

Chapter 35

Prospects of micro-financing in fisheries sector

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Unless all the discoveries that you make have the welfare of the poor as the end in view, all your workshops will be really no better than Satan's workshops.

- Mahatma Gandhi

The major challenges to any developing society are poverty and economic deprivation of its rural population. Eradication of poverty, the focus of all developmental efforts has remained a very complicated and serious concern among developing countries. Poverty is abysmal rooted covering several interlocked aspects such as lack of asset, under employment, uncertain and relatively unproductive employment, low remuneration, economic vulnerability, illiteracy, social disadvantage etc.

The rural areas were found to be more prone to poverty, even if it exists in urban areas also. The rural poor are perpetuating poverty and are the victims of the "vicious cycle of poverty". Fishing communities in the coastal belts all over the world are also not an exception to this. Poverty in fishing communities is very common and is characterized by high population density, poor living conditions, lack of proper education and poor access to education and health care. Due to poor attention paid by the state, the infrastructure support like roads, electricity, good drinking water, markets etc also are be poor. Though efforts for reducing fishing pressure is taken by Government, scope for alternative employment opportunities are less. Thus those sector that are in engaged in the world's most dangerous occupations, are considered on par with SC/ST communities as far as India is concerned. The loss of a boat, gear or an active fisherman in the family can be tragic and lead to total financial deprivation of the family. Hence poverty and vulnerability in fishing communities is widely known but poorly addressed issue. As in rural farming sector, dependence of fishing communities on private moneylenders continues in many areas, especially for meeting emergent requirements. For various reasons, credit to these sections of the population has not been institutionalized.

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. But while considering micro finance programmes for fisheries sector, there should be special considerations that are unique to fishing communities and need special consideration. Instead of random payment of loans to target sectors and populations, efforts were taken for setting up and building local institutions that cater for the poor. This resulted in the materialization of microfinance institutions (MFIs) that serve the rural poor. MFIs initially started providing microcredit but have now extended their services to savings, insurance etc.

What is Micro Financing?

Micro finance refers to a category of financial services, including loans, savings and insurance, to benefit poor entrepreneurs and small business owners who have no collateral and wouldn't otherwise qualify for a standard bank loan or lack access to the mainstream finances.

Micro Finance Institution, also known as MFI, a microfinance institution is an organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services.

Microcredit is the extension of very small loans (microloans) to impoverished borrowers who typically lack collateral, steady employment and a verifiable credit history

In Indian context, Microfinance Institutions Network (MFIN) is an association for the microfinance sector. Its member organizations constitute the leading microfinance institutions in the country. MFIN is a primary representative body and the Self-Regulatory Organization (SRO) for Non Banking Finance Companies (NBFC)

The mechanics of a microfinance operation basically involve three levels:

- i) the borrowers who take out loans that they invest in micro businesses;
- 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.

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.

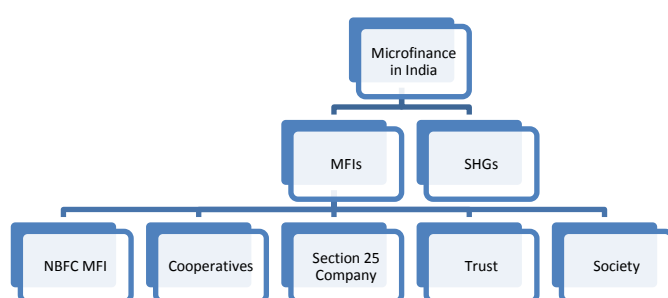
Group-based lending may have a more practical applicability for small-scale fishers and fish farmers. This involves lending to groups of people, either to individuals who are members of a group who guarantee each other's loans, or to groups that sub loan to their members. Self-help groups (SHGs) are prominent in this model.

Micro banking –Indian context

Microfinance Institutions (MFIs) are regulated by the Reserve Bank of India (RBI). MFIs currently have a membership of 42 NBFC MFIs, which on an aggregate basis constitute over 89% of the microfinance business in India.

The major types of microfinance involving credit linkages with banks in India are (i) SHG - Bank Linkage Model: This model involves the SHGs financed directly by the banks viz., CBs (Public Sector and Private Sector), RRBs and Cooperative Banks. (ii) MFI - Bank Linkage Model: This model covers financing of Micro Finance Institutions (MFIs) by banking agencies for on-lending to SHGs and other small borrowers.

Figure 1: Microfinance Situation in India



MFIs currently operate in 29 States, 4 Union Territories and 588 districts in India. The reported 166 MFIs with a branch network of 12,221 employees have reached out to an all time high of 39 million clients

with an outstanding loan portfolio of Rs 63,853 crore. Of the total, NBFC-MFIs contribute to 85% of clients outreach and 88% of outstanding portfolio, while NGO MFIs contribute to the remaining. MFIs with portfolio size of more than Rs 500 crore contribute significantly to the total outreach (85%) and loan outstanding (88%) of the sector.

In the last one and half decades, Self Help Groups have emerged as a new paradigm for combating poverty and rural unemployment in India. 'Grameen Bank of Bangladesh, the brain child of Prof. Mohammed Yunus, can be referred to be the precursor of Self Help Groups or micro credit groups or lending groups. Self Help Group (SHG) mode of Savings and Credit was reported to be very efficient by NABARD and ILO due to their potential to bring together the formal banking structure and the rural poor for mutual benefit and that their working has been encouraging. Now it has become a country wide movement, followed by the NABARD sponsored SHG-Bank linkage programme, which started in 1992. Pathak (1992) observed that the SHG, being comprised of group of persons, gets empowered to solve most of their problems like, raw materials and input supply, marketing, better adoption of technology, education and training for realizing the human potential for development. Since the SHG movement is now a country wide programme, it is essential to assess the impact of SHGs in terms of empowerment, especially in view of the dearth of such studies. Same was reported to be true in the case of fisheries sector by Vipinkumar.V.P* & Swathi Lekshmi.P.S (2012)

Coming to Indian fisheries, constituting about 6.3% of the global fish production, the sector contributes to 1.1% of the GDP and 5.15% of the agricultural GDP. The total fish production of 10.07 million metric tonnes presently has nearly 65% contribution from the inland sector and nearly the same from culture fisheries. But the coastal fishing villages in India are thickly populated as fishermen prefer to stay along the coast line owing to access to sea. As in other part of the world, especially in the developing countries, poverty and vulnerability are the typical features portraying the traditional fishing communities.

The scope of extending micro finance to fishing communities is already explored in India and has found fruitful in the past few years. The scattered attempts are to be further extended and scaled up at national level, for which efforts are on the way.

Who are providing micro finance providers?

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 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.

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

While attempting to provide micro finance in fisheries sector, those services could include the following:

Principles of financially viable lending to poor entrepreneurs

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

- 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.)

Some more points to take into account are given below:

- As seasons play a critical role in the success of capture fisheries and fish farming, the availability of credit should be assured in time. Also, as capture as well as culture fisheries are occupations requiring fairly good level of skill, required training and technical guidance are crucial for the success of their endeavours. The organisations involved must take a note of these point also to enable the fisherman succeed in his venture and repay the loan in time.

- A thorough understanding of the socio-cultural 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.
- Analysis of different socio-economic subgroups in fishing communities, to identify the subgroups most in need of financial services to support their enterprises
- It is highly relevant to study important demographic and socio-economic changes have taken place in recent years in coastal fishing communities
- As income is not regular or uniform from both capture and culture fisheries, 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.
- Preference should be for those who already have identified or existing microenterprises but who need financial services, either to expand or build up their asset base, compared to those planning to start from scratch
- 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. 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 more involved in land based trading/vending, processing 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.
- Global experience has demonstrated that subsidized interest rates are not financially sustainable. 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
- Successful group-based lending usually starts with small loans, gradually increasing based on repayment history. The guiding

criteria for both fishery and non-fishery based projects should be the viability and profitability of the chosen economic activities.

- 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 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. Voluntary savings operate on the principle that the poor already save and only require appropriate institutions and services to meet their needs. (Uwe Tietze and Lolita v. Villareal 2003)

Paying attention to the voice of the poor is as paying attention to the Almighty. Saving our planet, lifting people out of poverty, advancing economic growth... these are one and the same fight. We must connect the dots between climate change, water scarcity, energy shortages, global health, food security and women's empowerment. Solutions to one problem must be solutions for all...Ban-Ki-moon

Further reading

Uwe Tietze and Lolita v. Villareal 2003. FAO Fisheries Technical paper on Microfinance in fisheries and aquaculture: Guidelines and Case studies

Vipinkumar.V.P & Swathi Lekshmi.P.S (2012) A study on impact of microfinance institutions on the coastal indebtedness in marine fisheries sector of Karnataka. G.J. B.A.H.S., Vol. 1(2): 18-27 ISSN - 2319 – 5584*

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