Dung, Viet Nam
Ms Nguyen Thi Hong, Viet Nam
Mr Mohd. Zarudin Ab. Razak, Malaysia
Ms Sumana Ediriweera, Sri Lanka
Dr Gomut Unsrisong, Thailand
Mr Phanuwat Wanraway, Thailand

Terms of reference
How should the various actors (individual borrowers, groups of borrowers, NGOs, fisheries administrations, cooperatives/associations, fisheries development authorities, financial authorities, etc.) involved in microfinance in fisheries/aquaculture cooperate? Please define for each actor separately both its responsibilities and privileges. What are the main differences between microfinance programmes (in general and in fisheries) and traditional rural credit programmes? Please list them in terms of priority.

Output
The working group identified the various actors as individual borrowers, group borrowers, cooperatives and associations and microfinancial institutions, with the following responsibilities and privileges.

- *Individual borrowers* – are involved mainly as direct beneficiaries and clients and are responsible for prompt repayment of the loan. They can have a direct linkage with the financing institution once they have satisfied bank requirements.
- *Group borrowers* – can be involved as intermediaries between the financing institution and group members; mutually guarantee loans and implement group or joint projects. Groups are responsible for peer screening of members and loan collection for payment to the financing institution.
- *Cooperatives and associations* – their involvement may be in the form of direct clients, and intermediary between a financing institution and group members, as guarantors of loans and as microfinance institutions themselves. As such, they are responsible for receiving, disbursing, collecting and repayment of the loans. Advantages and privileges are that cooperatives and associations have the administrative setup to perform the task as well as having direct and close contact with clients. They can also implement joint projects and offer capability-building services for their members.
- *Microfinancial institutions* – are mainly responsible for providing and disbursing credit promptly and undertaking loan monitoring and supervision activities. As credit providers, they also have close contact and collaboration with client groups, prepare and implement credit guidelines and policies and provide training activities for group members. Microfinancial institutions can receive funds from government and donor institutions.

The main differences between microfinance programmes (MFPs) and traditional rural credit programmes (TRCPs) were identified in terms of the following aspects.

- *Interest rates* – MFPs offer relatively higher interest rates than TRCPs.
- *Clients* – MFPs cater mostly for poor groups of borrowers while TRCPs focus on individual borrowers.
- *Transaction costs* – MFPs can incur higher transaction costs because of small loans to clients.

- *Collateral requirements* – MFPs implement group guarantees and joint liability of group members as collateral substitutes while TRCPs have strict and tangible collateral requirements.
- *Training and other capability-building activities* – MFPs may or may not offer other activities (credit or credit plus) for their clients but TRCPs focus mostly on credit services.
- *Loan terms* – MFPs provide typically short-term loans with short repayment periods, mostly for working capital, while TRCPs offer longer-term and fixed asset type of loans.

3.2 Technical assistance needs and follow-up proposals

Requests for technical assistance from FAO consisted mainly of organizing study tours, study visits and information-sharing activities between and among the countries in the region, particularly the following countries:

- Viet Nam and the Philippines for women's microfinance projects in fisheries and aquaculture;
- Malaysia for Fishermen's Associations and fish marketing operations;
- Bangladesh for NGO-implemented microfinance operations;
- Thailand for integrated fish farming activities and the strategy of using business development officers in credit operations;
- India for the various lending technologies and linkages in implementing microfinance programmes.

The assistance of APRACA in the conduct of training activities in credit management and savings mobilization appropriate for fishing communities was also identified and sought.

In terms of specific country project proposals, the following recommendations were made.

- With reference to the presentation of a case study from the Philippines, the Fisheries Department of Thailand will request assistance from FAO under its Technical Cooperation Programme (TCP) in the development of a national level microcredit programme for women in fishing and fish farming communities in support of microenterprise development and livelihood support and of the social and economic empowerment of women.
- NABARD of India, in cooperation with Indian NGOs, universities, financial institutions and fisheries administrations, proposed to organize, in 2003, a National Symposium on Best Practices of Microfinance Programmes for Women in Fishing and Fish Farming Communities in Support of Responsible Fishery and Fish Farming Activities and Food Security.
- DAF of Viet Nam and the Department of Fisheries of Viet Nam proposed to organize, in 2003, and in cooperation with UNDP, DANIDA, the Bank for the Poor, the Vietnamese Bank for Agriculture and Rural Development and other financial institutions, a national seminar to disseminate recent experiences with microfinance through Women's Unions for aquaculture in mountainous areas of Viet Nam, and on credit requirements for the improvement of fish marketing and utilization in Viet Nam (in conjunction with the recent research findings of project VIE/MTF/025/MISC).
- Viet Nam also proposed the replication of the successful features of the microfinance scheme in other remote and mountainous provinces in the country as well as capability building of the Vietnamese Women's Unions as partners in credit management.
- A national symposium on the role of microfinance in the social and economic empowerment of women in coastal fishing communities and their participation in the conservation, management and sustainable utilization of aquatic resources and coastal environment was proposed to be organized by the National Network

on Women in Fisheries in the Philippines, in cooperation with the College of Fisheries of the University of the Philippines in the Visayas (UPV) and the Bureau of Fisheries and Aquatic Resources (BFAR) of the Philippines. The symposium will also include documentation and presentation of best practices in microfinance operations for women in fishing communities.

Annex 1
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Annex 2

Programme of FAO/BAAC Regional Workshop on Microfinance Programmes in Support of Responsible Aquaculture and Marine Capture Fisheries in Asia

Monday, 16.12.02

8.30-9.30	Registration of workshop participants
9.30-10.00	Opening ceremony • Welcome remarks by Dr Uwe Tietze, FAO • Opening address by Mr Pittayapol Nattaradol, President, BAAC • Reporting speech by Mr Arton Petcharatna, Vice-President, BAAC • Photo session
10.00-10.15	Introduction to programme and organizational arrangements (Dr U. Tietze, FAO and Mr Sommai Linakanishtha, BAAC)
10.15-10.30	Tea break
	Chair: Mrs Apinya Poonyarit, Director, Learning Promotion Division, BAAC
10.30-11.15	The Asia Pacific Rural and Agricultural Credit Association's experiences with microfinance programmes – presentation and discussion (Mr Benedicto S. Bayaua, Secretary-General, APRACA)
11.15-12.00	The role of the Bank for Agriculture and Agricultural Cooperatives (BAAC) of Thailand – presentation and discussion (Mr Luck Wajananawat, Assistant President, BAAC)
12.00-13.30	Lunch break
13.30-14.15	Aquaculture for rural development in Thailand – presentation and discussion (Dr Cherdsak Virapat, International Ocean Institute)
14.15-15.15	FAO's strategies for fisheries and aquaculture development and management and the role of credit and investment support – presentation and discussion (Dr U. Tietze, FAO)

15.15-16.00	Concepts and approaches in microfinance and their application to fisheries and aquaculture development – presentation and discussion (paper written by Mr Shreekantha Shetty, Consultant, India, presented by Dr U. Tietze, FAO)
16.00-16.15	Tea break
16.15-17.15	Experiences of the Bank for Agriculture and Agricultural Cooperatives of Thailand with microfinance in support of rural aquaculture – presentation and discussion (Mr Chavarin Sai-La, BAAC)
17.15-17.45	Farmer rehabilitation after debt suspension – presentation and discussion (Mr Wattana Leelapatra, Thai DOF)
18.30	Dinner reception and cultural programme Dinner address by Mr Pittayapol Nattaradol, President, BAAC

Tuesday, 17.12.02

Chair: ***Mrs Apinya Poonyarit, Director, Learning Promotion Division, BAAC***

9.00-9.45	Experiences with rural, fisheries and aquaculture credit and microfinance programmes in India – presentation and discussion (paper written by Mr M. A. Upare and Mr S. K. Bhatnagar of the National Bank for Agriculture and Rural Development of India (NABARD) and presented by Dr U. Tietze, FAO)
9.45-10.30	Experiences with microfinance programmes for artisanal fisherfolk in the Ratnagiri district of Maharastra, India – presentation and discussion (Ms Suchitra Marotrao Upare, Assistant Professor, India)
10.30-10.45	Tea break
10.45-11.30	Five years of field experience with microcredit through small- and medium-size NGOs for fish culture and related activities of rural poor in the northeastern region of Bangladesh – presentation and discussion (by Mr Mohammad Ali Reja, Training Manager, Myemensingh Aquaculture Extension Project, Bangladesh)
11.30-12.30	Social background and practical aspects of microcredit provision in Bangladesh (by Mr Abdul Hamid Buhiyan, Society for Social Service, Bangladesh)
12.30-14.00	Lunch break
14.00-14.45	Country status and fisheries credit system in Nepal – presentation and discussion (by Mr Gagan BN Pradhan, Directorate of Fisheries Development, Nepal)

14.45-15.30	Fisheries and microcredit in Sri Lanka – presentation and discussion (by Ms Sumana Ediriweera, Department of Fisheries and Aquatic Resources, Sri Lanka)
15.30-16.00	The use of the Fishermen's Fund in Malaysia – presentation and discussion (by Mr Mohd. Zarudin Ab. Razak, Fisheries Development Authority of Malaysia)
16.00-16.15	Tea break
16.15-17.00	The use of microcredit by the Kuantan Area Fishermen's Association in Malaysia – presentation and discussion (by Mr Zakaria Mohd. Nor, Kuantan Area Fishermen's Association, Malaysia)

Wednesday, 18.12.02

Field trip to observe microcredit programmes of BAAC and the Government of Thailand in support of fish culture and rural development in northern Thailand

Thursday, 19.12.02

Chair: ***Mr Nipath Kuasakul, Director, Technical Services Division, BAAC***

9.00-9.45	Experiences with microcredit in support of women's associations in the coastal fishing villages of Pangasinan and Capiz provinces in the Philippines – presentation and discussion (by Ms Lolita Villareal, Philippines)
9.45-10.30	Microcredit scheme for aquaculture development under the project for aquaculture development in the northern uplands of Viet Nam – presentation and discussion (by Mr Nguyen Huy Dien, project manager, Viet Nam)
10.30-10.45	Tea break
10.45-11.30	The experiences of Women's Unions in northern provinces of Viet Nam with microcredit programmes in support of fish farming by ethnic minorities in upland areas – presentation and discussion (by Mrs Lau Thi Mai, Women's Union of Lai Chau Province, Viet Nam)
11.30-12.15	The microcredit programme of the Support to Freshwater Aquaculture Project (SUFA) in Viet Nam – presentation and discussion (by Ms Le Thi Chau Dung, SUFA, Viet Nam)
12.15-13.00	Lunch break

13.00-14.15 The role of the Development Assistance Fund (DAF) of Viet Nam in fisheries, aquaculture and poverty alleviation – presentation and discussion
(by Mrs Nguyen Thi Hong, DAF, Viet Nam)

14.15-14.30 Tea break

14.30-17.30 Working group sessions: formulation of recommendations on microcredit policies and programmes in support of sustainable aquaculture and fisheries practices and poverty alleviation

18.30 Farewell dinner reception and cultural show

Friday, 20.12.02

Chair: ***Mr Arton Petcharatana, Vice-President, BAAC***

9.00-11.00 Presentation and discussion of working group reports

11.00-11.30 Tea break

11.30-12.00 Closing ceremony

Chair: ***Mr Sommai Linakanishtha, BAAC***

Closing remarks by Dr U. Tietze, FAO

Closing remarks by Mr Arton Petcharatana, Vice-President, BAAC

Vote of thanks by Mr Gagan BN Pradhan, Nepal

Annex 3

Concepts and approaches of microfinance programmes and their application in fisheries development

Shreekantha Shetty

1 INTRODUCTION

Inadequate supply of credit is an important constraint to enhancing production in many developing countries. Making credit available, to rural households in general and fishers in particular, is thus considered essential to alleviate poverty and promote economic development. Although informal credit markets operate widely in rural areas, moneylenders typically charge high interest rates and enter into exploitive relationships, inhibiting the rural poor from investing in production and income-generating activities.

Governments have typically responded by establishing rural credit institutions or by forcing commercial banks to provide cheap credit. These efforts have been aided by agencies such as the World Bank, Asian Development Bank, African Development Bank and the International Fund for Agricultural Development (IFAD). Evaluations of many credit programmes sponsored by the World Bank and other agencies revealed that most financing institutions were unable to break even and that most credit supplied did not reach the intended beneficiaries (World Bank, 1975).

The past performance of rural credit programmes, including credit programmes for fisheries, has fallen short of expectations. Many of the institutions established or supported primarily for delivering credit have not developed into self-sustained rural financial institutions. Programmes have reached a miniscule percentage of fishers. Most state and donor projects worked on the assumption that poor fishers required loans at lower interest rates to absorb technology. The benefits of the resultant negative interest rate policy, which introduced a substantial "grant element", were captured by the wealthy and influential.

The maintenance and continued operation of these programmes turned into an extremely costly drain on the government exchequer. Two reasons contributed to this situation. First, rural financial institutions were not able to cover the cost of funds and loan delivery because of inadequate indexation against inflation. Second, loan collection rates have been dismal, since loans were neither backed by securities nor by credit history of the clients. In addition, small-scale producers such as fishers lack access to formal credit because the transaction costs per unit of lending for small loans are much higher. The patronage and corruption in the lending institution, fuelled by the negative interest rate on loans, reduce the share of credit to small borrowers. Furthermore, when formal lending is entirely dependent on collateral and as the lenders perceive credit risk to be inversely related to asset ownership, the poor and women are left out of the formal credit system.

The combined effect of these failures is frustration within the donor community and national planners on the efficacy of the methodologies used and piloting experimentation for alternatives. Most of the financial institutions with waning donor support have moved away from subsidized, no-collateral loans to commercial lending with requisite risk coverage. The donor community has started promoting replication of successful microfinance methodologies. In this context, an attempt is made in this paper to analyse various financial service delivery methodologies, including microfinance methodologies and their applicability to provide financial services to fishers.

2 MAIN FINANCIAL SERVICE DELIVERY FORMS IN THE FISHERIES SECTOR

2.1 The informal sector

The importance of the informal financial sector was, until the 1990s, considered relatively marginal and confined to meeting social obligations. However, it is now widely believed as a result of several economic and sociological studies that this sector is extremely important both in terms of outreach and volume of funds. Generally, more than 80 percent of the population use an informal financial service and the amounts that circulate are often as large as those that go through the banking sector (Aryeetey, 1994).

The informal sector is characterized by its extreme diversity. "Savings in kind" is the most commonly used form of savings in the sector. These savings include storing dried fish, staple crops, livestock, gold, etc. Cash savings are also deposited with the neighbourhood traders or others known for their probity. Loans are obtained from parents, neighbours and friends at seemingly no interest; compensation in some cases ranges from solidarity in times of distress to free work. Personal loans, which are frequent, are obtained from local moneylenders at high interest rates. Informal sector credit in the personal loan category from moneylenders has built up exploitive relationships with borrowers. These exploitive relationships are a result of the borrower's inability to access funding from other sources. Such relationships within the fisheries sector are described below.

Credit with catch-sale bondage. Under this system, fishers receiving loans from an intermediary for purchasing or repairing a boat, or even for purchasing food and other materials for long fishing voyages, are required to sell the fish catch to the intermediary instead of selling it on the open market. Fishers are required to bring the fish catch to the intermediary's shed where it is sold at 20 to 30 percent lower than the market price.

Credit on high interest. Fishers often receive credit from intermediaries in cases of emergency. This is the most exploitive credit system. Under this system, those receiving a loan will have to return it to the intermediaries with an interest of 60 to 100 percent per annum. The result is the inability of the fishers to break out of the relationship and they borrow continuously to repay the old debt.

Renting a fishing boat from a non-operating owner. Under this system, a fisherman, having no boat of his own, contacts a rich person with several boats and asks him to lend one of his boats. The owner of the boat reviews the expertise and the past record of the fisherman and then may decide to rent the boat out to him. Under the "terms and conditions" of acquiring the boat, the fisherman is required to provide a share from the fish catch to the boat owner. The owner generally receives two out of three shares or three out of four shares.

There exists a great deal of anecdotal evidence to prove that the informal credit system in fisheries is the most exploitive system, depriving indigenous fishers of the major share of their earnings. Two factors contribute to this predicament. First, since fishers are hunters and gatherers, they have to compete for the same common fish resources. This results in intense competition among individual fishing units, and occupational rivalry. As a result, social networking to assist each other in times of need is not strong in the fishing community and, in the absence of these safety nets, fishers depend more and more on moneylenders. This leads to exploitive relationships. Second, there is inadequate access to institutional credit as a result of the inability of fishers to provide collaterals for obtaining loans.

Despite the negative implications of informal credit in the form of exploitive relationships, this form of financing has been at the core of the rural financial infrastructure for centuries. The speed at which the informal sector delivers loans, negligible transaction costs and reliance on the performance of past transactions rather than collaterals make the informal sector a formidable force.

2.2 The formal sector

As countries around the world became independent, national development banks emerged with a wide mandate to support all kinds of development projects, including infrastructure, industry, crafts and agriculture. In many countries, such as Nigeria and Nepal, specialized agriculture development banks were established to retail agriculture and fisheries credit. In India, state-owned commercial banks were instructed to deliver a percentage of total loan disbursements to priority sectors.[1] In addition, a national-level apex institution was established in India to refinance loans provided by the state-owned commercial banks. The formal sector agriculture and fisheries credit programmes were established with capital originating from the state or external bilateral or multilateral funding agencies.

In general, specialized institutions established to implement targeted and often subsidized loans were frequently planned and operated in a non-viable manner, or within economic, political, social and institutional environs that hampered effectiveness. Among the most significant deficiencies of the state-owned specialized agricultural credit institutions have been the conspicuous absence of voluntary savings mobilization. The state-owned agricultural development banks mostly did not mobilize deposits and acted as mere credit disbursement windows rather than balanced, full-service financial institutions. These institutions, taking advantage of donor funding, provided loans at lower than market interest rates, thereby dampening savings mobilization rates and investment and increasing favouritism and patronage.

Since the operations of these institutions were not motivated by commercial financial performance objectives, they by and large suffered from inadequate credit evaluation, management and follow-up procedures, resulting in extremely poor loan collection performance. Instead of gradual growth and prudent expansion whereby collection performance and other financial viability criteria serve as prime indicators in assessing the soundness of institutions involved, these institutions have practised lax screening of investment plans, rapid disbursement and unbalanced steep growth in lending volume and loan portfolio.

Deficient reporting practices have often made it almost impossible to track repayment and overdues and also to ascertain ageing of overdues and non-performing assets in a timely manner. Different definitions of recovery rates emerged that have grossly underestimated the severity of the arrears problem (CGAP, 1999). Generally, adequate provisioning for bad debts/non-performing assets and a proper assessment of the sustainability of institutions were not undertaken. The financial results given for most of these institutions were too rosy, since loan losses had not been accounted for properly. The actual dismal financial position in most poorly performing agricultural finance institutions was discovered when the institutions became illiquid. Consequently, costly measures of infusing new capital were required to keep such institutions afloat (World Bank, 1992).

By attempting to ensure that eligibility criteria for lending have been met and to avoid the diversion of funds, agricultural credit institutions have not only incurred

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[1] Loans to agriculture and allied activities and to small-scale and cottage industries were considered to be priority sector loans.

high costs but have also imposed high transaction costs on borrowers by forcing them to wait for long periods for loan disbursement. Control of onlending rates, a widespread practice in developing countries, has not allowed compensation for the high level of risk involved in lending to agricultural operations, given their dependence on the vagaries of nature. In addition, medium- and long-term loans have been granted without adequate analysis of the investments and adequate collateral. To maximize the return on loan portfolios when constrained by a legally imposed ceiling on interest rates, large borrowers have often been favoured by credit institutions in an attempt to minimize risk and administrative costs per unit of loan disbursed, thereby crowding out small-scale entrepreneurs.

With rare exceptions, private sector commercial banks have not been interested in financing small agricultural holdings, fisheries enterprises or micro and small industries unless backed by adequate risk coverage in the form of collaterals. However, for several years various donor agencies tried, often unsuccessfully, to encourage commercial banks to reach out to the populations excluded from the formal system. Commercial banks were offered incentives such as low interest rate refinance and guarantee funds within the framework of various projects aimed to help people establish agriculture, fisheries, livestock and other non-farm enterprises.

For the most part, commercial banks did not feel these "new entrepreneurs" corresponded to traditional clientele and standard procedures. Although some banks took advantage of the cheap lines of credit, guarantee funds that covered 100 percent of the risks, they rarely sought to modify their practices.

Nevertheless, nationalized banks were mostly forced in the form of directed lending to this sector. Most of these loans were eventually written off. The reasons were straightforward. Low loan volumes to a geographically widespread clientele without collateral were costly to manage from appraisal to recovery. These clients were also considered risky because of the fact that agriculture and fisheries activities are dependent on climatic conditions and also because of inadequate information about the borrowers.

In respect of fisheries, the formal sector has been able to provide loans for mechanization of fishing boats. In India, during the early years of mechanization, the Government provided subsidies and the banks were directed to provide loans at concessional rates of interest. This, coupled with targets for lending to agriculture and allied activities, led to the rapid expansion of fisheries credit. Subsequently, banks financed smaller fishing boats under the Government-promoted integrated rural development projects. The performance of this sector in terms of recovery was far below expectations. This, together with the restructuring process resulting from mounting non-performing assets, resulted in the shift of focus by the banks to other sectors. However, banks continue to provide larger loans to the fisheries sector when backed by sufficient collateral. Efforts by the Government and donor-funded projects to inculcate the system, providing loans without collateral, although carefully thought out, have not succeeded.

The situation in Nigeria has been worse. A donor-funded project implemented an ambitious fisheries credit programme to service the fishing community living in remote areas by introducing mobile banking, using houseboats to the Agricultural Credit Bank. Transaction costs were extremely high and the controlled rate of interest did not allow the Bank to recover costs. Monitoring of loans became difficult and loan recovery was poor. The single-minded pursuit of delivering loans without looking at the type of products required by the community and the costs involved in delivery were the main reasons for the failure of this programme.

The credit project implemented through the Bank of Maldives, a state-owned commercial bank, has been successful. Under this project, the Bank extended outreach by increasing the number of branches in the islands and establishing mobile banking, using specially built boats to service nearby islands. Three factors contributed to the success of the project. First, the branches of the Bank in the islands had to invest in the fishing industry, since it is the main source of employment and alternative avenues for financing were not available. As a result, the Bank adopted progressive policies to ensure repayment that included direct collection of fish sale proceeds from the canning factory, guarantees from fish merchants and group guarantees. The Bank, although it initially charged 2 percent less than the normal commercial interest rates on fisheries loans, subsequently harmonized the interest rates and reviewed the workings of mobile units to achieve cost-effectiveness. As a result, the Bank branches became profitable.

2.2.1 Challenges for formal financial institutions

Mainstream financial institutions have access to enormous amounts of low-cost savings deposits. The development dilemma in rural credit is the fact that the poorer the area where banks operate, the lower the credit:deposit ratio. Thus, even when the banks are physically present in rural areas and offer loans at concessional interest rates, rural producers are not able to access them and, as a result, large amounts of the deposits find their way into the general financial sector and into urban areas. Some of the reasons for this are given below.

Borrower-unfriendly products and procedures. The majority of customers in rural areas are poor and illiterate. Poor farmers and fishers require consumption loans to mitigate short-term cash flow problems or to meet unforeseen expenditures. Most formal financial institutions do not have such products. They only provide production or trading loans. The quantum of documentation required is similar for both small and large loans. This, coupled with collateral requirements, clearly excludes poor households that require smaller loans.

Inflexibility and delay. The rigid systems and procedures of the formal system make it almost impossible to grant loans without elaborate appraisals and pre-sanction inspection, irrespective of loan size. As a result, delays in obtaining loans and inadequate financing are common. These situations generally mean that small borrowers shun the formal system.

High transaction costs, both legitimate and illegal. Although the interest rate offered to borrowers is regulated, transaction costs in terms of the number of trips to be made and the documents to be furnished, plus the illegal charges to be paid, result in increasing the cost of borrowing, thereby making loans less attractive for borrowers.

Social obligation rather than a business opportunity. The formal system has always viewed small loans and small borrowers as social obligations rather than a potential business opportunity. Small clients are treated as beneficiaries and not as partners. In addition, the formal system does not automatically guarantee another loan in case of need in the event of prompt closure of previous loans.

Perceptions of policy-makers and bankers. Policy-makers feel that farmers/fishers and poor people need low interest or subsidized credit. As a result, the interest rate is regulated. The administrative costs of servicing small loans are high. Apart from these considerations, small loans have been used as a tool for disbursing political patronage, undermining the norm that loans must be repaid and thus making the mainstream institutions feel that such loans are risky and unviable.

3 EVOLUTION AND DEVELOPMENT OF THE MICROFINANCE SECTOR

3.1 General

The failure of formal financial institutions to serve the rural poor led to the evolution of alternative systems of rural financial intermediation, such as credit cooperatives and lending groups. These group-based credit systems addressed the problems of screening, incentives and enforcement by incorporating joint liability and monitoring. It was then expected that the risk of default and transaction costs would be reduced.

The evolution of microfinance methodologies and microfinance institutions (MFIs) is linked to the belated realization that the vast majority of the population is excluded from the formal systems. Microfinance is considered to be one of the essential levers in the struggle against poverty. Microfinance increases income, creates employment and reduces the possibility of the development of exploitive relationships. Microfinance is synonymous with financial service products that can be accessed by a vast majority of the population, particularly women, youth and small-scale producers and traders.

MFIs can be categorized into two groups, based on the poverty alleviation approach that they adopt. These groups are: institutions propagating a "minimalist" or "credit first" approach and institutions adopting a "credit plus" approach. Institutions such as the Grameen Bank of Bangladesh and its clones across the world, the Bank of Rakyat Indonesia Unit Banking system and Bancosol of Bolivia are those that have adopted the "credit first" approach (Rhyne and Rotblatt, 1994). NGOs such as the Self-employed Women's Association in India and Aga Khan Foundation in Pakistan believe that an integrated strategy focused on social sector programmes, natural resource management, social empowerment and so on are necessary to assist the poor. Both these two categories of institutions have experienced tremendous success in terms of horizontal (i.e. new borrowers) and vertical outreach (i.e. larger loan sizes) and repayment performance. However, institutions with the "credit first" approach have outperformed the institutions adopting the "credit plus" approach with regard to increasing outreach and progression towards profitability.

Two categories of MFIs can be found with regard to their poverty focus in lending operations. They are institutions with lending operations exclusively for the poor and institutions with lending operations for the poor as well as the non-poor. Most MFIs fit into the category of targeting exclusively the poor. Bharatiya Samruddhi Finance Limited in India has been experimenting with a model that includes even the non-poor to attain the required economies of scale and move quickly towards profitability.

Most MFIs currently operate on a non-profit basis and emphasize increasing borrowers' income rather than making a profit. This emanates from the overriding poverty eradication and social welfare objectives of most NGOs that have promoted MFIs. Since MFIs have the legal structure of financial institutions or non-banking finance companies, they are able to raise equity and disburse dividend.

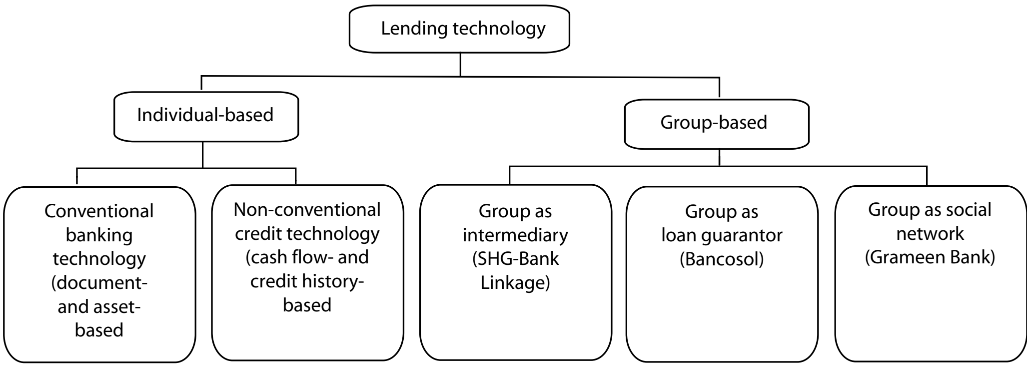
3.2 Lending technology in microfinance

There is no single lending technology that is considered to be suitable for microfinance operations. Generally speaking, the term "lending technology" covers the entire range of activities carried out by a credit granting institution that have to do with selecting borrowers, determining the type of loan to be granted, the loan amount and maturity, and the way in which the loan is to be secured, as well as the monitoring and recovery of loans.

There are two basic approaches to lending – or two classes of lending technologies – that play a major role in financing small businesses and microbusinesses in developing countries. They are individual-based and group-based approaches. Each can take a number of different forms in practice and five of these variants are widely used by MFIs (see Figure).

There are two individual-based credit technologies. One of them is the approach that banks use in dealing with established customers: conventional banking technology. This is geared to an individual borrower and his or her individual project. At the same time, it is document- and asset-based. This means that credit granting decisions are in essence made on the basis of available documents such as the firm's balance sheet and contingent on the availability of what is generally called "bankable collateral"

Main types of lending technology



or "bankable securities". Although this technology has been tried out in small and microenterprises, its applicability in the microfinance context is not relevant. Small and microentrepreneurs neither have the time to go through the process nor have the required collateral. Most agricultural banks have tried this technology and have not been able to cater for the demands of poor households.

The other lending technology based on individual lending is different from the first in that it has been adapted to the special situation of borrowers from the small and microbusiness sector. It retains the advantage of dealing with each individual case separately and is tailored to the situation of each borrower. It makes a conscious attempt to acquire more information about the borrower by direct inspection rather than by studying documents. Collaterals are used wherever available but premium is placed on the applicant's character and personality. Three major adaptations have been made by successful MFIs that use this technology. First, these MFIs use a "ladder approach" to credit delivery. Smaller loans are given initially and, based on the repayment performance, larger loans are then granted. Second, the emphasis is on the credit history of the client and not on collateral. Third, the rate of interest is higher than conventional lending so as to underwrite fully the cost of delivery and recovery, which is higher in respect of small loans than large ones.

Group-based lending technologies are those that involve groups of borrowers in one form or another in the process of granting and recovering loans. The impetus for the development of group-based lending technologies was provided above all by the desire to reduce transaction costs and at the same time to reduce risks. There are three major group-based lending technologies, which differ according to the role played by the group in the lending process.

Self-help groups (SHGs). The first variant in this category is the use of groups as a financial intermediary. Lending to self-managed savings and credit SHGs falls under this category. Mysore Resettlement and Development Agency (MYRADA) has been the pioneer in conducting the required research and development for fine-tuning the SHG movement. The common features of the SHG model are: i) group size is generally from ten to 20; ii) groups are self-managed and make all decisions regarding credit management; iii) loan size, interest rate to end user, repayment terms, savings rate, periodicity of meetings, etc. are all determined by the groups; iv) the group starts saving and lending, using savings before obtaining external finance; and v) loans are made to the group (Fernandez, 1998).

The SHG lending methodology dominates the microfinance sector in India. There is now a tendency to use the term SHG for any form of group involved in savings and credit activities. Thus, the term is frequently used for various common interest and economic activity groups, which may follow some but not all of the features of a genuine SHG model. The concept of an SHG is a small, socially and economically homogeneous group of 15-20 rural poor, voluntarily formed for mutual benefit and support with savings and credit as the entry point activity.

While access to financial services is a basic objective of SHGs, they are essentially credit-plus groups. SHGs provide a mechanism to extend mutual help and support through the sharing of resources, ideas, experiences, information and other services for improving the incomes and quality of life of the rural poor and they have proved to be powerful tools for social and economic empowerment. They are self-managed community banking institutions at the microlevel, collectively accessing credit (initially from their own savings) and non-financial services critical for the effectiveness of microcredit.

SHGs have established that the poor can save and can successfully manage credit funds in a flexible manner matching their activity cycles and cash flows. SHGs have demonstrated that mutual support mechanisms lend synergies to individual strengths and build up confidence and motivation. The cost of forming SHGs can be significant and the time needed for careful nurturing of the group is frequently lengthy. However, this methodology has a cost advantage from the financial institution perspective since it externalizes delivery, supervision and recovery costs.

The most remarkable aspect of SHGs is their high and punctual repayment rate of above 90 percent. This happens largely because SHGs are autonomous groups of relatively homogeneous persons in terms of income. All members have a high degree of familiarity with each other as borrowers and with the risks of the purposes for which money is being lent. They also have fairly reliable information on diversion of either the lent funds or the income streams from the funds. Thus, it becomes extremely difficult for a potential defaulter to hide his/her intentions. In addition, since members have a host of social linkages, the non-economic cost of default is high.

Groups as loan guarantors. This involves the use of groups as guarantors, which means that groups of final borrowers assume collective liability. Technically speaking they are jointly and severally liable for each other's liability. Many financial institutions employ this technology to cater explicitly for the credit needs of small and microenterprises. In Latin America, group lending has become synonymous with the use of joint and several liabilities among group members. Institutions such as Bancosol have achieved sizeable business volumes using this technology.

Institutions using this technology provide credit to groups comprised of four to five persons, which may be made up of neighbours or vendors in the same area. The borrower groups are formed exclusively in order to enable individual members to obtain loans. Group formation does not take much time and consists largely of an initial training course focusing on the responsibility that the group must assume for its members' debt. Based on the group application, the promoter visits the loan applicants and reviews the loan applications. The loan is approved based on the recommendations of the promoter. Joint and several liabilities are the essential elements of the loan contract. Once the credit decision has been made, funds are usually disbursed very quickly to a person chosen by the group as its representative. This person distributes loans to individual borrowers and collects their repayment. The individual loans to the group members are of similar size.

This technology has it own disadvantages. In addition to cases of normal delinquency on the part of individual group members resulting from inability or unwillingness to pay, there are three main reasons for the break-up of groups, which usually means that the entire group loan can no longer be collected. These three main reasons are: i) embezzlement of funds by the group coordinator; ii) passing on loans to a single member of the group; and iii) informal agreements among group members to avoid repayment of loans.

Institutions using this methodology have factored in the risk of default into the interest rate. They tend to charge higher rates of interest. In addition, they have started mandatory savings deposits, obligatory training courses and a graduation principle of beginning with smaller loans and providing larger loans after the closure of the previous loan.

Lending to individuals in solidarity groups. The Grameen Bank of Bangladesh pioneered this model. It has integrated group organization with credit delivery to assist the rural poor. Individuals first take part in the banking process by organizing themselves into groups of five. Mostly women's groups are formed and membership is mainly limited to people who do not own more than 0.5 acres (0.2 ha) of land, are not members of the same household, have similar economic resources and therefore equal bargaining strength, enjoy mutual trust and confidence and live in the same village. The spatial and social cohesiveness developed among individuals of the same gender residing in the same area and having similar economic backgrounds are the important factors in the smooth functioning of these groups (Khandker, Khalily and Khan, 1995).

Each group elects a chairperson, who is responsible for the discipline of the group members, and a secretary. Both hold office for one year. Members meet weekly, when they practise, learn and discuss the rules of the Grameen Bank and other group activities. Two to three weeks after the group formation, all group members make small savings deposits. Credit is issued to individual group members. Initially two members of the group are given credit and observed for one or two months. If they pay their weekly instalments and maintain group discipline, new loans are given to the next two members. The group leader customarily is the last to receive credit.

This model has emerged as the most important strategy in poverty alleviation and MFIs across the world have cloned it. The common features of the model are: i) group size of five; ii) weekly meeting of groups with MFI staff at the centre; iii) a prescribed pattern of phased access to loans by members; iv) a prescribed pattern of progressive maximum loan sizes determined by the MFI; v) fixed repayment terms for all loans with 50 weekly instalments comprising interest and principal; vi) the MFI is responsible for credit management; and vii) mandatory savings regimes are determined by the MFI, supplemented by additional voluntary savings at the discretion of the group.

4 APPLICABILITY OF MICROFINANCE CONCEPTS AND METHODOLOGIES IN THE FISHERIES SECTOR

Historically, solutions have been sought for financing the fisheries sector using systems of "controlled credit" or "directed credit". This began when emphasis across the developing world was on technology and uptake of technology was fuelled by cheap credit. Over time, experience has demonstrated that formal financial institutions have become extremely conscious of the cost and risk factors associated with credit for technology uptake. Poor recovery performance has led to linking credit to collaterals. This has led to the exclusion of the vast majority of fishers from formal credit sources.

At the same time, there was a paradigm shift in the thinking of development practitioners. "Resource-based" interventions that were mostly in the form of credit for technology uptake were out of favour. The evolution of a new people-centred approach to reach the majority of the poor led to the development of various group-based credit delivery approaches. The evidence accumulated thus far points towards certain product-market pairs in the use of financial services for fisheries development.

If the intention is to seek economic, export and sector/subsector growth, credit products will have to be appropriate to corporate or otherwise good-sized businesses. This means more traditional lending products such as capital equipment, working capital loans and business lines of credit. These will have to be collateral-oriented and will have to charge interest rates that cover the cost of funds, risk costs and transaction costs and generate a decent return on investment for the financial institution. In the fisheries sector, loans for procuring mechanized fishing boats, establishment of processing units for export and other large investments fall under this category. However, some governments always argue that incentives are required to kick-start economic growth and often use a lower interest rate as a tool to achieve this. Incentives/subsidy should not be mixed with functioning of a financial institution. Policy reforms, liberalization and, if necessary, direct subsidy through budgetary allocations are more appropriate in such circumstances.

Poverty alleviation has become the most pressing need in the current context of increasing income disparities. Today's poverty and income disparities are the breeding ground for tomorrow's terrorism. The inability of the vast majority of poor households to access credit only aggravates this situation. Most artisanal fishers using non-mechanized fishing boats and other traditional methods, small fish traders and traditional fish processors are poor and unable to match the requirements of formal financial institutions. In addition, formal financial institutions do not have the required outreach in terms of branch networks in the areas where artisanal fishers live. These fishing households, apart from business-related loans, also require consumption loans that are not provided by formal financial institutions.

In most of these situations, the SHG methodology is very appropriate. First, it helps in developing a local-level financial infrastructure where the SHG itself will be able to mobilize savings and provide loans using its own savings. This microfinance methodology is most suitable in remote fishing villages that have difficulty in accessing formal financial institutions. Second, SHGs, once established, will be able to access wholesale loans from formal financial institutions and retail these loans themselves. In this method of microfinance delivery, credit delivery costs are very low since the SHG internalizes these costs and group members exercise control over loan disbursement to ensure prompt recovery. Although this methodology is useful in remote areas, the community is required to have minimum literacy levels to maintain accounts.

The Grameen methodology of solidarity groups could also be used to deliver credit to fishers who live in crushing poverty. In this methodology, the microfinance institution handles all aspects of credit delivery and recovery. Therefore the cost will be higher. Yet illiterate communities with insufficient capability to maintain accounts can be served using such methodology. Very poor households that do not have enough savings potential can also benefit, since this model does not depend on internal savings mobilization to deliver loans.

These two methodologies need to be stressed when developing fisheries credit interventions to reach the vast majority of very poor households living in remote locations.

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Annex 4
Microfinance programmes in India

M. A. Upare and S. K. Bhatnagar

1 INTRODUCTION

The inability of credit institutions to cover a sizeable sector of the rural poor is generally attributed to the high cost of administering a large number of small loans and the perceived lending risks in the absence of any collateral. This situation prompted a number of village associations and NGOs to enter the rural credit scene by organizing the poor into informal groups for mutual help and benefit. Many of these groups have been given credit support. The NGOs are instrumental in promoting informal structures of the poor to help them save and promote self-reliance in financing their needs through the concept of SHGs.

2 THE ROLE OF NABARD

The involvement of the National Bank for Agriculture and Rural Development (NABARD) in promoting microfinance through the concept of SHGs started in 1987. The objective of providing grant assistance was to facilitate the building up of a thrift fund and help the members of the credit management groups with margin money to borrow from the formal credit system. The success of this experiment was the precursor to the launching of the pilot project in 1992 for linking 500 SHGs with banks. The linkage programme promoted by NABARD is unique as it facilitates "relationship banking" as compared with the "parallel" banking practised in other countries. Under "relationship banking", improvements in the existing relationship between the poor and the banks are attempted with intermediation by NGOs, which either play the role of promoters of SHGs or financial intermediaries. The basic philosophy of the linkage models promoted by NABARD is to establish synergy between the banks that have the financial strength and the NGOs that have the ability to mobilize the poor and build up their capacity to receive loans from the banks. This is expected to help the poor to graduate to a level at which they can access larger loans directly from the banks without the intervention of NGOs.

2.1 NABARD's microfinance initiatives

The highlights of NABARD's programme as of 31 March 2002 are as follows.

- Over 7.8 million poor in agriculture and other allied sectors, including fisheries and aquaculture households, are accessing banking services and microcredit through 458 000 SHGs. The SHG-bank linkage programme is now perhaps the largest microfinance programme in the world in terms of its outreach. As of 31 March 2002, over 2 000 NGOs and 17 000 branches of 444 banks were associated with the programme.
- Considering the need to upscale microfinance interventions in the country, a Microfinance Development Fund has been set up in NABARD through initial contributions aggregating Rs100 crores (approximately US$20 million) from the Reserve Bank of India, public sector commercial banks and NABARD.
- At the end of the fiscal year in March 2002, 197 653 new SHGs were given credit by the banks under the SHG-bank linkage programme.
- During the year, Rs5 454.59 million (US$111 million) were disbursed by banks as loans to SHGs, which included 41 413 earlier financed SHGs that received repeat

finance. Against this, the banks claimed Rs3 957.34 million (US$81 million) as refinance from NABARD.

- Cumulatively, 461 478 SHGs were credit-linked with different banks as of 31 March 2002.
- Cumulative bank loans disbursed to SHGs as of 31 March 2002 stood at Rs10 263.38 million (US$205 million).
- Cumulative refinance by banks from NABARD for financing SHGs stood at Rs7 964.81 million (US$163 million) as of 31 March 2002.
- 7.9 million poor households have gained access to the formal banking system through the SHG-bank linkage programme.
- More than 90 percent of SHGs have exclusively women members.
- Repayment of bank loans on time was above 95 percent from SHG members.

3 SMALL INDUSTRIAL DEVELOPMENT BANK OF INDIA (SIDBI)

SIDBI was established in 1990 to serve as the principal financial institution for the promotion and development of the small-scale sector as well as to coordinate the functions of other institutions engaged in these aspects in the sector. The Bank launched the microcredit schemes (MCS) in 1994 for extending financial assistance to the rural poor, particularly women, through NGOs for taking up income-generating activities at the micro level. The scheme envisages the provision of soft loan assistance at 9 percent per annum to accredited NGOs for onlending to poor borrowers for the promotion of microenterprises. Savings form an integral part of the programme and members of the SHGs are encouraged to plough back their savings to the group corpus for building up borrowers' equity over time. A salient feature of the scheme is the grant assistance extended by SIDBI for developing the capacity of the NGOs to run credit programmes efficiently and to enhance the credit absorption capacity of borrowers. So far, 97 programmes have been supported for providing training to 1 550 NGOs.

An impact evaluation study of the MCS by two independent agencies revealed the following: i) the support provided by SIDBI through NGOs reached deserving poor women who did not have access to credit from the formal banking system; ii) since the support was mainly provided to strengthen existing income-generating activities and initiate new activities, it resulted in an increase in income in almost all cases; iii) the loan amounts provided for existing activities ranged between 95 and 100 percent; iv) the interest spread available to NGOs was rather tight for meeting operational costs and creating provision for risks; v) the NGOs required support in the area of financial management and for developing an appropriate accounting system; and vi) there was a reduction in the extent of indebtedness to local intermediaries, traders and moneylenders as a result of the intervention.

The Government of India had identified SIDBI as a minor partner for implementing the UNDP-supported Trade-related Entrepreneur Assistance and Development programme for women. Under the programme, the Government provided financial support for capacity building to financial intermediaries while the loan component was provided by SIDBI.

3.1 SIDBI Foundation for microcredit

Considering the satisfactory performance of MCS in the pilot phase, the Bank set up the SIDBI Foundation for Microcredit in November 1998 with an initial corpus of Rs1 billion in order to upscale activities under MCS. The objective of the Foundation is to raise the standard of living of the poor, with focus on women, by meeting their genuine credit needs. It extended financial support to well-managed MFIs for onlending to poor individuals and groups and for strengthening MFIs' financial, technical and managerial capabilities as well as improving their credit absorption capacity. MFIs may onlend directly to both SHGs and individuals or through smaller MFIs/NGOs to end users. Unlike NABARD, which extends financial assistance to income-generating activities in both the farm and non-farm sectors, SIDBI's financial assistance is restricted to only those activities that come under the non-farm sector. Loan assistance for onlending is need-based and is subject to a minimum of Rs1 million per MFI while the ceiling on the amount lent by MFIs to a single borrower of an SHG is Rs25 000. Loans are provided to MFIs at 11 percent per annum (subject to revision from time to time) for onlending to SHGs/individuals at a rate they determine to cover their operational expenses. However, the rate charged must be in tune with market rates. The repayment period in general is four years, including a moratorium of six months.

3.2 Capacity building of intermediaries

To ensure that a supplementary channel of credit delivery is properly developed, SIDBI has been making investments in improving the credit absorption and usage capacity of women's groups and the credit delivery skills of the functionaries of MFIs/NGOs working with savings-cum-credit groups. Financial support is extended to NGOs for training interventions in the area of maintenance of accounts, bookkeeping, credit management, identification and selection of income-generating activities and management of microenterprises. The Bank has been supporting orientation programmes for NGOs desirous of undertaking thrift-cum-credit activities. These programmes are being conducted through NGOs and professional institutions with ample exposure/experience in the areas of managing microcredit programmes. Besides, financial assistance is extended by way of grants to NGOs for meeting part of their administrative expenses and the cost of management support services for effective implementation of the programme.

4 RASHTRIYA MAHILA KOSH (RMK)

The National Credit Fund for Women or RMK was constituted in March 1993 by the Government of India and is registered as a society under the Societies Registration Act of 1860. RMK was established with the objective of promoting support schemes for improving facilities of credit to women, to be used as an instrument of socio-economic change and development. The Fund also supports experiments in the formal and informal sectors, using innovative methodologies to reach poor women with credit and other social services. RMK was established with an initial corpus of Rs310 million, contributed by the Department of Women and Child Welfare, Ministry of Human Resource Development. The important schemes under which financial assistance is available are: i) the main scheme providing financial support for the development and stabilization of SHGs; ii) the nodal agency scheme; iii) the umbrella scheme; and iv) the resource NGO scheme.

Under the main scheme, loans at a concessional rate of interest are made available to voluntary organizations and to women below the poverty line. The ceiling for short-term loans (loan period ranging between two to five years) is Rs6 000 per beneficiary. The organization generally gives 25 percent of the amount by way of medium-term loans at 7.5 percent per annum and the NGO is under obligation to charge a rate of interest not exceeding 12 percent per annum from the SHGs or from the ultimate beneficiaries financed directly by the NGOs. Organizations with experience in thrift and credit for at least one year are eligible for loan assistance up to Rs0.2 million under the RMK loan promotion scheme while those with three years' experience and good recovery performance are eligible for another loan under the main loan scheme.

With a view to promoting the development and stabilization of SHGs, RMK provided financial assistance in the form of interest-free loans to the NGOs. Each loan is repayable after a one-year repayment holiday so as to provide time for stabilization of the SHGs. The grants to the NGOs are given every year (from the second year onwards) on the following scale: i) 25 percent of the loan amount advanced by the SHGs promoted under the RMK scheme; and ii) 5 percent of the growth of savings, provided the growth in savings is at least 10 percent over the previous year.

RMK provides credit mainly to NGOs. By end February 1998, it had covered 233 277 women belonging to 237 organizations throughout the country. The recovery rate of RMK's dues has been consistently good, ranging from 94 to 95 percent. RMK has also entered into an agreement with some larger NGOs to work as umbrella or resource organizations to extend necessary help and guidance to the smaller NGOs in the area of organizing savings and credit programmes.

5 LESSONS LEARNED

Implementation of the microfinance programme studies emphasizes that poor fishers can and do save. The poor are also capable of using credit in a productive manner providing there exists an appropriate institutional mechanism that is simple, sensitive and responsive to the needs of the poor and products and services are specifically designed for them.

6 SOME SUCCESS STORIES OF FISHERIES MICROFINANCE IN INDIA

KARNATAKA

District: **Dakshin Kannada**
Village: **Bengre**
Activity: **Fish marketing**
Performance of groups:

Name of the group	**Pallavi**	**Preethi**
• Savings (Rs)	31 000	24 000
• Loan (Rs)	76 000	50 000
• Repayment (Rs)	18 000	25 300
• Repayment	Satisfactory	

Bank: **Netravati Gramina Bank, Mangalore**

BIHAR

District: **Muzaffarpur**
Village: **Bhuguru**
Activity: **Freshwater fish farming**

- No. of groups: 11
- Loan: Rs 6 lakh

Bank: **Punjab National Bank**

Impact:

- Profit of Rs3 lakh per group during 2000
- Since women are now earning, fishermen do not go to other states, e.g. Assam, for their livelihoods
- Increased wages for fishermen
- Disciplined husbands – they could abandon their narcotics habit

ORISSA

District: **Kendrapara**
Villages: **Ameripal, Tikhri, Kodakam, Patalipur**
Bank: **SBI and Cuttack Gramya Bank**
District: **Puri**
Villages: **Patasundrapur, Alasahi, Sisua, Kaliakum**
Bank: **Puri Gramya Bank, United Central Coop. Bank**
NGO: **APARAJITA**
Activity: **Dry fish trade**

TAMIL NADU

District: **Tutikorin**
Village: **Punnukayal**
Activities: **Marketing, fish pickling, marine fishery**

- No. of groups: 60
- Savings: Rs210 972
- Loan: Rs142 707
- Loan outstanding at State Bank of India: Rs67 265

These groups were formed by a lead bank with the assistance of NABARD and with active support from the local headmaster and Father of the Church. The groups save Rs10-25 per head per week and have extended 100 percent credit to their members. There are about 10-20 members in each SHG.

Impact:

- Many individuals are no longer in debt with moneylenders
- Visible sociocultural change – fisherwomen previously reluctant to attend meetings start to address public meetings
- Children are sent to school
- Alcoholism used to be a major problem faced by the women. Now it has been drastically reduced and women members have organized rallies in chasing alcohol merchants away from the village
- The success of SHGs helped to obtain assistance from the government, e.g. a common working shed, a bridge connecting the village to the mainland
- The environment itself has changed dramatically – the former poverty-stricken fishing village is now one of prosperity

Microfinance programmes have proved to be effective in combating poverty and in empowering the poor – both economically and socially. Microfinance has high outreach and is one of the best cost-effective alternatives for providing credit and other financial services to the poor.

7 GUIDELINES FOR THE USE OF INNOVATIVE MICROFINANCE MECHANISMS

Based on the lessons learned from the successful programmes implemented in India, detailed guidelines for the formation of a microfinance scheme are given below. These can be modified according to the prevailing local economic and financial conditions in the country. However, the microfinance programme should include a minimum package as described. The linkage system of SHGs in India and their performance are described in broad terms in section 8.

7.1 Group formation

Group composition by gender and where mixed groups are allowed, positions of decision-making held by both men and women, and group monitoring by women may be explicitly encouraged.

As far as possible, the group should be homogeneous, should save voluntarily out of its earnings and mutually agree to contribute to a common fund to be lent to members of the group in order for them to meet their productive and emergent credit needs.

7.2 Characteristics of groups

- There may be up to 20 members of a group.
- The group may be registered or unregistered.
- The group should devise a binding code of conduct.
- Internal savings mobilized by members are at the core of the group.
- The group should decide upon the amount to be saved, its periodicity and the purpose for which loans can be given to members.
- The group should decide upon the rate of interest to be paid/charged on credit to members.
- The group should function in a democratic way, allowing free exchange of views and the participation of members.
- The group should keep simple basic records such as a minute book, membership registry, savings and credit registry.
- The group should open a savings bank account.

7.3 Who should organize the groups

Groups should be organized in clusters, in blocks, districts or province, either by reputable voluntary agencies, NGOs or at the initiative of branch managers of banks.

7.4 Selection criteria for linkage

- A group should generally be active for a period of six months.
- The group should have successfully undertaken savings and credit operations from its own resources.
- The group should maintain proper accounts/records.
- The group formation should reflect a genuine need to help and work with each other.

7.5 Procedures for extending bank finance

There are three ways to extend bank finance:

- directly to a group;
- through bank lending to NGOs;
- to NGOs for onlending to groups.

To avail itself of bank finance, the group will have to prepare a plan and submit it to the bank. Groups should have the ability to disaggregate financial information by:

- volume and frequency of savings, i.e. deposits, withdrawals and balance;
- volume and frequency of loan taking, by gender;
- repayment areas and default rates, by gender.

7.6 Support services required

Outcomes should be monitored from time to time and data may also be kept on the following aspects:

- studies of loan utilization that ensure a gender perspective, where loans are given to women or passed down;
- qualitative status of households utilizing the savings and the ways in which men and women are involved in making deposits, taking loans and making repayments.

7.7 Critical issues for monitoring

- What is the feedback from the MIS regarding management decision-making?
- How is information about gender concerns revealed in monitoring and feedback into project management?
- How is MIS information made available to members/stakeholders?

7.8 Evaluation

It is essential to evaluate the programme from time to time to study its impact and take corrective measures whenever necessary.

8 SHG LINKAGE MODELS IN INDIA AND THEIR PERFORMANCE

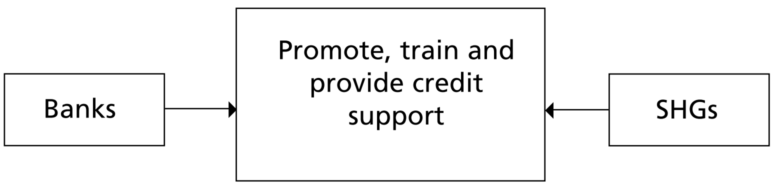
An SHG is a small, economically homogeneous and affinity group of rural poor, generally not exceeding 20 members voluntarily coming together for the purpose of:

- saving small amounts regularly;
- agreeing mutually to contribute to a common fund;
- meeting their emergency needs;
- having collective decision making;
- solving conflicts through collective leadership and mutual discussion;
- providing collateral free loans with terms decided by the group at market-driven rates.

8.1 Emerging models of SHGs-bank linkages

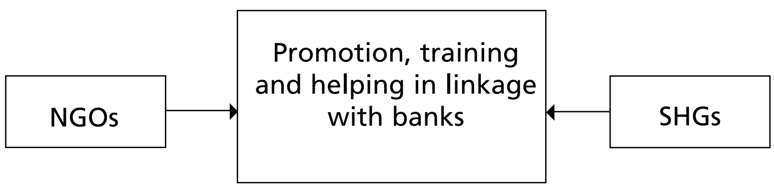
SHG-bank linkage model I. Bank-SHG members (bank as SHGPI). In this model, the bank itself acts as a self-help group promoting institution (SHGPI). It takes the initiative in forming the groups, nurturing them over time and then giving them credit once it is satisfied about the group's maturity to absorb credit.

Banks as SHGPIs



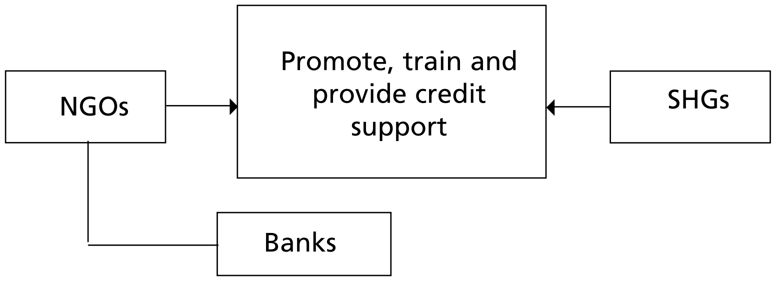
SHG-bank linkage model II. Bank-facilitating agency-SHG members. In this model, groups are formed by NGOs (in most of the cases) or by government agencies. The groups are nurtured and trained by the agencies. The bank then provides credit directly to the SHGs after observing their operations and maturity to absorb credit. While the bank provides loans to the groups directly, the facilitating agencies continue their interactions with the SHGs. Most linkage experiences begin with this model, where NGOs play a major role. The model has also been popular with and more acceptable to banks, since some of the difficult functions of social dynamics are externalized.

NGOs as SHGPIs



SHG-bank linkage model III. Bank-NGO as MFI-SHG members. For various reasons, banks in some areas are not in a position even to finance SHGs promoted and nurtured by other agencies. In such cases, the NGOs act as both facilitators and microfinance intermediaries. First, they promote the groups, nurture and train them and then they approach the banks for bulk loans for onlending to the SHGs.

NGOs as financial intermediaries



8.2 Indicative criteria for selection of SHGs for linkage with banks

- The group should have been in active existence for a period of at least six months.
- The group should have successfully undertaken savings and credit operation from its own resources.
- It should be evident that the group works democratically and that all members feel that they have a say.
- The group should maintain proper accounts/records.
- The banker should ensure that the group has not come into existence only for the sake of participation in the project and availing itself of benefits. Members should show a genuine desire to help each other and work together.
- SHG members should preferably have homogeneous backgrounds and interests.
- The interest of the NGO or the SHGPI concerned, if any, in the group is evident and the agency is helping the SHG by way of training and other support for skill upgrading and proper functioning.

8.3 PERFORMANCE

Model-wise linkage of SHGs as of March 2002

Model	Number	%	Bank loan (Rs million)		Bank loan (US$ million)	
			Number	%	Number	%
I	79 235	16	1 459.79	14	29.79	14
II	376 655	75	7 997.37	78	163.22	78
III	47 001	9	806.23	13	16.45	13
Total	502 891	100	10 263.39	105	209.46	105

Part IV
Case studies

Microcredit and women in fishing communities in the Philippines

1 INTRODUCTION

Microcredit programmes for women are widely regarded as an effective way of financing microenterprises and improving incomes. Studies of women-specific credit programmes have generally found positive economic and social benefits. The multiple roles of women, however, require special attention, particularly in the design of programmes that cater not only for their credit needs but also for other aspects of their development and welfare.

In 1990, local government units, funded by the United Nations Population Fund (UNFPA) and executed by FAO, implemented a project targeting women in fishing communities in two provinces in the Philippines. Entitled “Improving the Status of Disadvantaged Women in the Small-Scale Fishing Communities of Capiz and Pangasinan”, the project was considered a pilot initiative because of the integrated nature of project inputs, i.e. it introduced and provided both social and economic development inputs to and through organized women’s groups (WGs). It was also the first project in the sector that addressed both women’s family planning and economic needs. The project ran for five years.

This paper presents a case study of the project, particularly focusing on the credit component and its impact on women’s livelihoods and consequently the benefits to their personal development and that of their households. It summarizes the results of previous impact evaluations and presents an update on the credit and livelihood component in one province that continued the credit programme for seven years after the project had been officially completed. The objective is to provide lessons and insights that could provide guidelines for project sustainability and possible replication.

2 PROJECT CONTEXT

2.1 Project background

Women in fishing communities in the Philippines participate substantially in most of the basic household-managed fishery and fishery-related enterprises. Women are particularly involved in fish processing and marketing and fish culture as well as, in some cases, in fishing operations themselves. Their social role and participation in decision-making at the village and local administration level, however, are rather limited. It was thought that through social organizations, social awareness training, microenterprise development and access to institutional credit, women’s social and economic roles could be considerably enhanced, as could their awareness of the need to adopt family planning and family health care practices. One province each in the Visayas (Capiz) and one in the island of Luzon (Pangasinan) were chosen as the project sites. WGs were to be organized in seven and 13 coastal municipalities in Capiz and Pangasinan, respectively.

2.2 Project objectives and strategy

The long-term objective of the project was to contribute to the achievement of the goals and objectives of the Philippine National Population Plan by improving the living conditions of small-scale fishers, with particular emphasis on women. The immediate objectives were to: i) increase incomes and improve skills in managing the microenterprises of at least 50 percent of the participants; ii) manifest positive changes in family planning, population education, maternal and child health (MCH) and related matters of at least 50 percent of project participants; and iii) develop and test a community-based/managed integrated system.

Recognizing the crucial role of organizing efforts, the main project strategy was anchored to the principle of community organization for women in coastal communities. The integrated approach involved the introduction of economic and social development inputs to and through the organized WGs.

2.3 Project components

The major project components involved WG formation and development, capability-building activities for WGs and project staff, credit, savings and microenterprise development and social interventions related to family planning, MCH, nutrition and related matters involving the family welfare of project participants.

The project's credit component was administered by two banks through a guarantee/revolving fund scheme – the Land Bank of the Philippines (LBP) in Pangasinan, a government bank devoted to agriculture and rural development, and the Allied Banking Corporation (ABC), a private commercial bank in Capiz.

The mechanics of participation of the two banks were stipulated and regulated by a Memorandum of Agreement (MOA) between the banks, the provincial governments and FAO. The banks used their own funds for lending and delivered credit within the framework of their usual lending programmes. The project deposited funds with the bank to guarantee the loans granted to the women.

A guarantee fund of US$99 000 or p2 633 400 (Philippine pesos) was placed with LBP as a time deposit account. The interest rate charged was 12 percent per annum. In Capiz, a non-interest bearing account was opened with ABC to place a guarantee fund of US$81 000, valued at p2 154 600. The bank charged 14 percent on the loans.

A Provincial Project Coordinating Committee was formed to accept, screen and recommend livelihood proposals from the women. Project consultants, together with the field workers, initially assisted the WGs in preparing and packaging the proposals and loan applications that were then sent to the banks for approval.

2.4 Project organization/arrangements

FAO was the executing agency for the project. The local governments of Capiz and Pangasinan through the Provincial Planning and Development Office and the Provincial Project Office (PPO) implemented the project directly, providing management and field staff services, respectively. A National Project Coordinator was hired by FAO to oversee the project at the national level. UNFPA provided funding support.

3 PROJECT INPUTS/INTERVENTIONS AND ACCOMPLISHMENTS

The project became operational in 1990 and was implemented until 1994. Preparatory activities included a baseline survey, pre-service training of project staff, and agreements with the banks for the operation of the guarantee/revolving fund and finalization of project systems and procedures. Actual field operations commenced in October 1990 and WG formation followed subsequently.

WGs served as catchments and receiving mechanisms where social and economic development inputs were channelled. By the end of 1994, a total of 78 WGs had been organized (45 WGs covering 13 coastal municipalities in Pangasinan and 33 WGs covering seven coastal municipalities in Capiz), involving more than 2 000 women.

Training assistance in the areas of team building, organizational skills, microenterprise development and family welfare were provided to these WGs. Technical assistance in the preparation of project proposals and information materials support were also provided.

In the area of social development inputs, the project introduced group formation and credit and microenterprise development as entry points for the promotion of family planning knowledge and awareness, including family welfare and other health-related concerns. Linkages and referral systems to resource service institutions in the areas of family planning, MCH and nutrition were established and strengthened at the local levels.

3.1 Economic component

Credit and microenterprise development at project termination. The project's support to finance the women's microenterprises is premised on UNFPA's rationale for supporting this type of project, i.e. "… on the finding that gainful employment and work outside the home are known to be associated with lower fertility rates". Specifically, a UNFPA (1990) report relates that "studies of income-earning programmes have demonstrated the positive relationship between improving the women's livelihoods and bringing about more fundamental changes in their lives, in terms of their self-esteem, confidence, participation in political and community life and family decision-making power and status".

By the end of 1994, a total loan amount of p13.3 million had been disbursed. Of this amount, p9.2 million and p4.1 million were loaned to Pangasinan and Capiz women, respectively. The repayment rate by the end of the project life was around 83 percent. Percentage utilization of the guarantee fund for both provinces was 190 percent. Repayment rates were affected by natural calamities such as the "red tide" disease that hit the mussel culture project and a major volcanic eruption that affected the operations of some women's microenterprises. Organizational and management problems, as well as wilful default and misappropriation of loan proceeds also contributed to non-payment of loans.

Approximately 80 percent of total loans financed fishery-based projects, notably fish trading and marketing activities, operation of set tidal nets (fish corrals) and dried fish processing. Other production-related projects included mussel culture, crab fattening and salt production and trading. Shellcraft projects involved the production of ornamental lamps and accessories. Non-fishery-based projects such as commodity and rice trading as well as hog fattening were operated in areas where fishery resources were limited.

Loans were mostly for working capital and trading advances, with repayment schedules ranging from four to eight months.

Status of credit activities and guarantee fund: post-project (1995-2000). 1) Capiz. The disbursement of loans by ABC was discontinued when the project was officially terminated, as the MOA was coterminous with the project's completion and the provincial government chose not to renew it with the bank. Several factors can be cited for the provincial government's decision. According to previous interviews with the Capiz staff, changes in the management of the bank did not offer the same continuity and enthusiasm as previously experienced. Provincial bank managers changed three times during the project. Unfortunately, the last two managers did not share the same perspective and support for the project as the first, who had, to a large extent, contributed to the relative success of the credit component during its earlier stages. The apparent disinterest in the project by the bank managers, perhaps because of their poor understanding of it, as well as the very limited bank staff, contributed to delays in the disbursement of loans. ABC assigned only one member of staff to the project, who performed the functions of both loan officer and clerk. Because the women had individual accounts, recording transactions alone proved cumbersome, tedious and time-consuming. There was no time at all for field loan monitoring. The transaction costs for administering the guarantee fund were considered high, especially in view of the relatively small amount of the guarantee fund compared with the bank's total portfolio.

In the post-evaluation conducted in 1997, involving 103 women, around 80 percent still continued with the microenterprises begun during the project. Fish trading constituted the majority of women's microenterprises. Some women reinvested their profits to purchase a fishing *banca* (traditional wooden canoe-shaped boat), motorboats and fishing nets. The ownership of assets helped the family, since the husband did the fishing, enabling the women to have a steadier supply and a bigger quantity of fish to sell. Resource depletion has, however, affected the fish catch and threatened livelihoods.

Discontinued project assistance to WGs after 1994, together with the absence of the credit component, proved to be a disincentive for the groups to meet as frequently as they had previously done, consequently resulting in group inactivity and, for some, dissolution.

2) Pangasinan. The partnership of LBP with the Pangasinan provincial government has, for the most part, been more than satisfactory. The decision to renew the MOA in 1994 was not as problematic as with ABC in Capiz. By the last quarter of 1995, a new MOA, effective for another three years, was finalized. Unlike ABC, loan monitoring and collection continued even before this renewal, although a lull in the disbursements occurred in 1995 while the MOA was being renegotiated. In 1998, the MOA was again renewed and extended for another five years, from January 1998 to December 2002.

The volume of lending increased considerably even after the project's termination. Except for a few new groups (mainly in the uplands), a majority of the original WGs remained faithful clients of the bank, attesting to their satisfactory repayment performance. As shown in the Table, by the end of 2000, over p12 million had been disbursed over a three-year period, bringing the total of loans released in Pangasinan from 1990 to 2000 to almost p29.5 million. This represents a leveraging ratio of over 1 120 percent. In effect, the original amount of the guarantee fund revolved about 11 times. Overall repayment by year-end 2000 was 84 percent, as a result of the successive strong typhoons that hit the province.

The guarantee fund grew by 73 percent from an original amount of p2.6 million in 1990 to about p4.6 million in 2000 through accumulated interest earnings that accrued to the fund. This amount is net of guarantee claims that represented around 30 percent of the original guarantee fund amount.

The continuous credit line administered by LBP has provided a steady source of capital for the women. Their good repayment record has enabled them to access this credit line continuously. Some women were into their fourth, fifth, sixth, seventh and eighth rounds of lending. A majority of the activities financed involved trading and marketing, notably fish and also rice, salt and other basic commodities. Hog fattening was a common project. Some women have progressed from fish trading to owning their own fishing gears, engines and boats. Others have diversified to other activities such as buying and selling ready-to-wear clothes, processed food and even running a photo/video shop. The impact of these changes on the women and their families ranges from modest to dramatic.

In a recent visit to Pangasinan, it was clear that the continuous credit line and assistance of the provincial government to WGs have contributed to the growth of and eventual federation of some groups to be registered formally as cooperatives.

Total loans granted and status of guarantee fund in Pangasinan, 1990-2000

Indicator	1994	1997	2000	Total
Amount of loans granted (in million pesos)	9 258 038	8 223 086	12 015 398	29 496 522
Repayment rate	87%	94%	84%	
Amount of guarantee fund (in million pesos)	2 633 400	3 614 676	4 542 238	

Notes: 1. Amount of loans in 1994 covers releases since the start of the project in 1990 until its official completion in 1994. 2. Amount of loans in 1997 covers releases from 1995 to 1997 as per post-project evaluation conducted in 1997. 3. Amount of loans in 2000 covers releases from 1998 to 2000 as per field visit in February 2001. 4. Guarantee fund in 1994 is the original amount placed with LBP in 1990 while funds for 1997 and 2000 are net of guarantee claims, plus recoveries and interest earnings.

Two of these cooperatives were visited and their stories are presented as illustrative examples of the effect and impact of the project on the women, collectively and individually. The stories are presented as Boxes 1 and 2.

4 SOME LESSONS LEARNED: A SYNTHESIS

The project's long-term objective of improving the status of women required an integrated package of services. Emphasis was given to both the social and economic development components since they mutually reinforce each other.

Implementation of integrated projects is, however, complex, as underscored by the following important points and lessons.

4.1 Microenterprises and credit as entry points

Credit to finance microenterprises is a critical input in increasing women's incomes. Women who received credit from the project reported improved incomes, which they used to buy household appliances and consumption goods, send children to school, build or repair houses and reinvest in their businesses. Independent earnings contributed to increased self-confidence, mobility, a higher value in the family and improved decision-making, all of which reinforce each other to improve women's status generally. In varying degrees, the impact of women earning their own incomes exerts a "catalytic" effect in improving their control over reproductive decisions.

Access to credit appeared to be a key factor in group sustainability. Groups that had continuous access were more active since they had a reason to meet regularly as a group. Meetings serve as fora for discussing activities, problems and other issues. Active groups can also receive and access social services better. On the other hand, groups that were dissolved or considered to be in an inactive status were those that did not have continued access to credit.

The multiple roles of women, and consequently the multiple demands on their time, influence the type of economic activities in which they are involved. Women's enterprises tend to be small and are usually run on a part-time basis to allow them to meet their other obligations. They select activities primarily in marketing and trading that generate continuous earnings to make up for the seasonal nature of their husbands' incomes. Thus, except for a few cases, the microenterprises of women are still in the enterprise formation category where survival is the goal and the satisfaction of basic needs the priority. Fish trading offers a fast turnover of cash necessary to meet daily needs and short-term expenses. The traditional sexual division of labour in fishing communities is such that men usually go out to fish while women sell the catch (although there are instances where women are actual fishers). This role has not been challenged, even if profits from the loan are reinvested to purchase fishing assets that serve to increase the livelihood base of the family. The husbands have acknowledged the women's contribution, which has in part contributed to improved relationships in the household.

The continuous credit line opened to women's groups in Pangasinan has allowed some women to diversify and focus on some form of enterprise expansion. The need

BOX 1
Pangascasan Women's Multipurpose Cooperative (PWMC), Sual, Pangasinan, the Philippines

The PWMC started out as the Pangascasan Mothers' Association (PMA). It was one of the first women's groups organized in Pangasinan in late 1990. After undergoing the required training activities, women took out their first loan of p80 000 in 1991 and used it as capital for trading fish, rice and other commodities. After successfully repaying the first loan and with membership now increased to 34, the PMA became eligible for successive loans. From 1993 to 1996, five repeat loans were granted to the women, with loan amounts increasing to about double the first loan (p177 000 by December 1996). Meanwhile, capital buildup and savings were also increasing, enabling the group to implement a lending scheme for its own members.

The good standing of the PMA made it a candidate for development into a more formal structure such as a cooperative. With encouragement from the Provincial Project Office and attendance at several requisite training programmes, the PMA was formally registered with the Cooperative Development Authority as the PWMC in December 1997. Membership expanded to 94.

A significant development in the PWMC story was when the cooperative secured a contract with the nearby Sual coal-fired thermal power plant for the provision of janitorial and messenger services. In March 1999, the first contract with the Southern Energy Philippines was signed. The contract lasted for six months and is now on its fourth renewal. The PWMC provides the power plant with 22 cleaners who are chosen by rotation from among the eligible members.

The contract with the power plant has provided the cooperative with a steady source of revenue. It has allowed the cooperative to reinvest some of its earnings in the purchase of assets such as the cooperative building/office and a service vehicle. The cooperative built the building from its own funds while the land was still being amortized. Within the cooperative building, PWMC set up a grocery store and a mini-canteen/snack bar to service its own members as well as those of the nearby plant. In December 2000, the cooperative borrowed p200 000 from LBP to consolidate the grocery inventory. This was the first loan they had taken out since they became a cooperative.

PWMC had total assets worth about p1.4 million as of end December 2000, a far cry from its humble beginnings as PWA. It has accepted men as associate members (without voting rights). From an initial membership of 13, membership now stands at 205: 103 associate/men members and 102 regular/women members. PWMC has joined the Federation of Sual Multipurpose Cooperatives as one of seven primary cooperatives that deal with the power plant for various services. The cooperative is run entirely by women.

for higher levels of financing is being addressed through the formation of cooperatives since they qualify for higher amounts of loans, as has been demonstrated in the illustrative examples of WGs evolving to cooperatives. It is, however, necessary to obtain a careful analysis and reading of the environment and context where women operate their microenterprises before they graduate to the next level of enterprise growth. Apart from market and technical factors, considerations about women's time constraints should be taken into account.

4.2 Linking women to financial institutions: a tale of two banks

The performance of the two banks that administered the credit component of the project offers some interesting insights, particularly in the context of linking women

BOX 2

Amalbalan Women's Multipurpose Cooperative (AWMC), Dasol, Pangasinan, the Philippines

The Amalbalan Women's Association (AWA) was organized in 1990 with only ten members. The women were basically involved with salt production/trading and fish vending. Their first loan of p80 000 was used as capital for these activities. This loan was followed by seven more rounds of lending, with the loan size increasing to p270 000 by 1997. Membership increased slightly to 22. Some women used the loan to buy inputs for milkfish pond production such as fingerlings, fertilizers and feeds.

In October 1997, the AWA was formally registered as AWMC, with an increased membership of 75 (including seven associate/men members). As a cooperative, the women were given a bigger credit line by LBP and they have taken advantage of this to increase the volume of commodities they are trading and purchase more fish pond inputs. In September 2000, AWMC took out the biggest loan since becoming a cooperative, amounting to p614 2000. Successful repayment rates allowed them to have continuous loans. From 1999 to 2000, AWMC was granted loans six times, totalling p2.2 million. This amount is almost double the amount of loans given to the women when they were still the AWA. Total loans extended to the group from 1991 to 2000 amounted to p3.3 million.

The bigger volume of loans has enabled the women to increase the volume of their trading activities and venture out of the province for their markets. This was helped in great measure by the "entrepreneurial" skills developed and enhanced by the project. Stories of women overcoming their shyness, gaining more self-confidence and self-esteem are common. The cooperative's present bookkeeper, for example, used just to stay at home and look after the children and the house. When she joined the project, she was "transformed", in her own words, from a shy and timid wife to an assertive and self-confident woman. She is a self-taught bookkeeper. While she took an accounting subject in college, she learned hands-on bookkeeping under the tutelage of an LBP staff member who patiently took her under her wing. She is now serving the cooperative well, aside from implementing her own microenterprise of salt trading and hog fattening.

There are other stories of women whose livelihoods improved as a result of project assistance. The story of Raquel is illustrative. Before she joined the project in 1995, she accompanied and helped her husband to fish in the nearby waters. They went out to sea to fish twice a day and she would later sell the catch. They did this for two years. Fishing was not, however, earning them enough to support a growing family so they sold the boat and used the proceeds to lease a fish pond of one hectare. At about this time, Raquel heard about the project and was encouraged to join. She was able to borrow p8 000 as capital for the fish pond. She took out two more loans that she used to buy more inputs and some heads of hogs for fattening. She also went into salt production and is still selling fish while the husband takes care of the fish pond. They were able to buy a motorcycle to transport fish to the market. Raquel said this would never have happened without the credit assistance from the project.

to formal financial institutions. It is worthwhile to note that the women were directly linked to the banks. The project, through its integrated nature, in effect served the role and function of "social intermediation".[1]

[1] In microfinance, "social intermediation" as an intervention strategy helps marginalized clients connect to more formal financial institutions through village banking, solidarity groups and other organizational forms.

Credit performance was affected by the nature, and therefore the mandate, of the banks involved in the project. LBP, a government development bank, is mandated to assist people in the countryside. Thus, despite changes in management at the field offices, the development perspective is maintained and carried out by the bank manager. As a result, attention and resources are given to the project. Successive renewals of the MOA indicate continuing support to the project. LBP was also aggressive in its efforts to collect from the women, even if loans were fully guaranteed. The guarantee fund grew because of accumulated interest earnings as well as recoveries that have likewise accrued to the fund.

In the case of ABC, a commercial bank, the experience of Capiz seemed to suggest that the extent of support and enthusiasm was dependent on the appreciation and "development-orientation" of the bank manager. The first bank manager possessed such qualities and thus extended the necessary support to the project; unfortunately, the succeeding two managers were not so keen on "small" transactions and were more attuned to commercial banking culture.

Pangasinan's experience of linking with a development bank, although not entirely free from administrative and management problems, seems to offer better prospects for ensuring and sustaining women's access to formal financial institutions. There is still scope, however, for improving systems and procedures to serve the financial needs of women better.

4.3 Role of field workers and credit in group growth and development

Organized groups function as vehicles for change. They also provide a support mechanism to help women mobilize resources. More important for this project, they serve as receiving and catchment mechanisms for social and economic development inputs. It is therefore critical that they be provided with support and guidance for growth. The presence and continuity of services provided by field workers and the banks have significantly affected the growth and development of WGs.

In Capiz, the almost total disengagement of field staff, as a result of the shift in focus to upland communities after the project, has adversely affected the coastal WGs. The absence of the field workers was made even more critical by the bank discontinuing the lending programme. These twin events reinforced each other in contributing to a period of inertia in group development. Regular monthly meetings, which also served as loan collection periods, were discontinued. While the WGs were in various stages of development after the project, a majority of women were still inadequately prepared for the task of ensuring the viability of their groups. They still required the presence and the facilitating role of the field workers.

5 CONCLUSIONS AND RECOMMENDATIONS

The case study generally found positive economic and social benefits for women, resulting from project assistance. Findings demonstrate that several years after the official termination of official funding support in 1994, the positive changes have, for the most part, been maintained.

Lessons from project experience underscored the importance of understanding and acknowledging the realities in which women live, i.e. their multiple roles, the range of work in which they are engaged, and the ways in which they balance each type of work against the other, when designing project inputs and interventions. Women's need for income exists simultaneously with the need to ensure the family's health, nutrition and education. The project has tried to address these needs through the introduction of a package of services.

The importance of providing "social intermediation" and social preparation activities should be seriously considered when designing programmes for women with a credit and microenterprise development component.

Gender is also of concern for community-based coastal resource management

(CBCRM). The endangered state of fishery resources in coastal communities makes women even more vulnerable. Because they depend on fisheries as the resource base of their livelihoods, they must have a significant stake in the management of resources. The potential contribution of women in CBCRM activities remains unharnessed. Government programmes have generally been remiss, as there have been no conscious efforts to include women in these programmes. Since women as a group constitute one of the primary stakeholders in any CBCRM initiative, there must be a deeper understanding of their roles and contributions. They must be included deliberately in training programmes and other specialized activities in CBCRM programmes. Women can play a valuable role in providing and gathering information for resource assessment studies, since they are familiar with the environment. Conservation efforts have a better chance of success if women are involved because they can influence men/ husbands who are directly involved in the exploitation of coastal resources. Women have also been known to be more effective as fish wardens or fishery law enforcement volunteers.

The worsening state of depletion of fishery resources makes it also more imperative to give women access to credit for financing alternative livelihoods. This also serves as a conservation measure since it means less dependence on fisheries, thus reducing pressure on the resource and ensuring the survival of fishing households. Women are better placed because they can also be engaged in productive and alternative work that is not necessarily fishery-based. They have also proved to be good borrowers.

In conclusion, improving women's status is a long-term process, requiring efforts that are characterized by commitment, sincerity, regularity, appropriateness, timeliness and efficiency. Improving women's status is both a means and an end in itself. In both microcredit and CBCRM programmes, every effort must be made to rally support in bringing women in "from the margin to the mainstream".

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Microcredit in support of women, poverty alleviation and upland aquaculture in Viet Nam

1 BACKGROUND AND OBJECTIVES

This case study summarizes the activities and results of the FAO/UNDP-supported project VIE/98/009 "Aquaculture Development in the Northern Uplands of Viet Nam". The experiences and results of this project have then been generalized and presented in the form of a model of a microcredit programme that could be adopted by other countries and used for designing other microcredit programmes in support of aquaculture development and poverty alleviation. The model lending policies, procedures, regulations and organizational arrangements are given at the end of the paper.

The project aimed to reduce poverty and enhance local food security among poor upland ethnic communities through small-scale aquaculture development. This was done by strengthening the local capacity of poor and remotely located ethnic communities and organizations of the 50 pilot communes located in the three northern upland provinces of Hoa Binh, Son La and Lai Chau.

The productivity of small-scale aquaculture in upland areas was increased through:

- the development of appropriate aquaculture technology packages;
- the establishment of aquaculture extension services;
- improving local availability of fish seed;
- a commune-managed credit and savings scheme.

The project also emphasized the empowerment of women through:

- improving the productivity and profitability of family aquaculture;
- introducing appropriate aquaculture technologies;
- training;
- assigning women the lead role in household aquaculture.

2 PROJECT EXECUTION

The project was executed by the Ministry of Fisheries (MOF) and implemented by the Department of Agriculture and Rural Development in the three project provinces. FAO was the co-implementing agency and provided project technical assistance through the services of international consultants under the Support for Technical Services component.

The project commenced in April 1999 with the appointment of the National Project Director and the National Project Manager. The MOF provided the services of personnel and office facilities for the project management unit in Son La town. The provincial governments of Lai Chau, Son La and Hoa Binh provided facilities for provincial implementation units of the project under the respective Department of Agriculture and Rural Development offices. All three provincial implementation units were headed by Vice-National Project Directors who were responsible for implementing and monitoring project activities in their province.

3 ORGANIZATIONAL ARRANGEMENTS OF THE MICROCREDIT SCHEME

Women's Unions (WUs) at commune, district and provincial levels played a key role. The individuals, groups and organizations involved in the microcredit scheme as well as their roles, obligations and privileges were those described below.

Members of aquaculture credit groups (ACGs)

- elect members of management committees of ACGs;
- deposit savings with management committees of ACGs;
- submit loan applications to ACGs;
- repay loans (interest and principal) to management committees of ACGs;
- receive technical assistance from aquaculture extension service;
- report to aquaculture extension service on production figures, growth rates of fish and other technical matters.

Management committees of aquaculture credit groups

- are elected by members of ACGs;
- receive savings deposits from members of ACGs;
- receive and examine loan applications;
- receive loan repayments;
- monitor loan use and loan repayment of members of ACGs;
- manage loan repayments and savings and maintain financial records;
- submit endorsed loan repayments to District Women's Unions (DWUs);
- report to DWUs;
- convene monthly or quarterly meetings of members of ACGs;
- assist DWUs in loan disbursements;
- transfer loan principal repayments to DWUs;
- manage and safeguard interest repayments and savings deposits and use them for lending to members of ACGs as well as for covering group and WU administrative costs;
- report to and liaise with local government authorities as required.

District Women's Unions

- supervise management committees of ACGs under their jurisdiction;
- receive and examine monthly accounts/progress reports from management committees of ACGs;
- receive repayments of loan principal from management committees of ACGs;
- receive share of repayment of loan interest from management committees of ACGs for covering their costs of operation;
- deposit funds in the Viet Nam Bank of Agriculture and Rural Development (VBARD) and maintain financial records;
- examine loan applications submitted by management committees of ACGs and approve loans;
- disburse loans to members of ACGs;
- report to Provincial Women's Unions (PWUs);
- liaise with aquaculture extension centres and local government authorities.

Provincial Women's Unions

- undertake annual internal auditing of accounts;_
- supervise the DWUs and receive quarterly progress reports;
- liaise with provincial government authorities and central government authorities;
- receive a share of repayment of loan interest from management committees of ACGs for covering their operational costs.

National Aquaculture Extension Centre/Provincial Agriculture and Rural Development Department

- provide extension services to members of ACGs;
- assist members of ACGs in preparation of production plans;
- assist WUs in technical appraisal of loan applications;
- receive production figures from members of ACGs.

4 PROJECT RESULTS, ACHIEVEMENTS AND IMPACT

Overall, the microcredit component of project VIE/98/009 can boast an impressive performance with regard to poverty alleviation and livelihood enhancement for socially disadvantaged ethnic minorities in three mountainous provinces in northern Viet Nam – Lai Chau, Son La and Hoa Binh.

The achievements can be described in terms of well-functioning aquaculture microcredit groups and credit management committees; savings generated; amount and number of loans disbursed and recovered; turnover and efficient use of capital and savings; building of national capacity for the design and implementation of microcredit schemes in support of aquaculture development in upland areas; the active participation of women and the poor in the management of the scheme; and use of credit for aquaculture development.

By the end of the project, D1 million 47 132 had been disbursed (US$314 213). This is more than double the amount (209 percent) that had originally been allocated in the project budget for credit disbursements. It shows that the funds have actually revolved as farmers repaid their loans and the amounts repaid were then used for further loan disbursements.

Altogether, 3 630 households in all six districts of the project were reached by the microcredit component of the project, received loans and deposited savings.

Loan repayment was excellent and the ratio of amount due for repayment and amounts repaid was as high as 100 percent in Son La province and 98 percent in Hoa Binh and Lai Chau provinces. The excellent repayment figures were achieved despite short repayment periods which, in most cases, did not exceed 12 months.

As far as the impact of the project by income stratification is concerned, initially the majority of loan recipients belonged to the middle-income group while poor farmers benefited to a lesser extent from the credit support provided by the project. A better capacity for improving their aquaculture practices and the willingness to incur debt for this purpose were probably the major factors behind the leading role of the middle-income group in the use of credit for improvement of their aquaculture practices.

Later, however, this trend changed as poor households as well as the village authorities became more confident that fish farming was a technically and economically viable activity. At the end of the project, 68 percent of all loan recipients can be classified as poor households, 31 percent belonged to the middle-income group and only 1 percent belonged to the upper income level category.

The project reached its target group, i.e. the ethnic minorities in the three mountainous provinces of Son La, Hoa Binh and Lai Chau. The ethnic minorities that benefited from the project include the Thai, Muong, Khmu and H'mong ethnic groups.

The active participation of women in the management and use of credit for aquaculture development was also achieved. The majority of the members of the management committees and group members are women as are 85 percent of the credit recipients.

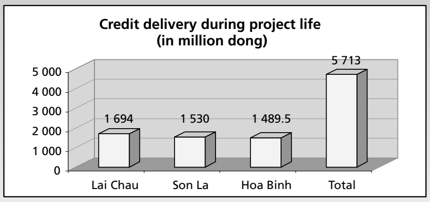
The achievements in the three provinces are shown in Figure 1.

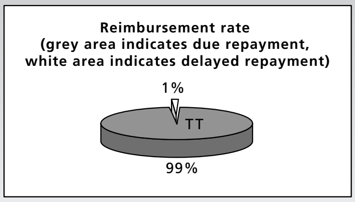
In terms of continuation and expansion of the microcredit programme in Viet Nam and its sustainability, VBARD and the Viet Nam Social Policy Bank (VSPB), together with the Women's Unions of Viet Nam, are at present expanding the programme to other parts of the country, using national financial resources once donor support has ended.

FIGURE 1
Results of microcredit component of the project, by province

Credit activity results in the three provinces

Indicators	*Lai Chau*	*Son La*	*Hoa Binh*
- Project loans (million dong)	715.8	715.8	715.8
- Total loan value (million dong)	1 693.7	1 530	1 489.5
- Saving amount (million dong)	103.9	99.8	72.0
- Recovery rate (%)	98.2	100	98.0
- Accrued capital (million dong)	20.0	39.0	25.0
- Number of borrowers	1 630	970	1 040
- Number of woman borrowers	1 531	787	760
- *Percentge of women (out of total)*	94	81	73
- Poor borrowers	1 139	752	600
- *Percentage of poor (out of total)*	70	77	58





Microcredit and enhancement
of role of women

The DANIDA-supported SUFA component of the Fisheries Sector Programme Support (FSPS) is currently implementing a similar microfinance model in one northern and two central provinces of Viet Nam.

5 MODEL OF MICROFINANCE PROGRAMME OF FINANCIAL INSTITUTIONS AND WOMEN'S UNIONS IN SUPPORT OF FRESHWATER AQUACULTURE

Drawing on the experiences and results of the FAO/UNDP-supported project VIE/98/009, a model of a microcredit programme has been developed, which could be adopted in other countries and used to design other microcredit programmes in support of aquaculture development and poverty alleviation. The model lending policies, procedures, regulations and organizational arrangements as well as the forms and records to be used in the programme are detailed in the following sections.

5.1 Memorandum of Understanding on the administration of a microcredit programme for freshwater aquaculture in …

The financial institution ...
The Ministry of Fisheries of the Socialist Republic of Viet Nam
and the Provincial Women's Union of ...

Article 1: Parties
The parties to the Memorandum of Understanding are the financial institution ..., the Ministry of Fisheries/National Aquaculture Extension Centre and the Provincial Women's Union of ...

Article 2: Purpose and context

The purpose of this Memorandum of Understanding is to support farmers in ... communes of ... provinces to develop freshwater aquaculture, in order to diversify income-generating activities of households with the ultimate objectives of increasing incomes and improving livelihoods. The microcredit programme/revolving fund in support of aquaculture, agreed upon in this Memorandum of Understanding, is meant to assist farmers who lack the financial means that are needed to improve their aquaculture practices.

Article 3: Responsibilities of the financial institution, the Ministry of Fisheries/ National Aquaculture Extension Centre and the Provincial Women's Union

3.1 The financial institution shall provide funds to the District Women's Unions (DWUs) of the ... districts of ... province for lending to fish farmers who are members of aquaculture credit groups (ACGs). The funds shall be used as a revolving fund. Loans that have been repaid shall be used again for lending to other members of the ACGs. In order to implement the microcredit programme, the financial institution shall provide the amount of D... to the above DWUs. The DWUs of ... shall each receive ... percent, ... percent and ... percent. The DWUs shall use the amount to establish an aquaculture microcredit programme/revolving fund in close cooperation with the aquaculture extension services and the districts and communes of the province.

The amount shall be transferred on signing of this Memorandum of Agreement subject to the receipt of approved lists of loan applications from the DWUs. The amount will be made available in two instalments. The first instalment of 60 percent of D... shall be transferred by the financial institution to the bank accounts of the above DWUs in accordance with the attached regulations and above-mentioned distribution key. The second instalment of 40 percent of D… shall be made available on ... to be used for loans in preparation for next year's culture season.

3.2 The Ministry of Fisheries, through its aquaculture extension services, is responsible for assisting members of ACGs in the preparation of production plans, assisting WUs and Loan Application Examination Boards in the appraisal of loan applications, in loan disbursement and in the monitoring of loan use. The Ministry of Fisheries is also responsible for providing extension services to members of ACGs who have obtained loans from the project, and for supporting them in their production efforts.

3.3 The Provincial Women's Union (PWU) is responsible overall for the administration and implementation of the microcredit programme through the concerned DWUs and in accordance with the regulations of the programme, which are attached. More specifically, the concerned DWUs shall:

- organize and supervise loan disbursement and loan use and ensure that the loans are fully repaid and on time;
- exclusively give loans to members of the aquaculture groups established with the support of the Ministry of Fisheries;
- only provide credit to fish farmers after the Loan Application Examination Boards have duly examined and sanctioned the loan applications;
- ensure that loans are exclusively used for improving aquaculture practices and for the purpose stated in the loan application;
- promote and collect savings from members of the ACGs in addition to providing loans;
- give training to the loan recipients and to the members of the Commune Aquaculture Credit Management Committees (CACMCs) on the proper use and management of credit funds and operations;

- regularly audit the accounts of the CACMCs and report to the financial institution on loan disbursements, use and recovery.

Members of ACGs established by the project shall be able to borrow capital with the monthly interest of 0.7 percent. The interest shall be utilized to cover the operational expenses of Provincial Women's Unions, District Women's Unions, the Commune Aquaculture Credit Management Committees and for the capital development fund of the CACMCs as specified in the attached regulation.

Article 4: Audit

The accounts of the District Women's Union and Commune Aquaculture Credit Management Committees related to the use of the credit funds to be provided under this Memorandum of Agreement shall be audited by the financial institution before the end of each calendar year, i.e. 31 December. All necessary records and documents for the audit shall be made available to the financial institution by the Provincial Women's Union.

Article 5: Renewal and termination of Memorandum of Agreement

5.1 The Memorandum of Agreement is subject to renewal on 15 January each year, based on mutual consent between the financial institution and the Provincial Women's Union and on the results of the annual audit.

Whereupon, on this day, ……………………….., the three parties do set their hands and sign in agreement of the above as a contract binding in Vietnamese law.

For and on behalf of the financial institution

For and on behalf of the Ministry of Fisheries of the Socialist Republic of Viet Nam

For and on behalf of the Women's Union of ……………. province

5.2 Regulations on the operation and administration of the aquaculture microcredit programme

CHAPTER I. OBJECTIVES

Article 1: Objectives of the aquaculture microcredit programme

1. The aquaculture microcredit programme aims to provide credit to households in … communes of … districts of … province, who are assisted by the Ministry of Fisheries/National Aquaculture Extension Centre to develop their aquaculture practices. Credit shall be available for pond culture of fish, fish-cum-rice culture, fish seed production and other related purposes.
2. Credit for the development of aquaculture practices is to be provided under appropriate conditions and in a timely manner to encourage rural households to diversify their income-generating activities, to increase household incomes and to meet the nutritional needs of rural populations.

3. The aquaculture microcredit programme further aims to introduce a sustainable mechanism for providing credit to and mobilizing savings from rural households, who aim to improve their livelihoods through the development of aquaculture. It thus also aims to enhance the savings habits, financial management skills and entrepreneurial skills of rural households.

CHAPTER II. ORGANIZATIONAL ARRANGEMENTS AND RESPONSIBILITIES[1]

Article 2: Level of operation

The microcredit programme shall operate at five different levels:

- the level of the financial institution;
- the provincial level;
- the district level;
- the commune level; and
- the level of the aquaculture group.

The agencies that will be operating at the various levels and their authorities and responsibilities are described below.

Article 3: Authority and responsibilities of the financial institution

The financial institution shall have the authority and responsibility to:

- approve the regulations on operation and administration of the aquaculture microcredit programme as well as any changes and amendments to the same;
- sign any legal documents related to the credit programme and liaise with institutions relevant to the project's credit programme as necessary;
- monitor the operation of the credit programme and compliance with these regulations;
- appraise audit reports and take action concerning the renewal and termination of the Memorandum of Agreement with the Provincial Women's Union.

Article 4: Authority and responsibilities of Provincial and District Women's Unions

1. The Provincial Women's Union (PWU), under the supervision of the financial institution, is responsible overall for the administration and implementation of the aquaculture microcredit programme through the concerned District Women's Unions (DWUs).
2. The DWU, in cooperation with the concerned aquaculture extension agencies/workers, shall directly implement the credit programme and receive and administer the credit funds received from the financial institution for lending to aquaculture households.
3. The concerned DWUs shall organize and conduct local training for members of Commune Aquaculture Credit Management Committees (CACMCs) as well as for loan recipients on enterprise development/preparation of aquaculture production plans and on credit administration and management. The cost of such training will be borne by the financial institution and the Ministry of Fisheries, subject to prior agreed training plans and availability of funds.
4. The concerned DWUs, with help from the concerned aquaculture extension services, shall assist the aquaculture groups and their CACMCs in the preparation of aquaculture production plans and loan applications.
5. The concerned DWUs, with help from the concerned aquaculture extension services, shall receive and appraise loan applications and organize loan disbursements based on lists of approved loan applications prepared by the Loan Application Examination Boards (LAEBs).

[1] The organizational arrangements of the aquaculture microcredit scheme are shown in Figure 2. The flow of funds is shown in Figure 3.

6. The concerned DWUs shall monitor and supervise the credit operations of the CACMCs as well as the use of loans by borrowers. This includes field visits and on-the-spot auditing of accounts and financial records. In case of problems and/or delayed or non-repayment of loans, the PWU and DWUs shall take and advise on corrective action.
7. The concerned DWUs shall ensure that loans are repaid fully and on time. In the case of late repayment, genuine and wilful default, DWUs will help the concerned CACMCs to take appropriate action.
8. The concerned DWUs shall maintain records of the use of the funds received from the financial institution, of loan disbursement and of recoveries.
9. The concerned DWUs shall prepare quarterly and annual reports on the credit operations and financial transactions of the commune-level credit management committees and submit these reports to the PWU for synthesis and comments and for forwarding to SUFA.
10. The PWU and its concerned DWUs shall each receive a part of the loan interest according to the provisions of these regulations.

Article 5: Commune aquaculture credit groups and management committees

1. Aquaculture credit groups (ACGs) at the commune-level: of the various aquaculture groups formed by the Ministry of Fisheries/National Aquaculture Extension Centre, two will be selected as eligible for credit support. These two groups shall be referred to as ACGs. The criteria of selection of the two ACGs from the already existing aquaculture groups shall be threefold:
   - the lack of their own financial resources and savings to carry out the investments needed to improve their aquaculture practices;
   - a high share of women among the members of the group;
   - the willingness of the members of the aquaculture group to comply with the regulations of the aquaculture microcredit programme.
2. Annual meeting of the commune-level ACGs: this meeting of the commune-level ACGs is the highest commune-level aquaculture credit authority. The annual meeting shall be attended by the members of the ACGs of the commune, the members of the CACMC, representatives of the WU and the commune aquaculture coordination group. Ad hoc meetings shall be held at the request of two-thirds of the members of the ACGs. At the annual meeting, the following activities shall be carried out:
   - selection of the ACGs;
   - approval of ACG expenditures;
   - personnel matters, acceptance of new members and termination of membership;
   - modification of regulations on the operation and administration of the aquaculture credit programme to suit local conditions, depending on approval of the financial institution and the Provincial Women's Unions.
3. Composition, authority and responsibilities of CACMC, head and members. CACMC is composed of the following five members:
   - head of CACMC;
   - secretary-cum-accountant;
   - treasurer;
   - the heads of the two aquaculture groups.

   The chairperson shall be a representative of the WU.
4. Authority and responsibilities of CACMCs. The management committee has the following authorities and responsibilities:
   - preparation of the agenda for monthly, ad hoc and annual meetings of ACGs in the commune;

- support to members of ACGs for preparation of production plans and completion of loan application form in cooperation with aquaculture extension workers;
- receipt and appraisal of loan application forms;
- preparation of quarterly and year-end financial reports for forwarding to DWU, PWU and the financial institution;
- preparation and maintenance of records on loan applicants and loan agreements;
- preparation and submission of quarterly reports on loan disbursement, loan recovery and savings mobilization to DWU and to the financial institution as requested;
- recovery of loan repayment instalments and mobilization of savings;
- deposit of money in bank account as necessary;
- efficient overall administration of credit funds and programme.

5. Authority and responsibilities of the head of CACCMC include:
   - organization and supervision of ACG monthly, ad hoc and annual meetings;
   - chairing of meetings and summing-up of proceedings afterwards;
   - encouraging members to participate constructively in discussions and decision-making;
   - monitoring and enforcement of compliance with regulations of aquaculture credit programme;
   - supervision of other members of management committee, i.e. secretary-cum-accountant and treasurer;
   - monitoring and facilitation of savings mobilization;
   - promotion of good relations among members of ACGs;
   - representation of ACGs vis-à-vis other organizations.
6. Authority and responsibilities of secretary-cum-accountant of CACMC include:
   - preparation and distribution of minutes of meetings;
   - filing all incoming and outgoing correspondence and documentation;
   - assistance to chairperson as necessary;
   - maintenance of financial records and accounts;
   - reporting of financial status of ACGs to members;
   - control of expenditures.
7. Authority and responsibilities of treasurer of CACMC include:
   - management of funds;
   - acceptance, safekeeping and disbursement of funds.
8. Authority and responsibilities of heads of ACGs include:
   - assistance to credit fund management committee for preparation and appraisal of loan application;
   - encouragement of members of aquaculture groups to comply with regulations of credit programme;
   - collection of loan repayments and saving deposits from members of ACGs;
   - safekeeping of ACG funds prior to submission of these to treasurer (for not more than 24 hours).
9. Criteria for membership in ACGs, termination of membership and admission of new members:
   - members shall be representatives of legally resident households in the project communes, who have the required resources, i.e. waterbodies and sufficient labour to develop aquaculture;
   - members should be at least 18 years of age;
   - members should not be affected by mental illness and social evils;
   - members have the right to leave the group any time they choose, provided they have no outstanding obligations. Before leaving the group, members have

to liquidate all responsibilities and obligations to the ACG; they will receive their due share of contributions after deducting a part for liquidation of their obligations to the ACG (if applicable);
- membership shall be terminated in case of violation of the regulations;
- new members will be admitted by approval of at least two-thirds of the membership.

10. Responsibilities of members of ACGs include:
    - use of loan funds as committed in loan application form;
    - payment of savings deposits;
    - support to and cooperation with other members;
    - compensation to ACG for any losses or damages caused;
    - compliance with regulations of aquaculture credit programme.
11. Privileges of members of ACGs include:
    - participation in training programmes organized under the aquaculture credit programme;
    - eligibility for election to CACMC;
    - election of members of CACMC.
12. Income and expenditure of ACGs. Commune ACGs shall have two sources of income:
    - interest from outstanding loans paid by borrowers;
    - interest from savings deposit at bank.

    The interest income from outstanding loans (0.7 percent per month) shall be used as follows:
    - 0.3 percent interest shall accrue to a capital development and reserve fund of the CACMC;
    - 0.4 percent interest shall accrue to the PWU, DWU and CACMC to compensate for their operational expenditure. Five percent of this share of the interest will go to the PWU, 25 percent to the DWU and 70 percent to CACMC.

CHAPTER III. LENDING PROCEDURES, SAVINGS MOBILIZATION AND DOCUMENTATION

Article 6: Loan application, appraisal and sanctioning

1. Members of ACGs shall submit a loan application form, which has an aquaculture production plan attached, clearly stating the purpose of the credit and other information relevant to the production activities of the household.
2. All loan applications shall be examined by a Loan Application Examination Board (LAEB) consisting of the following members:
   - members of CACMC, i.e. head, secretary-cum-accountant, treasurer and the heads of the ACGs;
   - a representative of the People's Committee of the commune.
3. While there is no requirement for collateral or mortgage, members who apply for credit must fulfil the following criteria:
   - agree to the credit regulations;
   - have joined the training courses on aquaculture, credit and savings organized by the project;
   - are prepared to deposit savings according to regulations;
   - priority is given to poor households;
   - priority is given to women.
4. After loans have been sanctioned by the LAEB, CACMC shall sign a credit contract with the DWU. Following this, a loan agreement will be signed between CACMC and each individual borrower.

5. Based on the list of loans approved by the LAEB, the DWU shall prepare a loan disbursement schedule, which mentions the details of the borrowers, loan amounts, and envisaged time and place of loan disbursements, and submit the same to the financial institution. The project shall then transfer the required funds to the account of the concerned DWU within ten days from the date of receiving the loan disbursement schedule. The loans shall then be disbursed directly to the member of the ACG without delay.

Article 7: Loan ceilings, lending periods, loan repayment

1. Loan ceilings, i.e. loan amounts to be sanctioned, shall depend on the aquaculture production plan, which households prepare with the assistance of the extension worker and CACMCs. The general maximum ceiling, however, is ... million D/household. The ceiling can only be exceeded in exceptional cases with approval of the financial institution.
2. Repayment of principal – regarding lending and loan repayment periods, two principal cases can be distinguished, i.e. a one-year loan repayment period or an 18-month loan repayment period depending on the production plan. In the case of a 12-month loan repayment period, the entire loan principal will be repaid in one instalment after 12 months. In the case of an 18-month loan repayment period, 50 percent of the principal will be repaid after 12 months and 50 percent after 18 months.
3. Repayment of interest – in both cases, the repayment of interest is monthly and starts from the first month after loan disbursement and continues until the end of the loan repayment period.
4. Overdue loans and late repayment – to ensure financial discipline, the PWUs have the responsibility to ensure the timely repayment of loans by the ACGs. A loan is considered overdue when its repayment is more than three months behind schedule. In this case, the capital development and reserve funds of the CACMCs shall be used for liquidation of such loans.
   In the case of late repayment (1-15 days after the due date), a reminder will be sent by CACMC to the borrower. After 15 days, interest will be charged at the rate of 1 percent per month instead of 0.7 percent.
5. Non-repayment of loans due to floods and death of borrower – if a loan cannot be repaid because ponds have been damaged or fish have been lost because of flooding, a joint assessment of the damage will be made by CACMC and the concerned DWU. The purpose of the assessment will be to see whether a rescheduling of the loan repayment is necessary or whether an additional loan needs to be given. If a part of the loan or the entire loan cannot be repaid, the loan will be liquidated against the capital development and reserve fund of the concerned CACMC. In the case of death of a borrower, members of the borrower's household shall repay the loan. Should these, however, not be in a position to repay a part of or the entire loan, the loan will be liquidated against the capital development and reserve fund of the concerned CACMC.

Article 8: Savings mobilization

1. The following savings mechanism will be introduced:
   - mandatory saving by members of ACGs – members have to deposit savings in order to get credit. Minimum saving is 1 percent of the credit value and from the first month following the loan disbursement, D5 000/household/month are to be saved compulsorily;
   - voluntary saving – CACMCs are to encourage voluntary saving by members in order to increase the programme's capital.
2. Interest on savings deposits (minimum savings period: six months) – interest shall not be less than the interest paid by the Viet Nam Bank of Agriculture.

FIGURE 2
Organizational arrangements of aquaculture microcredit programme

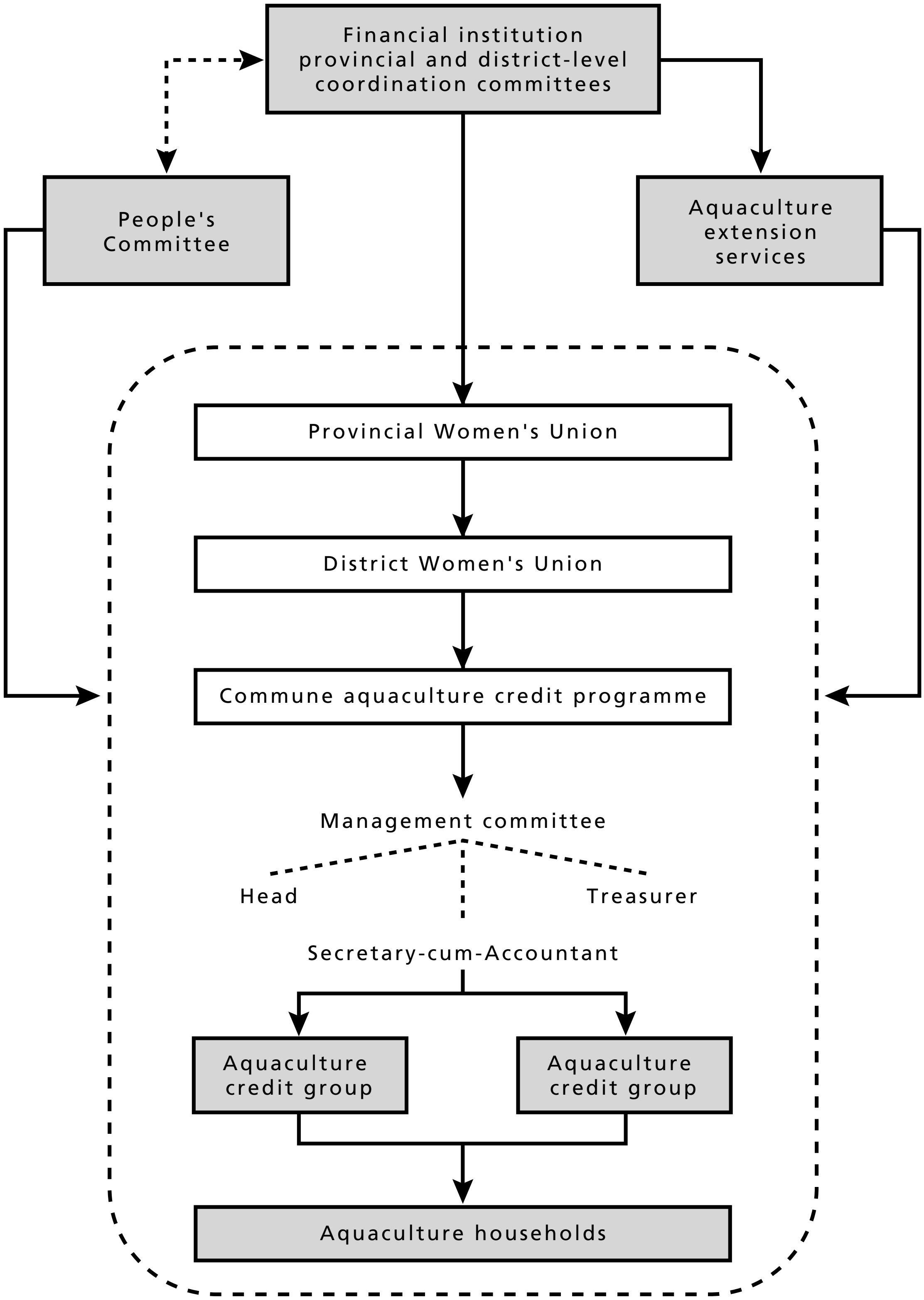
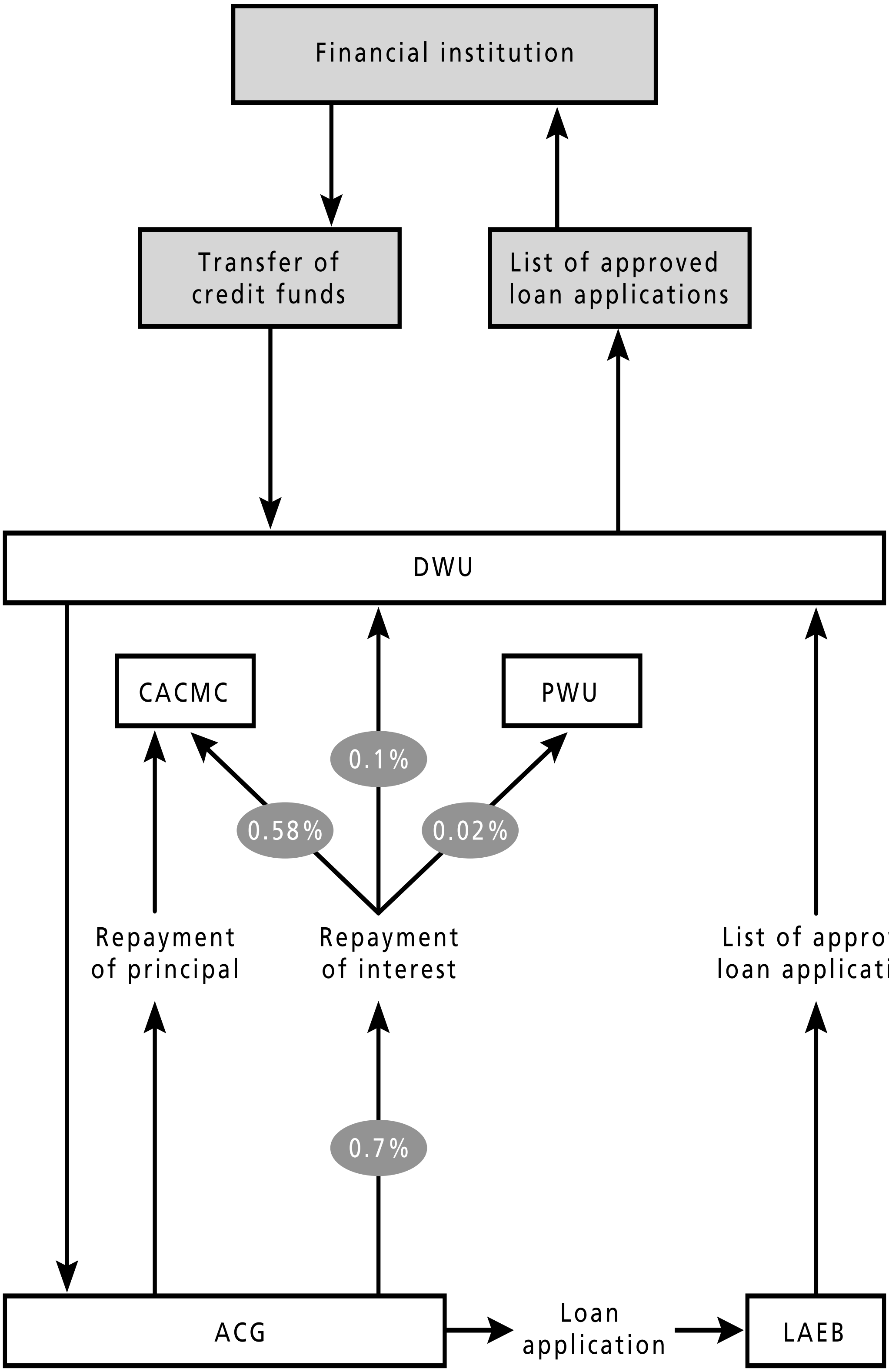


FIGURE 3

Flow of credit funds



3. Withdrawal of savings deposits – savings deposits can only be withdrawn when a member of the ACG ends her/his membership and leaves the group.

Article 9: Documentation
CACMCs shall maintain the following records of their lending and savings operations:
- list of ACG members who have applied for credit;
- membership application forms, loan application forms and loan agreements;
- savings and credit accounts book;
- cashier's book;
- general ledger.

5.3 Forms and records to be used in the aquaculture microcredit programme
The following forms and records will be used in the programme:

For loan application
- Loan application form (Form 1)
- Aquaculture production (Form 2)

For loan appraisal and transfer of funds
- Submission of loan appraisal report from CACMC to DWU (Form 4)
- Request for transfer of funds from financial institution to DWU (Form 5)

For loan agreement
- Loan agreement between CACMC and members of ACG (Form 3)

For financial records, accounts and reports
Records to be maintained by DWU:
- Book of accounts (Form 6)

Records to be maintained by CACMC:
- Credit and savings register (Form 7)
- Borrower's file (Form 8)
- Quarterly progress report (Form 9)

Records of ACG:
- Book of receipts (Form 10)

Records of borrower:
- Loan and savings passbook/vouchers (Form 11)

Form 1

LOAN APPLICATION FORM

1. Residence of borrower

1.1 Village ....

1.2 Commune ....

1.3 District ....

1.4 Province ....

2. Particulars of borrower

2.1 Full name ....

2.2 Age ....

2.3 Gender: Female ☐ Male ☐

2.4 Ethnic group …………..

2.5 Number of identity card ……………

2.6 Living standard of household (as assessed by commune People's Committee) (mark ☒)
Good ☐ Average ☐ Poor ☐

2.7 Female-headed household: yes ☐ no ☐

2.8 Outstanding loans
Has the household any loan outstanding at present? yes ☐ no ☐

- If yes, what is the total amount borrowed? ……………
- From whom was the loan taken? ………………
- When was the loan taken? Date ……………
- When is it due for repayment? Date ………….
- How much of the total has yet to be repaid? ……………

2.9 Full name and postal address of legal inheritor of borrower's household

- Name ....
- Address ……………………
- Relation with head of household ....

3. Loan amount requested (for details see aquaculture production plan)
3.1 Loan amount
In figures D……………. (in words ....dong)

3.2 Purpose of loan
Pond culture ☐ Fish-cum-rice culture ☐ Fish nursery ☐

4. Source of income for repayment

4.1 From fish culture

Two-thirds or more of repayment ☐ about half ☐ less than half ☐

4.2 From sources of income other than fish culture

Two-thirds or more of repayment ☐ about half ☐ less than half ☐

I hereby assure to use the loan for the purpose indicated above, to repay the loan fully and on time and to comply with the regulations of the aquaculture microcredit programme.

Date Loan applicant's signature

Commune People's Committee signature

Commune Aquaculture Credit Management Committee's signature

Form 2

AQUACULTURE PRODUCTION

(to be attached to loan application form)

1. Size of pond, production cycle and expected income

1.1 Size of fish pond/rice field .... m^2

1.2 Date of stocking of pond ……………........

1.3 Date of harvesting of pond and expected income ……………

Estimated date of harvesting	Species to be harvested	Estimated quantity (in kg)	Expected income (in dong)
Total expected income			

2. Expenditure and credit requirements

2.1 Cost of purchase of fish seed

Species of fish	Quantity of fish seed needed	Unit cost (in dong)	Total cost (in dong)
Total cost of fish seed			

2.2 Cost of transportation of fish seed ………………………………. dong

2.2.1 Total cost of fish seed and transportation ....……………. dong

2.3 Cost of labour for pond preparation/renovation ………………... dong

2.4 Cost of equipment/materials (fishing nets, etc.) ………………… dong

Type of equipment	Quantity	Unit cost (in dong)	Total cost (in dong)
Total cost			

2.5 Cost of feed, fertilizers and chemicals/materials for pond preparation

Type of feed, fertilizer, chemicals, etc.	Quantity	Unit cost (in dong)	Total cost (in dong)
Total cost			

2.6 Other costs/expenditures
Specify cost item
Amount .... (dong)

2.7 Total expenditures (2.2.1 + 2.3 + 2.4 + 2.5 + 2.6) .... (dong)

2.8 Equity contribution of borrowing household …………………. (dong)

2.9 Credit requirement of borrowing household (2.7 minus 2.8) …………. (dong)

3. Other sources of household income

Type of income-generating activity	Months during which the activity is carried out	Annual income (in dong)
Total income		

Date Loan applicant's signature

Form 3

LOAN AGREEMENT BETWEEN CACMC AND MEMBERS OF ACG

This loan agreement is made between the Commune Aquaculture Credit Management Committee (CACMC) of ……………. (commune), ……………… district), ………… (province) and …………………. (name of borrower/member of aquaculture credit group [ACG]), resident of ………………………….. (address) on ………………. (date).

1. The Commune Aquaculture Credit Management Committee hereby agrees to provide a loan to …………………. (name of borrower) according to the following terms:
   - The loan amount is … (amount in figures followed in brackets by the amount in letters).
   - The amount will be lent to the borrower for a period of …… (months).
   - The loan interest is 0.7 percent per month. The interest is to be repaid monthly starting from the first month after loan disbursement.
   - In case of late repayment of interest or principal (15 and more days behind due date of repayment), the monthly interest will increase to 1 percent per month.
   - The loan principal shall be repaid as follows:

Due date for repayment of principal	Loan terms		Amount to be repaid
	12 months	18 months	
	100 %	50 %	
		50 %	

2. The borrower hereby:
   - agrees to use the loan for the purpose indicated in the loan application, to repay the loan fully and on time and to comply with the regulations of the aquaculture microcredit programme;
   - authorizes CACMC to use her/his savings deposited with CACMC to repay this loan or a part of it in case of the borrower delaying repayment of loan principal by more than three months;
   - agrees to provide support and cooperation to other members of her/his ACG regarding their aquaculture activity and use and repayment of loans.

Agreed to and signed on behalf of
Head of Commune Aquaculture Credit Management Committee
Secretary-cum-Accountant of Commune Aquaculture Credit Management Committee
Borrower/member of ACG

Form 4

LOAN APPRAISAL

Submission of loan appraisal report from Commune Aquaculture Credit Management Committee to District Women's Union (to be attached to request for transfer of funds from financial institution to DWU)

Commune ………………………. District ……………………… Province …..……….
Date ……………….

The Commune Aquaculture Credit Management Committee (CACMC) of …… ……….. (commune) hereby informs that, in accordance with the regulations of the aquaculture microcredit programme, the Loan Application Examination Board of … ……. (commune) has duly appraised the loan applications submitted by the members of the two ACGs under its jurisdiction.

The Loan Application Examination Board consisted of the following members:
1. Representative of the People's Committee …………………………………
2. Head of CACMC ……………………………………………
3. Secretary-cum-Accountant of CACMC …………………………………………
4. Treasurer of CACMC …………………………
5. Head of Aquaculture Credit Group …………………….
6. Head of Aquaculture Credit Group ……………………..

The Loan Application Examination Board has sanctioned the following loan applications:

Name of borrower	Purpose of loan	Requested amount	Sanctioned amount	Loan term
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

For the Loan Application Examination Board

Representative of People's Committee	Head of CACMC	Secretary-cum-Accountant CACMC

Form 5

REQUEST FOR TRANSFER OF FUNDS FROM FINANCIAL INSTITUTION TO DISTRICT WOMEN'S UNION

District ……………………… Province ……………….

Date ……………….

Dear Madam/Sir,

With reference to the attached submissions of loan appraisal reports from the Commune Aquaculture Credit Management Committees of ………………… (names of communes), you are hereby kindly requested to transfer the funds indicated in the table below to our account ……… (number and details of account).

No.	CACMC	Requested loan (D1 000)				Total (D1 000)
		Loan period 12 months	Amount of loan	Loan period 18 months	Amount of loan	
1						
2						
3						
4						
5						
6						
Total						

Information copy sent to Provincial Women's Union of ………………………………

Date

President of District Women's Union

Form 6

ACCOUNTS OF DISTRICT WOMEN'S UNION

District Women's Union of .... district

Date	Description	Receipt (in dong)	Disbursement (in dong)	Balance (in dong)	Note
Balance brought forward					
Page sum					
Month sum					

Form 7

CREDIT AND SAVINGS REGISTER

Name of commune ....

Date	Description	Income (in dong)			Expenditure (dong)		Balance
		Loan repayment		Savings	Lending	Other[2]	
		Principal	Interest				
1	2	3	4	5	6	7	8
Balance brought forward							
Page sum							
Month sum							

[2] In this column, deposit of funds in a bank account should be entered, payment of interest on savings deposits as well as payment of interest, at the rate of 0.12 percent per month, to the District and Provincial Women's Unions as well as withdrawal of interest, at the rate of 0.28 percent per month, towards the operational expenses of the Commune Aquaculture Credit Management Committee.

Form 8

BORROWER'S FILE

Name of district …………………………………..
Name of province ………………………………….
Full name of borrower ……………………………..
Date of receipt of loan ……………………………..

Loan amount D…………………. (in words ……………………………………… dong)

Loan term ……….. months ……….   Interest rate ……….. percent/month

Date	Payment of principal	Payment of interest	Deposit of savings	Signature of accountant	Signature of treasurer

Form 9

QUARTERLY PROGRESS REPORT

End of the quarter, ... month .... year ……..

Commune .... District ....

Present status at end of quarter

Receipts (in dong)			Expenditure (in dong)		
Description		Amount	Description		Amount
1	Loan amount received		1	Lending	
2	Repayment of principal		2	Operational expenditure of Provincial and District Women's Unions	
3	Repayment of interest		3	Operational expenditure of Commune Aquaculture Credit Management Committee	
4	Interest on bank savings		4	Deposit of funds in bank savings	
5	Savings deposits by members of aquaculture credit groups		5	Payment of interest on savings deposits	
Total			Total		

Change

Description	Previous quarter	Present quarter	Change
Repayment of principal			
Repayment of interest			
Number of loans disbursed			
Savings deposits			

Late and overdue repayment

Description	Number of loans	Amount	Percentage of total lending
Late repayment			
Overdue repayment			

Form 10

BOOK OF RECEIPTS

Aquaculture credit group ……………village ……………. commune ……………..
district …………………………. province ………………………………..

Date	Description	Receipts (in dong)			Signature of borrowers	Signature of treasurer
		Savings	Interest	Principal		

Form 11

LOAN AND SAVINGS PASSBOOK/VOUCHERS

(to be kept with borrower and each transaction to be documented on vouchers)

Full name of borrower …………………………………………
Address ………………………………………………………….

Savings (in dong)					Loan (in dong) Date of receipt of loan ………. Interest rate ……. percent/month Loan amount ………….. Loan term ……. months				
Date	Savings deposit	With-drawal of savings	Balance	Signature[3]	Date	Repay-ment of principal	Payment of interest	Balance	Signature

[3] Signature of group head, accountant or treasurer.