



# Micro-credit & COMMUNITY BASED FISHERIES MANAGEMENT





## BACKGROUND

The fishing community in Bangladesh is characterised by the poor with the majority possessing very few assets. The fishers rely primarily on fishing for their livelihoods. The declining trend of fish production from capture fisheries over the last three decades has negatively affected their livelihoods. They are unable to move to other profitable income earning activities due to limited access to finance.

Fishers have very limited access to formal financial institutions such as banks for credit support, so they rely on NGOs for credit. Poor people also rely on other sources of credit such as money lenders (*mohajons*) and neighbours during financial crises, for example, payment of lease money for *jalmohals*, investing in fish culture or other fisheries management activities. They also face various shocks such as physical illness, crop losses due to floods and loss of productive assets. Generally, money lenders exploit the poor people and their vulnerability in many different ways: buying their productive assets at relatively low prices, buying labour, standing crops and stocked fish in advance.

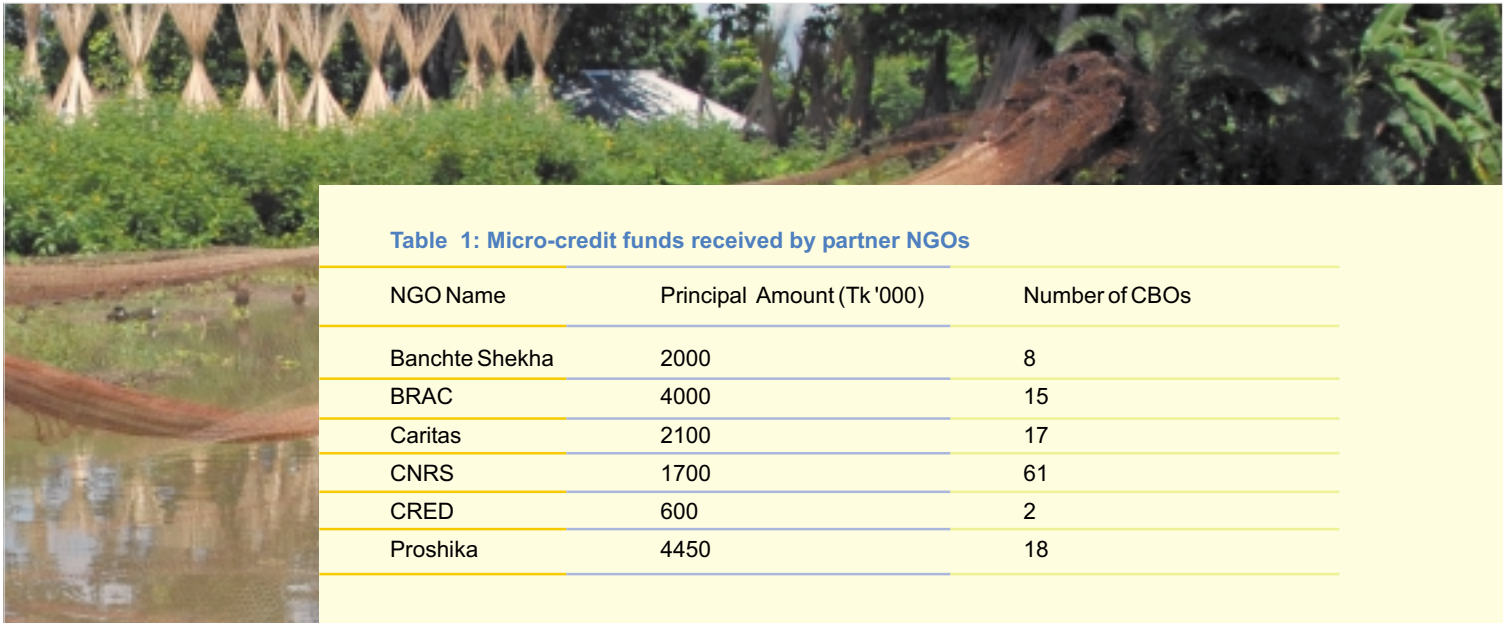
The CBFM-2 project addressed these issues by supporting poor fishers with micro-credit to improve their livelihood options. One of the main objectives of the project was to introduce more sustainable fisheries management systems to reduce overexploitation of natural fish stocks in open water capture fisheries. Fishing effort was reduced through different conservation measures such as establishing sanctuaries, declaring a fishing ban during closed seasons usually April to June and reducing the use of destructive fishing gears. However all these measures have potentially negative short-term impacts on the livelihoods of poor fishers. Project micro-credit support aimed to help mitigate these crises and reduce their dependence on exploitative money lenders.

Six out of eleven CBFM-2 partner NGOs<sup>1</sup> specialised in micro-credit, received a total of Tk 15.2 million (equivalent to 3.3% of the project budget) as grants from DFID to establish revolving loan funds (WorldFish Center, 2002) from which they provided credit to households based on their needs and their capacity to use it.

CBFM-2 project impact studies have shown that the Community Based Fisheries Management approach has successfully contributed to improve the livelihoods of households in project areas. This report brings together information on the micro-credit aspects of the project and follows a consultancy report which assessed the experiences and capacities of partner NGOs and CBOs to operate micro-finance operations. Finally it recommends whether the Community Based Organisation (CBOs) will be able to manage micro-finance during the post project period.

1. Banchte Shekha, BRAC, Caritas, CNRS, CRED and Proshika





**Table 1: Micro-credit funds received by partner NGOs**

NGO Name	Principal Amount (Tk '000)	Number of CBOs
Banchte Shekha	2000	8
BRAC	4000	15
Caritas	2100	17
CNRS	1700	61
CRED	600	2
Proshika	4450	18

## Micro-credit in CBFM-2

Six partner NGOs were given the responsibility of disbursing micro-credit to households and community groups. There were two different types of micro-credit:

1. To help individuals and households to undertake alternative income generating activities (AIGAs), and
2. To meet urgent one-off expenses of community groups such as the initial payment of lease fees, costs for the first stocking of fish in closed *beels*, costs for constructing sanctuaries and other fisheries conservation activities.

The one-off group loans have been referred to as revolving funds. However they are actually grants that are not re-paid by the CBO to the partner NGOs. The AIGA micro-credit was generally extended through the mainstream microfinance operations of the partner NGOs. A typical system was to offer loans for a one year period and the borrowers repay by instalments on a weekly basis. For AIGA loans the partner NGOs charged a 12% flat rate of service charge interest. This is lower than their normal interest rates (around 15%) for regular micro-credit programmes. Any interest accrued by the partner NGOs was added to the principal amount of money because their operating costs were already covered by the project.





## Sources of Credit

The CBFM-2 impact study found that access to credit from both formal and informal sources had increased over the project period. In project areas both CBFM-2 beneficiary and non-beneficiary households were receiving significantly ( $P < 0.01$ ) higher amounts of credit in 2006 compared to 2002.

The households received credit from a range of sources: *mohajons*, grocery shops, wholesale fish traders, local societies, relatives, friends and neighbours. In the project area, fishers received a significantly greater ( $P < 0.01$ ) amount of financial support from neighbours and relatives in 2006 compared to 2002. Non-fishers also received a greater amount of loans from these

sources. However the rise was not statistically significant. This indicates that fisher households in project areas had better access to informal loan sources due to their frequent interaction with different stakeholders in and outside their community.

The study found that project beneficiary households had not increased their dependency on loans from informal money lenders (*mohajons*), as much as non-fishers and control households had. Non-fishers became heavily dependent on *mohajons* over the project period (Table2). These findings indicate that CBO fishers have been better able to source other non-institutional sources of credit over the project period.

**Table 2: Average value of loans received by households (Taka/household/year)**

Sources	Beneficiary		Non-beneficiary	
	2002	2006	2002	2006
<i>Mohajons</i>	562	754	423	1,114
Local Credit Society	308	387	429	446
Someone else	97	363	356	295



## Access to NGO Credit

The impact study showed that beneficiary households received micro-credit from both CBFM-2 partner NGOs and other NGOs. The average amount of loans received by households who accessed NGO credit funds in project areas was lower than that received by households in the control sites during the baseline survey in 2002 and in the impact survey in 2006. However, the percentage increase in the average amount of credit received was similar for project and control households (22%) over the project period (Table 3).



**Table 3: NGO credit received by households (Taka/year)**

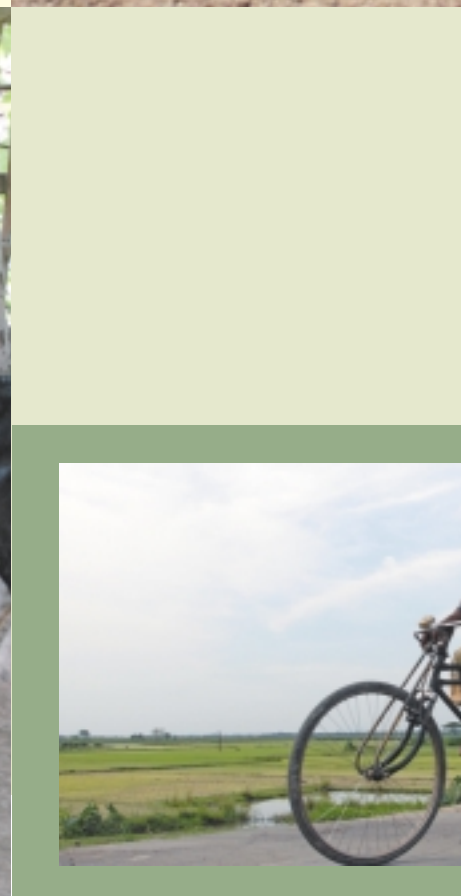
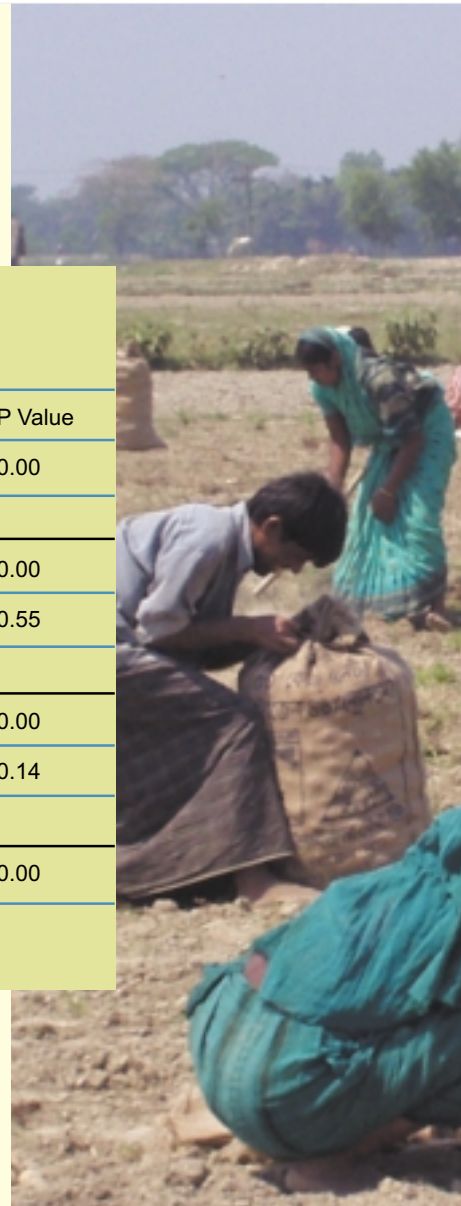
	2002	2006	% change
Project	5,435	6,630	22.0
Control	6,323	7,686	21.5

In CBFM-2 project areas, households increased the average amount of credit received from partner NGOs by 25% over the project period. Similarly, there was a 24% increase in the average amount of credit received by households from other NGOs over the project period (Table 4). The increase in credit received from both partner and other NGOs is highly significant ( $P < 0.01$ ). This indicates that partner NGOs did not provide enough credit to satisfy the demand from project beneficiaries.

**Table 4: Credit received by households in project areas from NGOs (Taka/household)**

	2002			2006			P Value
	N	Mean	SD	N	Mean	SD	
Partner NGO Savings	182	1,004	985	447	1,382	1597	0.00
From partner NGO							
Loans	120	4,290	2034	300	5,383	3616	0.00
Other NGO Savings	542	1,448	2199	848	1,518	2085	0.55
From other NGO							
Loans	428	5,756	3811	769	7,116	5295	0.00
All Savings	724	1,337	1974	1295	1,471	1931	0.14
All							
Loans	548	5,435	3550	1069	6,630	4942	0.00

The amount of credit disbursed by the partner NGOs varied widely. The average loan sizes recorded by a 2005 micro-credit survey were Tk 6,813 for BRAC, Tk 5,706 for Banchte Shekha, Tk 3,857 for Caritas and Tk 26,000 for Proshika.







## Diversification of Income

One of the main objectives of the CBFM-2 project loan was to encourage the poor fishers to undertake Alternative Income Generating Activities (AIGAs) so that fishing pressure was reduced in the breeding season. Among the AIGAs, crop farming, fish culture, fish trading, other small trades and rickshaw pulling were found to be most important. Other loans included purposes like boat purchase, net/gear purchase and the payment of lease money, which are not really related to the AIGA.

The CBFM-2 impact study showed that fishers have moved into other non-fishing occupations and thus reduced the fishing pressure on fisheries. In closed *beels*, the number of fishers that left fishing was more than the number of newcomers that started fishing.

The CBFM-2 partner NGOs provided skill training to the beneficiary households to undertake new enterprises. The improvements in income from these activities were statistically significant ( $P < 0.01$ ) for the households over the project period. It appears that micro-credit is crucially important for poor households in improving income and overall livelihoods. However, it is evident that partner NGOs were able to create awareness among the fishers to improve linkage with other credit sources, not just CBFM-2 micro-credit.

## Accumulation of Financial Capital

As well as micro-credit, many NGOs operate savings schemes where money is deposited on a regular basis by beneficiaries and held in the NGOs' bank account until needed. The build-up of savings by a household is counted as an important indicator of their financial strength and is often used as an important criterion for decisions on loans. In project areas, the households that were affiliated with partner NGOs increased their savings by a significantly greater amount than households associated with other NGOs (Table 5).



**Table 5: Accumulation of savings by households in project areas (taka/household)**

	2002		2006		Mean Diff.	T-value
	N	Mean	N	Mean		
Partner NGO	181	1010	446	385	375	2.94
Other NGO	489	1605	720	1788	183	1.10

## Women and Micro-credit

Many NGOs in Bangladesh target women for their credit programmes. The main reason for targeting women is that they tend to repay their loans on time and the recovery rates of loans given to women members are very high compared to those given to their male counterparts. In the CBFM-2 project, women are not directly involved in capture fisheries management except in Goakhola Hatiara *beel* (a cluster of eight small privately owned floodplains) where the women participate actively in the management of the fisheries.

In other project sites, women help their husbands in fisheries management activities in the form of repairing fishing gears, carrying brush piles for the establishment of fish sanctuaries, and keeping watch on the *beels* to protect from poaching in some project water bodies. Since so few women members are directly involved in the CBFM-2 project, the partner NGOs had the option of providing micro-credit to women members. However, the women in project areas were found to be sourcing loans from NGOs throughout the project period.

The impact study found that the number of women borrowers increased in CBFM-2 closed *beels* and rivers over the project period. However, the number remained the same in open and floodplain *beels*. This indicates that women members of the sampled households have joined NGOs and borrowed credit in the CBFM-2 closed *beels* and rivers. It is interesting that the women from fishing households have received relatively higher amounts of credit than those in non-fishing households. These findings indicate that poor women in the fishing community were not bypassed by the NGOs (CBFM-2 partner NGOs and other NGOs).

The impact study also found that women in CBFM-2 beneficiary households have increased their income in



all types of water bodies except the rivers. The credit received by women was utilised for different productive purposes, however, the study also shows that women borrowers did not utilise all the credit available. They used about half of the total credit received from NGOs by lending to others. It appears that the NGOs were not sure about the utilisation of credit that has been provided to women members. Moreover, the performance of the NGO workers is determined by better recovery of their loans. The field level NGO staff rely on a few group leaders who are responsible for the recovery of the loans from the group members. Reliable group leaders have received repeat loans that they provide to others on the condition that they will repay in weekly instalments. Among the non-fishing activities, the main AIGA of women beneficiaries were livestock rearing, homestead gardening and tailoring. They earned a reasonable amount of income from these activities.





**Table 6: Women members' income from non-fishing activities Taka/household**

Sources of income	Project		Control	
	2002	2006	2002	2006
Collecting snails	25	13	7	1
Livestock rearing	491	774	395	828
Homestead garden	72	56	56	123
Post-harvest work	17	51	11	116
Domestic/maid servant	37	46	7	64
Labouring	57	251	20	188
Handicrafts/tailoring	50	90	116	308
Poultry	5	284	0	54
Total	754	1626	612	1691

## Partner NGOs and Micro-credit

A recent micro-credit consultancy study for the CBFM-2 project has shown that the overall performance of partner NGOs in managing micro-credit has been mixed. The consultant concluded that for most of the partner NGOs CBFM-2 credit operations will not be financially viable on a long-term basis because of the relatively small portfolio size. This may be more of a problem for the medium and small sized NGOs because the large NGOs can absorb the operating costs into their other credit activities. The micro-credit study also concluded that weak supervision of credit operations of some of the partner NGOs resulted in defaults. Poor accounting and financial reporting were also reported as important reasons for poor performance of credit operations (Alamgir, D.A.H -2006, Strategy Development for Project Management of Microfinance Activities/Funds in CBFM-2 and CBFM-SSEA Projects. 2006 ).



**Table 7: Status of micro-credit funds and recovery**

NGO Name	Total no of borrowers		Recovery rate (%)
	Male	Female	
BRAC	996	0	100%
Proshika	677	539	80%
Caritas	1765	390	80%
CRED	297	97	84%
BS	0	945	91%
CNRS		873	99.71%

**Source:** Alamgir, D.A.H (2006), Strategy Development for Project Management of Microfinance Activities/Funds in CBFM-2 and CBFM-SSEA Projects. 2006

Evidently there needs to be a sufficient volume of micro-credit for its efficient management but there also needs to be effective management. The best example is Proshika - a large NGO in terms of portfolio size of loans but due to their weak supervision in repayment of loans it was poorly rated by the consultant. Local, smaller NGOs such as CRED had problems managing their micro-credit due to weak supervision, disputes among the CBO members and frequent loan defaults. It appears that strong portfolio backup is required to operate CBFM-2 credit operations efficiently.

## Micro-credit and CBO Sustainability

The CBFM-2 partner NGOs facilitated the identification and organisation of CBOs at the project sites. They provided them with training to help them to increase the level of their organisational capacity, including financial management training.

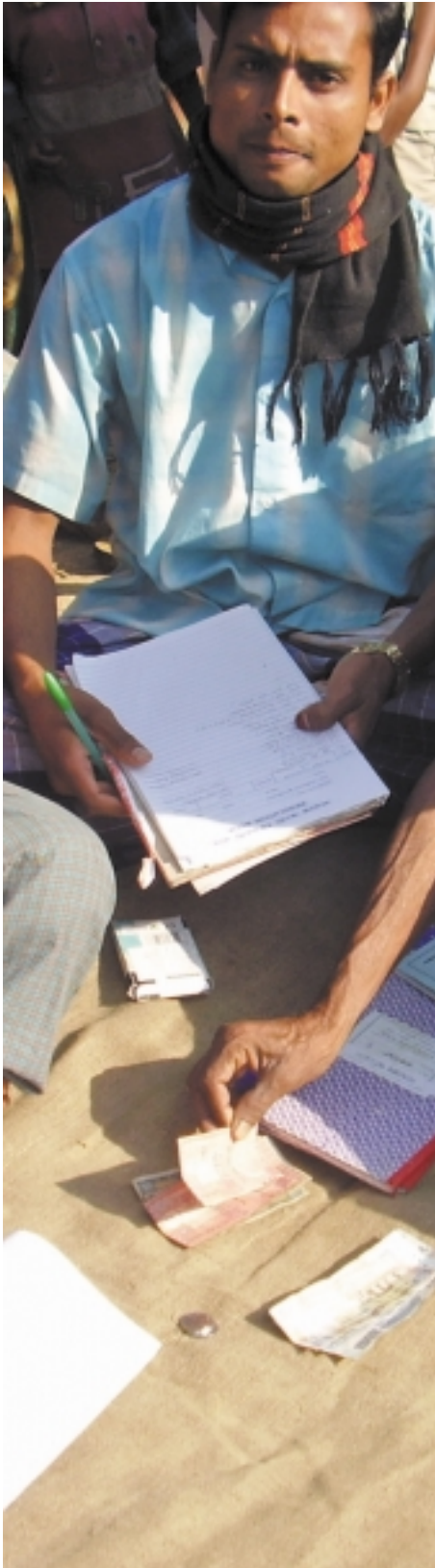
The intention was that the CBOs would have access to credit in the post-project period, either through the handing over of micro-credit funds from the partner NGOs to the CBOs or by the partner NGOs continuing to offer micro-credit to the CBOs at the end of the project. According to the micro-credit consultant, the CBOs do not meet the required standards for community operated microfinance at this stage leading him to strongly advise against handing over micro-credit funds to CBOs.

The project experiences of situations where micro-credit funds have already been handed over to the CBOs have been mixed. In Hamil *beel*, arguments over micro-credit have helped to cause deep divisions between CBO members resulting in the near collapse of the CBO. In contrast, CNRS have handed over relatively small amounts of micro-credit to CBOs, particularly where they have successfully managed their own savings. Their interpretation is that micro-credit can be handled by CBOs if there is also an active savings programme of a similar scale.

While the CNRS experience has been interesting, the project exit plan will include mechanisms to allow the partner NGOs to continue to operate micro-credit activities for the CBOs rather than handing over the funds directly to CBOs.







## Conclusions and Recommendations

The CBFM-2 impact study shows that poor households had greater access to micro-credit from both formal and informal sources in 2006 compared to in 2002. The households in the project area were already sourcing credit from NGOs and other sources before the project and have continued to access these services throughout the project period.

The impact of CBFM-2 project was insignificant on the overall availability of credit from NGOs in the project areas. The amount of credit received by households from both partner NGOs and other NGOs increased by around 22% over the project period.

Poor fishers in the CBFM-2 project sites have changed their occupation from low earning fishing and labouring activities to crop farming and non-agricultural activities that should help to reduce fishing pressure. Greater access of the poor households to institutional micro-credit was due to the growth of the micro-finance institutions. The CBO members in closed *beels* received greater amounts of credit from NGOs (not necessarily from project partner NGOs) compared to non-fishers. This may reflect the increased awareness of CBO members to new opportunities and shifting towards more profitable IGAs for livelihood options.

The CBO group members were found to be less dependent than other households on money lenders (*mohajon*) in 2006 compared to 2002 while non-CBO members had greatly increased their dependence. NGOs have tended to integrate CBFM-2 microfinance into their mainstream microfinance programmes. Strong portfolio back up is required to manage credit operations effectively. Strong supervision and monitoring in credit operations is required at the grass root level to achieve better performance for the NGOs.

The accumulation of savings for the project beneficiaries has increased over the project period. These financial assets play a role as a safety net that is crucially important during times of crisis. The NGOs and Department of Fisheries (DoF) should formulate an effective strategy for the CBOs to continue to develop their financial management capacities - both for savings and micro-credit.

Although it may be possible for CBOs to manage micro-credit funds on their own, project experiences have been mixed and the advice of the project micro-credit consultant is clear - micro-credit should be handled by specialists. The project exit plan will be based on the continued management of micro-credit by partner NGOs rather than it being handed over to CBOs.

## Source of Information

1. Livelihoods Impact of CBFM-2 in Bangladesh, 2006 (unpublished) WorldFish Center, Bangladesh and South Asia Office, Dhaka, Bangladesh.
2. An Evaluation of Micro-credit Operation of the Community Based Fisheries, 2005 (Unpublished), WorldFish Center, Bangladesh and South Asia Office, Dhaka, Bangladesh.
3. Alamgir, D.A.H (2006), Strategy Development for Project Management of Microfinance Activities/Funds in CBFM-2 and CBFM-SSEA Projects. 2006

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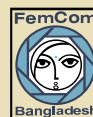
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