# Approaches and Best Practices for Facilitating Access to Rural Finance/Microfinance Services for Small Scale Fisheries and Aquaculture

**Jocelyn Alma R. Badiola**
**Consultant**

# OUTLINE

1) Extent of Small Fisheries and Aquaculture Development in Some Southeast Asian Countries (Cambodia, Indonesia, the Philippines, Vietnam and East Timor)
2) Importance of Microfinance in Helping the Poor
3) Rural Finance/Microfinance Policy Environment
4) Microfinance in Agriculture and Fisheries: Approaches and Best Practices
5) Issues and Constraints
6) Some Recommendations to Make Microfinance in Agriculture and Fisheries Work

# Overview of Fishery Development In Asia

- NUMBER OF FISHERMEN/FISH FARMERS
  - ✓ 43.5 million commercial and subsistence fishermen worldwide
    - 74% or 32.2 million in capture fisheries
    - 26% or 11.3 million in aquaculture
  - ✓ 4/5 or 37 million from Asia
  - ✓ Numbers do not include those involved in seasonal or occasional fishing and/or aquaculture

# Overview of Fishery Development In Asia

- Critical roles of capture fisheries & aquaculture;
  - Food security
  - Revenue generation
  - Employment
- Contribution of Fisheries to GDP (in %)

| | Capture Fisheries | Aquaculture |
|---|---|---|
| Cambodia | 7.9 | 0.9 |
| Vietnam | 3.9 | 5.2 |
| Philippines | 2.2 | 0.8 |
| Indonesia | 1.8 | 0.8 |

# Overview of Fishery Development In Asia

<u>Employed in fisheries sector</u>

Philippines: 12% of agri employment and 4.3% of total employment

Cambodia: 5% of labor force

Indonesia: About 2 million people

# Overview of Fishery Development In Asia

- Fishers often labelled "the poorest of the poor"
- Majority are small scale, artisanal and coastal operators
- Income generated is generally lower than other sectors
- Many in fishing communities live in deprived conditions; are highly vulnerable to natural hazards i.e., storms and floods

# Poverty Status of Some Asian Countries

- Population living under poverty line
  - ✓ Cambodia: 35% , highest in rural areas and lowest in Phnom Penh
  - ✓ Indonesia: 17.7%; over 70% of fishers are poor
  - ✓ Philippines: 30.4%; 73% of the total poor population reside in the rural areas; poverty level in rural areas is 48.8%; urban areas, 18.6%

# Poverty Status of Some Asian Countries

- ✓ East Timor: About 41% of the population live below the national poverty line of $0.55 per day.
  - Majority of the poor survive on subsistence agriculture and have very little education.

- ✓ Vietnam: 19.5%, most are in the rural areas

# MICROFINANCE AS A TOOL FOR POVERTY REDUCTION

- Smoothing and increasing income
- Practical solution to the growing demand for financial services by the poor
- Unless there is greater access to microfinancial services, the poor will continue to rely on meager funds from informal sources

# BENEFITS FROM MICROFINANCE

- Increase economic activity and income
- Generate employment
- Save and invest in the future
- Guard against emergencies and shocks
- Better investments in health, nutrition and education

# Evolution of Rural Finance/ Microfinance Policies

## Policies of the 1970s

- Implementation of commodity-specific credit programs

  *i.e., Masagana 99 of the Philippines and Bimas of Indonesia*
- Imposition of mandated credit quotas
- Use of subsidized interest rates

# Evolution of Rural Finance/ Microfinance Policies

**Policies of the 1980s and 1990s**

- Deregulation of interest rates
- Promotion of savings mobilization as source of loan funds
- Termination of directed credit programs
- Market-oriented financial and credit policies

# Policy Principles:

- Provision of a conducive policy environment, critical support and capability-building services to facilitate increased participation of the private sector in the delivery of credit;
- Greater role of the private sector in the provision of financial services;
- Adoption of market-oriented interest rates;
- Active participation of government financial institutions in the delivery of credit services and non-involvement of government non-financial institutions in credit decision making.

# Microfinance Environment: THE PARADIGM SHIFT

| | |
|---|---|
| Beneficiaries | Clients |
| Directed credit | Market approach |
| Donor dependence | Financially self sufficient |

# GROWTH RATE FOR ACTIVE BORROWERS

(2006-2007)

| | |
|---|---|
| PAKISTAN | 57% |
| INDIA | 44% |
| INDONESIA | 36% |
| PHILIPPINES | 36% |
| CAMBODIA | 32% |
| VIETNAM | 20% |

# Top 10 MFIs by Number of Active Borrowers (2007)

| Name of MFI | Country | Charter | Borrowers |
|---|---|---|---|
| Grameen Bank | Bangladesh | Bank | 6,707,000 |
| BRAC | Bangladesh | NGO | 6,397,635 |
| Vietnam Bank for Social Policies | Vietnam | Bank | 5,648,140 |
| ASA | Bangladesh | NGO | 5,422,787 |
| Bank Rakyat Indonesia | Indonesia | Bank | 3,515,812 |
| SKS | India | NBFI | 1,629,474 |
| Spandana | India | NBFI | 1,188,861 |
| SHARE Microfin Ltd | India | NBFI | 989,641 |
| Bandhan | India | NBFI | 896,698 |
| Shri Kshetra Dharmasthala Rural Development Project (SKDRDP) | India | NGO | 606,791 |

# State of Rural Financial Market

- Despite the paradigm shift, the state of rural financial markets in developing countries is characterized by low and decreasing availability of financing especially for agricultural activities. Rural areas are often characterized by a paucity of viable financial institutions and lack of variety of financial services available.

# State of Rural Financial Market

## Cambodia

- ✓ Financial institutions generally confined to Phnom Penh
- ✓ MFIs address financing requirements of the poor in the rural areas
- ✓ 17 licensed MFIs, 26 registered credit operators and around 60 small unregistered NGOs operating in the rural areas.
- ✓ ACLEDA Bank - only bank that has extensive branching network in the rural areas.
  - targets the lower segment of the market
  - provides loans to both individuals (for small businesses) and groups (for micro-business loans).

# State of Rural Financial Market

## **The Philippines**

- ✓ Among the few countries in the world that has an established rural finance and microfinance policy and regulatory framework
- ✓ Nonetheless, marginal farmers and fishers continue to have limited access to credit in the Philippines.
- ✓ *Land Bank* - largest single source of credit to small farmers and fisherfolk
  - established in 1963.

# State of Rural Financial Market

## Indonesia

- Rural credit has become sustainable on a large scale via the unit 'desa' (village bank) of Bank Rakyat of Indonesia (BRI)
- BRI is the most profitable and efficient bank

## Vietnam

- Vietnam Bank for Agriculture and Rural Development (VBARD) - major source of credit and savings in rural areas.
- 70% of the poor population reside in rural areas; majority of them have no easy access to rural finance and microfinance

# State of Rural Financial Market

## East Timor

- Microfinance in its cradle, being a war-torn country undergoing rehabilitation.
- Policy and regulatory framework for financial service still incomplete and evolving
- Lack of economic activity slows down the development of microfinance
- Poor households' access to financial services in rural areas is practically nil.
- No strong and leading MFI; no commercial banks engaged in microfinance.

# State of Rural Financial Market

- **East Timor**

- The Instituicao de MicroFinancas de Timor Leste-IMfTL was officially established in December 2001 to address the needs of the poor, especially women but over ninety percent of its loan portfolio is said to be in the form of salary loans.

- In 2003, eleven microfinance providers, including IMfTL, formed an informal working group, which in 2004 turned into the Association of Microfinance Institutions in Timor Leste (AMFITIL) (UNCDF, 2005). This association still exists but only three of its MFI-members have remained active and operational, particularly IMfTL, Tuba RAi Metin (TRM) and Moris Rasik.

# State of Rural Financial Market

- **East Timor**

✓ Remarkably few loans actually go into agriculture. Both Moris Rasik and TRM have discussed and made attempts to engage in agricultural lending but are discouraged because of the failure of past agricultural credit programs like the World Bank- initiated Community Empowerment Project I-III and the Small Enterprise Project I-II which had to be terminated because of low repayment rates and major losses (Conroy, 2004).

# State of Rural Financial Market

- Major development financial institutions in Asia found it imperative to devise efficient and effective agricultural finance strategies  that will provide sustainable, timely and adequate financial services to poor agricultural and fishery households.

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

## <u>Vietnam Bank for Agri. and Rural Dev't</u>

*Group Lending Model: VBARD-Farmers' Union*

- Formation of borrower-savings group of 5-7 members
- Farmers' Union manages group formation, over-all operation of groups including loan application assessment and loan collection
- VBARD disburses the loans and covers the operating fees of the Farmers' Union, organizes and conducts regular training on borrowing procedures ; invites agricultural organizations to give lectures on cultivation, aquaculture, animal husbandry, etc. .

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

- **<u>VBARD</u>** *Group Lending Model: VBARD-Farmers' Union*
- Group leaders, local authorities and bank officers meet once a month to get updates on the performance of the members and the socio-economic situation of the area so that they can work out suitable plans and measures.
- Central Farmers' Union provides group members with updates on government agricultural policies and regulations
- Model also provides platform for farmers to learn and share technology and experiences in farming, fishing and other business endeavors

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

**<u>VBARD</u>** *Group Lending Model: VBARD-Farmers' Union*

- Debt repayment is 98% (principal and interest)
- 85,425 groups; plan to double number of borrowing-saving groups by 2020
- 1,494,409 member households; 40% women
- Outstanding loans: USD 1 billion (VND 16,820 billion), 16% of which are loans to farming/fishing households.
- Member-deposits: USD 0.6 billion (VND 10,000 billion)

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

**ACLEDA Bank of Cambodia**

- ✓ Adjusts loan terms and conditions to adapt to the situation of every borrower.
- ✓ Makes conscious effort to acquire more info about borrower by direct inspection instead of relying on documents
- ✓ Collateral used wherever available but premium is placed on the applicant's character and personality
- ✓ Smaller loans are given initially, and increased based on repayment performance

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

**ACLEDA Bank of Cambodia**

- ✓ Has separate requirements for more established clients
- ✓ Employs the solidarity group lending approach when providing microfinance services.
  - *Groups of 2-10 members*
  - *Group members guarantee each other's loans, replacing the traditional collateral requirements.*
  - *Approval is based on the group's application.*
  - *Access to subsequent loans is dependent on successful repayment by all group members*
  - *Loan amount can be increased depending on the absorptive capacity of borrower*

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

- **<u>ACLEDA Bank of Cambodia</u>**

✓ Provides basic training on business plan development

- Done close to the clients' residence.
- Trainings are very simple; illiterate clients bring literate relatives to help with reading , writing and calculation

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

- **<u>AMRET of Cambodia</u>**

✓ *Group Lending Model: AMRET-Village Assoc.*

- Village association composed of several groups of 5 members each
  - Headed by a Chairman and Vice-Chairman.
  - Acts as intermediary by borrowing funds from AMRET and lending to members
- Village Association Committee does not deal with cash management and record keeping which are handled by AMRET credit officers
- Village Association largely tasked with administrative work and is also partly involved in decision-making

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

- **<u>AMRET of Cambodia</u>**

✓ *Group Lending Model: AMRET-Village Assoc.*

- Model allows AMRET to provide financial service to more clients and can better sustain its services to more rural areas over the long-term.
- 1,384 village associations
- 119,183 active borrowers, 75% female
- 95% are borrowers of group loans
- 8% involved in fishing activities
- Average outstanding loan
  - USD80 per borrower in a group
  - USD258 in the case of individual loans

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

**Bank Rakyat of Indonesia (BRI)**

- ✓ Lends directly to individual fishers and farmers who belong to microfinance groups at the village level
- ✓ Local village officials are involved in the screening by acting as character references for the borrowers
- ✓ Lending is accompanied by compulsory saving schemes. Each group receives training and selects from among them a group head, accountant, cashier and teller.
- ✓ BRI provides up to IDR 3 million without collateral and up to IDR 50 million with collateral (may be in the form of village savings account (SIMPEDES), land, furniture, motorcycle, etc. )

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

**Bank Rakyat of Indonesia (BRI)**

- ✓ Loan amounts depend on the borrower's current income or cash flow.
- ✓ Lending procedures are made simple, timely and flexible and include: registration of a loan application; an evaluation of the proposed collateral, if any;
- ✓ Loan disbursement and repayment schedule is made compatible with the cash flow of the proposed economic activity;
- ✓ Maximum period between the registration of a loan application and the decision on whether the application is rejected or approved is only 7 days and less than 7 for repeat borrowers.

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

**Land Bank of the Philippines**

- Continues to adjust strategies to meet the requirements of rural households to reach out to more small farmers and fishermen and, at the same time achieve efficiency and sustainability in operations
- Taps lending conduits to undertake agricultural microfinance operations that are grassroots-based such as non-government organizations (NGOs), people's organizations (POs) and farmers' organizations including irrigators' associations (IAs)

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

## Land Bank of the Philippines

- Implements Agri-Fishery Microfinance Program (AFMP) in cooperation with the Agricultural Credit Policy Council
- Features of AFMP :

1) *non-requirement of hard collateral*
2) *repayment scheme based on entire household's cash flow rather than highly seasonal farm incomes; and*
3) *risk and income diversification by financing off-farm and/or non-farm micro-enterprises apart from the main farming activity.*

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

**Land Bank of the Philippines**

- ✓ Conduits, particularly cooperatives and rural banks have simplified its lending procedures under Land Bank's microfinance program.
- ✓ Borrowers exempted from submitting the usual documentary requirements for credit evaluation and approval, e.g., audited financial statements or statements of income and expense which borrowers find hard to comply.
- ✓ Conduits adopt a zero tolerance for loan default to ensure borrower discipline and sustainability of the MFI. Prior to lending, borrowers undergo social preparation and are given technical assistance to assist them in handling microfinance loans.

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

**Land Bank of the Philippines**

- ✓ The AFMP is open to credit retailers that have at least 6 months experience in any of the microfinance methodologies (whether group or individual lending). The program offers the following services: 1) financing component through the Land Bank rediscounting and loan facilities, wherein the amount that can be rediscounted is 100 percent of the value of sub-borrowers' promissory notes; and 2) deposit hold-out coverage, the funding of which is provided by the DA-ACPC to guarantee the loan principal exposure of Land Bank to the

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

**<u>Land Bank of the Philippines</u>**

- ✓ Implements the *Agricultural Guarantee Fund Pool or AGFP* to provide guarantee cover to unsecured loans extended by financial institutions and other lending conduits (i.e. Rural/Cooperative Banks, cooperatives, NGOs, SMEs, etc.) to new small farmer-borrowers engaged in rice and/or food production projects/activities including fisheries. This is to encourage more financial institutions to lend to the agriculture and fisheries sector especially the marginal farmers and fishermen.

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

**East Timor**

- ✓ Microfinance Institutions banded together to form the Association of Microfinance Institutions in Timor Leste (AMFITIL) in order to help make East Timor's microfinance system more effective and efficient.
- ✓ This association still exists but only three of its MFI-members have remained active and operational, particularly IMfTL, Tuba RAi Metin (TRM) and Moris Rasik.

# Microfinance in Agriculture and Fisheries: Approaches and Best Practices

**East Timor**

- ✓ These MFIs target women as primary clients and employ solidarity group lending.
  - Patterned after the Grameen Bank model, MFIs organize peer groups of 5 members, composed mostly of women, are organized and incorporated into village centers of up to 8 peer groups. Membership is limited to people who live in the same village and who have similar economic resources.
  - Group members perform loan appraisal.
  - Access to loans is phased whereby 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.

# Major Issues and Constraints

- Very limited access to formal and informal credit due to:
  - ✓ Lack of viable and profitable aquaculture projects and the attendant risks such as weather aberrations; peace and order conditions; poor technology; marketing or distribution problems
  - ✓ Fishfarmers not considered creditworthy

Why are fishfarmers not considered creditworthy?

- Lack physical and livelihood assets (for collateral)
- No technical or technology expertise
- Individualistic, not functionally organized, locationally dispersed, and have no critical mass to warrant economies of scale in production, marketing, and post-harvest handling operations ; and
- Do not have good credit history, and the banks do not have a reliable database on their financial, livelihood, and character standing .

# Major Issues and Constraints

- Government and private FIs are constrained by the lack of viable and bankable financial products or "lending technology" for aquaculture or fish farmer credit.
  - Most poor rural households in fishing communities require consumption loans to mitigate short-term cash flow problems or to meet unforeseen expenditures but most banks do not have such products as they only provide production loans.
- Some of these institutions also view small loans and marginal borrowers as social obligations rather than a potential business opportunity. Small clients are treated as beneficiaries and not as partners.

# Major Issues and Constraints

- ✓ Banks are discouraged by the high transaction costs of lending to small borrowers given the number of trips to be made and the documents to be furnished not to mention the illegal charges that need to be paid in most developing nations.
- ✓ Thus, financial institutions are not able to immediately respond to the requirements of the poor households in fishing communities, leaving majority of these households without access to financial services.

# Making Microfinance in Agriculture and Fisheries Work: Some Recommendations

- There is no single product or technology that can make microfinance work in agriculture and fisheries.
- What is important is for that product or technology to take into consideration the requirements and peculiarities of the institution's target clients and/or areas.

# Making Microfinance in Agriculture and Fisheries Work: Some Recommendations

- MFIs should be able to tweak a product's loan terms and conditions in order to fit or fine-tune to the needs of intended clients:
  - ✓ ***Loan size and purpose*.**
    - Base loan amounts on the purpose, the borrowers' debt and absorptive capacity, and on the regulations followed by a given financial intermediary. The amount of credit should be in accordance with the production or investment needs of a borrower.
    - Loans should not be limited to fisheries-related activities only, but include other livelihood opportunities available to members of the fishing community

# Making Microfinance in Agriculture and Fisheries Work: Some Recommendations

- ***Interest Rates, Lending Procedures and Repayment Periods***
  - Interest rates cover costs of financial institutions
  - Lending procedures should be flexible, timely and demand-oriented. Time taken for processing of a loan application should be kept to the minimum and loans should be disbursed when the funds are actually needed
  - Loan repayment periods and frequency of loan repayments should be based on the borrower's cash flow.

# Making Microfinance in Agriculture and Fisheries Work: Some Recommendations

- ***Interest Rates, Lending Procedures and Repayment Periods***
  - Follow a loan supervision schedule to ensure the proper use of a loan as well as timely repayment. Loan supervision schedule should be mentioned in the loan agreement. Depending on the type of loan and the borrower, different time intervals and methods of monitoring may be followed and different institutions may be involved.

# Making Microfinance in Agriculture and Fisheries Work: Some Recommendations

- ***Documentation and Collateral Requirements***
  - Documentation should be kept simple and short as some, if not most, are illiterate or unschooled.
  - In lieu of hard collateral, financial institutions may require the following:
    - Household or business cash flow for a particular period
    - Character reference from persons of authority like the village chief or parish priest
    - Co-Maker or Guarantor
    - Group Guarantee or Joint Liability if a group member

# Making Microfinance in Agriculture and Fisheries Work: Some Recommendations

- *Establish linkages and networking*. This requires well-planned social marketing of the project, effective institutional development and training program in community organizing, technology packaging and transfer, and strengthening of fisherfolk, cooperatives and associations, particularly their savings and lending capability and creditworthiness as well as support to project development and packaging, overall project execution and management, and market linkaging.

# Making Microfinance in Agriculture and Fisheries Work: Some Recommendations

- *Support interventions to help improve the investment climate and viability of aquaculture finance:*
  - ✓ Provision of public or social goods (support infrastructure facilities (e.g., farm-to-market roads, rural bridges, irrigation and drainage facilities, electrification, transport and logistics systems, post-harvest facilities, potable water supply) which reduce production and marketing costs;
  - ✓ Technical assistance via technology transfer and commercialization in terms of the research, development, and extension (RD&E) support continuum; and
  - ✓ Social, educational, and health services that enhance the productive capacity of fisherfolk.