Integrated Coastal Management, Livelihood Development and Micro-Loan Strategies:

The Case of the TCMP-FINCA Partnership in the Bagamoyo District of Tanzania

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The Sustainable Coastal Communities and Ecosystems Program (SUCCESS)
In Association with
The Tanzania Coastal Management Partnership (TCMP)

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Introduction

The Sustainable Coastal Communities and Ecosystems (SUCCESS) Program led by the Coastal Resources Center, University of Rhode Island and a consortium of regional and international marine conservation-oriented organizations provides global leadership in integrated coastal management through an innovative, issue-driven, participatory process to:

- promote sustainable use of marine resources
- conserve marine biodiversity
- improve food and income security

The Program is developing improved practices of global importance: eco-friendly and sustainable nearshore fisheries, mariculture, and livelihoods. These practices are being developed and applied in biologically significant and/or formally designated protected areas in Tanzania, Ecuador, Nicaragua, and Thailand. The Program has initiated livelihood projects in several globally dispersed field sites under the premise that providing tangible benefits to coastal communities through livelihood development will help build constituencies and demand for integrated coastal management initiatives. Quantitative and anecdotal evidence strongly suggests that early actions, such as livelihood development, that demonstrate tangible benefits for coastal communities are crucial to sustained success of ICM programs (Pollnac, Crawford et al. 2001; Christie, Lowry et al. 2005). Thus, a primary building block in our overall livelihoods approach is the premise that: tangible benefits to quality of life are a necessary (but not sufficient) condition for sustained success of ICM programs.

The SUCCESS Livelihoods Learning Agenda

The SUCCESS program's cross-portfolio learning initiative attempts to look more carefully at this livelihoods approach. However, the link between tangible benefits and livelihoods to successful ICM is not the focus of our learning agenda. We view these linkages as proven and valid premises. We feel that questions of greater interest to the global ICM practitioner community are:

1. What strategies lead to successful livelihoods given different local and national contexts (e.g. good practices for livelihood development as part of ICM initiatives)? and;
2. Do livelihood components of ICM programs generate intended impacts such as increased income, economic and household resilience, reduction of dependence on unsustainable natural resource use practices, improved gender equity, and other benefits?

Purpose and Structure of the Report

This report contributes to the above mentioned learning agenda through an in-depth examination of the micro-finance component of an ICM program implemented in the Bagamoyo District of Tanzania. Specifically, the case study analyzes a microcredit scheme for small-scale enterprises in several coastal communities that was funded by the Program and implemented by FINCA[1].

[1] FINCA is an international microfinance institution that provides microfinancing to thousands of people in scores of countries worldwide.

The objective of the case study is to understand how the micro-lending program worked, how beneficiaries perceived the impacts of the program, and to what extent the micro-loans have helped improve the lives of the intended beneficiaries. The report first introduces general information on financing of micro-enterprises and the village banking model and then provides background information on the ICM context in Tanzania. It then provides an in-depth explanation of the actual livelihood interventions implemented in Bagamoyo by the program with an emphasis on the micro-loan scheme implemented by the local FINCA office. Perceptions of impacts by beneficiaries are also included along with the authors conclusions stemming from analysis of the case.

Methodology

Information for this report was obtained from key informant interviews with FINCA, TCMP Program staff as well as interviews with members of the various micro-lending group beneficiaries. Interviews were conducted in October and November of 2006.

Financing Microenterprises

A range of financing mechanisms is offered for microenterprises through development programs. At one end of the spectrum are subsidized poverty alleviation programs that provide inputs (e.g. seeds, water pumps, nets, and other materials) and training, requiring the beneficiaries to contribute only their labor. On the other side are formal loan providers, such as banks or other financial institutions, which are subject to the banking laws of the country of operation. However, standard banks do not typically cater to the poor, since loans to poor clientele are too small and too risky as the borrowers lack collateral or access to co-signatories (Figure 1) (Berenback and Guzman 1994).

> Microenterprises can be grouped into low-return "survival" activities and higher return "entrepreneurial" activities. The latter are larger, more highly capitalized, employ more labor, and use more sophisticated technologies. Women, who are often hailed as the best credit performers (Mahmud 2003), commonly develop microenterprises based on survival activities that are seasonal, providing secondary sources of income. Survival activities are often the only choice for the most poor, living in remote and resource deficient regions that lack infrastructure and market access. Additionally, the poorest of the poor do not have initial capital to invest and they are often reluctant to expose themselves to the risks associated with taking large loans (Shaw 2004). One limitation with survival activities is that the income is most often used for immediate consumption instead of being reinvested into the enterprise. Hence, it helps the borrower "survive" but not necessarily gain a higher standard of living.

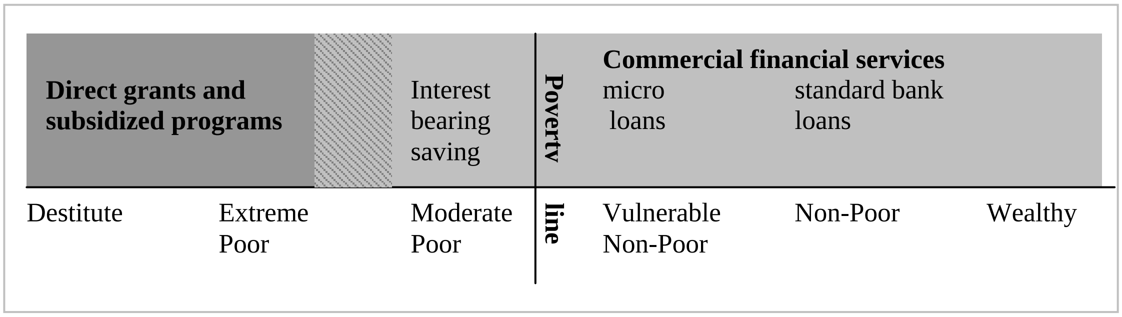

Figure 1. The most common financial services within each poverty-level group.

Between the two extremes are informal and semi-formal microfinance providers. Informal microfinance providers include moneylenders, pawnbrokers, rotating savings and credit associations, and deposit takers. Semi-formal providers are often NGOs or cooperatives, such as Grameen Bank and FINCA (Matin, Hulme et al. 2002). Another similar model is solidarity group lending, which is three to ten micro-entrepreneurs joining together to receive access to credit and related services (e.g. training and organization building). The unique feature of this mechanism is that the group collectively guarantees loan payment and access to subsequent loans is dependent on successful repayment of all group members. The loans are usually appropriate to borrower needs in size, purpose and terms. The three principal goals of solidarity group lending are to provide services to the poor, attain financial self-sufficiency, and reach large numbers (Berenback and Guzman 1994).

The Village Banking Model

Village banks are community-managed credit and savings associations that often target female participants. Sponsoring agencies, such as FINCA, start village banks by providing seed capital to the bank, which in turn lend the money to its members. All members sign the loan agreement to offer a collective guarantee. The sponsoring agencies usually provide loans for income-generating activities as well as incentives to save money, to a mutual support group of thirty to fifty people (Holt 1994). A unique feature of village banks is that it has a mainstreamed savings component. Each member is expected to save a minimum of 20% of the loan amount per cycle. No interest is paid on savings, but members receive a share of profits from the lending activities and other investment.

The first loan size that each member can get is small, but the second loan can be bigger depending on the repayment success and the savings a member has accumulated. For example, if a person saves $10 on an initial loan of $50 and $12 on a second $60 loan, she would be eligible for a third loan of $82 ($10+$12+$60). The members’ savings stay in the village bank and are used to finance new loans or in some cases for collective income generating activities (Holt 1994). In most countries, the funds are stored and managed by the members themselves, but in some cases, such as is Tanzania, the groups keep a regular bank account that is guaranteed by FINCA.

One criticism of the microcredit organizations that run village banks and solidarity group lending is that they rely on donor funding to capitalize their operations. One survey of programs targeting the poorest borrowers found that they generate revenues sufficient to cover only 70% of their full cost and it is possible that only five percent of all programs will ever be financially sustainable (Morduch 2000). Another criticism is that microcredit schemes do not reach those that are most poor (Hulme 2000; Cohen 2002). Microcredit borrowers are typically just above or below the poverty line (Figure 1). Programs that have an explicit poverty reduction goal tend to reach more extremely poor people, but often exclude the destitute. Some argue that savings-schemes are more likely to reach poorer people and that the destitute need direct aid and not financial services. Others maintain that if microfinance institutions (MFIs) provide appropriate services, they can reach the most poor (Simanowitz and Walter 2002).

Background on ICM in Tanzania

The Tanzanian National Integrated Coastal Environment Management Strategy (ICEMS) adopted in 2002 calls for "implementing the national environment policy and other policies in conserving, protecting and developing Tanzania's coast for use by present and future generations." This strategy helps set the stage for environmentally sustainable economic development along the coast, while also contributing to the Government of Tanzania objectives on poverty alleviation. The national ICEMS and related policies provide an overarching framework for implementation on-the-ground. A key implementation approach of the ICEMS is through district-level ICM action plans. The emphasis of these action plans is on addressing local issues of concern to the coastal communities of these districts. They include promoting more sustainable resource use practices for mangroves and fisheries, sustainable tourism development and livelihood development, among others.

ICM and Coastal Livelihood Initiatives in Bagamoyo District

The Tanzania Coastal Management Partnership (TCMP) and its Sustainable Coastal Communities and Ecosystems (SUCCESS) Program, with funding from USAID, has worked in Bagamoyo since 2000, when a district integrated coastal management process was initiated together with district staff. Since then, the district has adopted an ICM action plan, which identifies a number of key issues related to the use of illegal fishing gears, conflicts between trawlers and artisanal fishermen, mangrove cutting, and lack of alternative livelihoods. One of the key strategies in the ICM action plan for addressing these is microenterprise development. Enterprise development activities supported by the TCMP-SUCCESS Program are detailed in Table 1 below.

Table 1. Characteristics of the TCMP-SUCCESS supported microenterprises in Bagamoyo

Enterprise/village	Number of beneficiaries (% women)	Supporting group	Type of support provided
Seaweed/Mlingotini	58 (79%)	IMS, FINCA, Grant from US Ambassadors fund	Technical support, grants, micro-loans
Tour guiding/Bagamoyo	12 (16%)	Bagamoyo district	Technical support and input (t-shirts, paint)
Micro-business Mlingotini	25 (76%)	FINCA	micro-loans
Micro-business Bagamoyo town	38 (34%)	FINCA	micro-loans
Micro-business/Magomeni	30	FINCA	micro-loans

Enterprise/village	Number of beneficiaries (% women)	Supporting group	Type of support provided
Paprika farming/Matipwili	18 (64%)	TCMP	Technical support and inputs (seeds, pump)
Milkfish farming/Changwahela	1	IMS	Technical support and inputs (for pond construction)

These microenterprises have different characteristics and the support that the beneficiaries have been given varies. Some enterprises, such as beekeeping and tour guiding, have mainly been given technical support, while others, such as a seaweed farming group in Mlingotini, have been given a mix of micro-loans, grants, and technical support. In general, two types of enterprises are supported 1) those that are already known to work in the area (e.g. peg and line seaweed farming, beekeeping, and petty businesses) and 2) enterprises that are new to the area (e.g. raft seaweed farming, paprika farming, and milkfish).

Four groups are providing funding and technical support to the microenterprises in Bagamoyo:

The District provides technical support, training, and some inputs to beekeeping and the seaweed farming. The funding for this support comes from the SUCCESS Program through district implementation grants.

FINCA Tanzania provides microcredit loans to established microenterprises in Bagamoyo town, Mlingotini, and Magomeni. From the outset, we thought that the enterprises were focusing on tour guiding and seaweed farming, but the case study revealed that the FINCA funding is primarily used for petty businesses.

The Western Indian Ocean Marine Sciences Association (WIOMSA) in collaboration with the Institute of Marine Science (IMS), and with funding from the SUCCESS Global Program, provides technical support, inputs, and materials to raft culture of seaweed farming in Mlingotini and Milkfish farming in Changwahela.

The SUCCESS Program provides direct technical support and some inputs and materials to the paprika farmers and mama lishes in Matipwili and Saadani.

FINCA and its lending process in Tanzania

FINCA began working in Tanzania in the 1990s and in the Bagamoyo District in 2003. They currently have 30 groups in the district and over 200 groups in the country as a whole (Table 2). Each group is supervised by a loan officer, who provides oversight to between 12 and 16 groups.

Each group formed by FINCA must consist of 30-50 members forming five to ten solidarity groups of five to seven members. The solidarity groups consist of individuals from the same geographical area but not necessarily of the same occupational category. Each member of the solidarity group guarantees the repayment of all its members. However, if the solidarity group fails, the larger group of 30-50 members is responsible. New members can be added if some members drop out, but FINCA does not allow groups to expand beyond 50 members. When that happens a group is split into two independent associations.

Table 2. The scope of FINCA in Tanzania

Village Banking Groups	205
Total Clients	42,785
Percentage Women Clients	92%
Average Loan Size	$191
Total Loans Outstanding	$5,084,139
Total Client Savings	$1,461,217

Source: FINCA website (http://www.villagebanking.org/work-afr_tan.htm)

When FINCA starts working in a village, they begin by holding a village meeting where they explain the process. After the meeting, interested persons can sign up for a loan. Before getting the loan, each borrower undergoes an investigation where FINCA determines if their enterprise seems to generate enough income to enable them to pay back the loan. If they pass the first test, they are enrolled in a five week training (one day per week). The course teaches business management and loan management. After the course a credit supervisor assesses if the training was well understood. If a person has not grasped the course content, she or he might have to be retrained before getting the first loan. In some cases, people decide to drop out after learning what the lending cycle entails. For example, FINCA trained 33 persons in the Magomeni village, Bagamoyo, but after the training only 30 individuals decided to take loans. One factor that makes people decide not borrow is the solidarity lending principle. Especially men seem to dislike the requirement that they act as guarantees if fellow group members fail to pay back their loans.

Before each loan cycle the officer asks what type of enterprise the borrower are involved in and how much they are currently earning. That helps decide how large loan they can take. The loan must correspond with the capacity of the enterprise and a person will not be allowed to increase the loan size if the loan officer doubts that the person will be able to earn enough to pay back the larger loan. Asking people how much they earn before each cycle is also a way to gauge if people's incomes are growing.

The groups can choose between borrowing cycles of four, five, or six months – each with a monthly interest rate of four percent. Most groups go for the four-month cycle, which allows them to borrow three times in one year. The minimum loan size is 30,000 Tanzania shillings (Tsh) and the ceiling amount is 2 million Tsh. If a person would like to borrow more than that, FINCA encourages them to get an individual loan, which they also administer. During each cycle, the FINCA officer visits the group weekly or biweekly

The FINCA Tanzania model at a glance:

- The groups are formed specifically for the loans
- The loans are to individuals for their own micro enterprises
- Loans are only for expanding existing businesses, not for starting a new micro enterprise
- The group guarantees payback of individuals' loans
- The group must have a bank account
- First time loans range from 30-80,000 Tsh, but individuals with successful credit history with FINCA can eventually apply for a loan up to two million Tsh
- Payments on the loan are made on a weekly basis (thus, they are for women that have micro enterprises that generate sales and revenues on a daily basis)
- Payback period is normally set at 16 weeks
- The lending rate is 4 percent per month or 48 percent per annum

to administer the repayment. During the meeting, each member pays their share and their transactions are recorded. Several types of books are kept:

- a secretary book keeps records of the meetings
- a treasury book controls repayments
- a control book also control repayments
- each individual has a book where they keep track of savings and payments

It is considered very important to attend the meetings and members who are late have to pay 200 Tsh. If they fail to pay back on time they are supposed to pay 3,000 Tsh. extra and if they only return half of what was to be repaid, they have to pay a 2,000 Tsh. penalty. After the meeting a trusted group member brings the funds that the members have repaid to the bank. The group has two bank accounts, one savings account, which belongs to the group, and one repayment account, which is owned by FINCA. The fact that each group makes weekly or bi-weekly deposits into these bank accounts means that FINCA is only working in villages that are within close access to a bank. Another factor that limits where FINCA works is that each lending officer needs to work with 12-16 groups and hence, they can not start working with only one or a few groups in a new area.

FINCA does not provide follow up training during the loan cycle. They prefer such training to be done by a third party because they are afraid that the borrowers might blame them for giving the wrong advice and claim that it is FINCA's fault if they fail to pay back the loan. Also, the officers are not experts on the livelihoods that people are engaged in, so it would be difficult for them to give extension advice on the enterprises. FINCA also does not follow up on how funds are actually used. A credit supervisor visits the group once during each cycle to evaluate the loan and assess the impact – they ask if people are happy, if their enterprise is growing (or if they are diversifying), but they do not ask the members if they are using the funds for the enterprises that they said they would use the funds for. One FINCA officer stated that if funds are used to pay for other needs than the enterprise and the enterprise is not stable, this will cause the business to fail (or loan repayment to fail). However, if the business is prospering, the borrower can manage the repayments even if he or she uses the funds for other needs.

FINCA Tanzania follows the normal solidarity group principles where the members act as guarantees for each individual's loan. However, the groups are also covered by third party insurance, which repays the loan if a group member dies during the loan cycle. This is something that happens occasionally.

FINCA and the SUCCESS Micro-Credit Groups in Bagamoyo

The Tanzania Coastal Management Partnership (TCMP), which is now the Sustainable Coastal Communities and Ecosystems Tanzania (SUCCESS) Program, began working with FINCA in Bagamoyo in 2004. The thought was to help villagers advance environmentally friendly livelihoods, such as seaweed farming and tour guiding, by providing them with micro-loans. After some initial negotiations with FINCA, two micro-credit groups were established, the Batren tour guide group and the Msichoke seaweed farming group.

The Batren tour guide group was formed in 2001 and registered in 2004. The group began with 20 members (10 women), but had been reduced to twelve members (2 women) by the time the case study was conducted. In the early stages, the TCMP, through the Bagamoyo District, supported the group by providing uniforms, renovating their office, and training the guides in marine and coastal issues. At that point the group felt that increasing their access to capital, would allow the enterprise to grow and the idea of forming a FINCA microcredit group took shape.

The Batren group is relatively prosperous and during the high season, the guides can earn 30,000 to 100,000 tsh per day from tour guiding. It is one of the official tour guide groups in Bagamoyo and they get their clients through the tourist information center. Already from the outset, the tour guide group was skeptical to the FINCA loans. The guides felt that the loans were too small for their needs because FINCA requires that clients begin with borrowing the smallest amount (which is as much or less than a guide can earn in a day during the high season). The guides were interested in larger loans that they could use to buy for example snorkeling gear, boats, computers, or other equipment. Therefore, only one member accepted when FINCA first introduced the idea of microloans to the guides. When FINCA failed to recruit members among the tour guides, the Batren chairman helped FINCA form a lending group, by finding interested people outside the tour guides. The chairman later moved from Bagamoyo, and today the FINCA microcredit group does not involve any of the tour guides. Instead the group members constitute individuals who earn their incomes from petty business.

The Msichoke seaweed farmers association in Mlingotini began growing seaweed with the help from the Zasco Company in 1999. Zasco provided fifty farmers with 500 ropes, other gear and the extension assistance to farm cottonii. As production grew, additional equipment was provided with the understanding that the farmers would sell their crop to Zasco. Since they began, the farmers have seen several seasons of cottonii die offs, and discouraged, some have turned to growing the easier, but less profitable, "*spinosum*" species. In 2002 and 2003, the TCMP and the SUCCESS global program began working with the Msichoke farmers, helping them become independent from the seaweed-buying companies and piloting off-bottom growing techniques that would be less prone to die offs. In addition, the group has received a boat through a grant from the USAID Ambassador's fund.

Like the Batren tour guides, the Msichoke group asked TCMP for access to capital to expand their seaweed enterprises and, upon request from the TCMP, FINCA formed a microcredit group in Mlingotini. Some of the individuals that are part of Msichoke microcredit group are members of the seaweed farming associations, but the interviews revealed that the two groups are not the same. The microcredit group also includes individuals that do not grow seaweed. Another finding was that the microloans are not directly used to expand the seaweed enterprises. The reason, the Msichoke members maintained, is that growing seaweed takes too long to effectively pay back the FINCA loan. With the Msichoke group, FINCA requires monthly payment. Even though this is less frequent than the normal FINCA policy of weekly or bi-weekly payments, the members stated that it is too frequent for seaweed farming, which has a growing cycle of three to four months. Therefore, the members said, they have had to invest the FINCA funds in enterprises that generate income on a more frequent basis. Many of the group members have started petty businesses, such as food vending, fish frying, and selling kangas and soft drinks.

Only a few used the funds to buy materials for the seaweed farms. However, some members stated that the profits gained from the petty businesses started with the FINCA funds were reinvested in seaweed farming.

During the establishment of the Batren and Msichoke microcredit groups, the TCMP discussed the issue that the seaweed enterprises required a longer timeframe than the enterprises that FINCA normally supports. As a result, FINCA agreed to extend the pay-back time to one month for Msichoke and biweekly for Batren. Another change to their normal policies was to let men be part of the microcredit groups. Both diversions from the normal policies are perceived as positive by FINCA and they are currently in the process of switching all groups from a weekly to a bi-weekly schedule. They are also contemplating changing their general policy to allow men to be part of any microcredit group. At the time of the study, only eight percent of the borrowers were men. FINCA reported that repayment rates of members of the three TCMP-supported groups are higher than the normal repayment rate in Tanzania. FINCA believes that the presence of male group members put increased pressure on all to repay and that the mixed groups have a higher success-rate than groups with only females.

Community Perceptions Regarding the Micro Loans

Both Batren and Msichoke complained about the high interest rates that FINCA charges (48% per annum). However, Batren and Msichoke differ in their perceptions of the microcredit schemes. The Batren members thought that the microloans were not attractive because of the small loan size and the high interest rates. The Msichoke members, particularly the women, however, felt that even though the interest rate is steep, the FINCA loans are still worth taking because they are the only alternative for them to access capital. Interviews with another FINCA microcredit group called Kisutu Mamas (not supported through SUCCESS) that involve only women, found that the members thought that the positive impacts of taking the loans outweigh the problems associated with the loans. The women stated that they are thankful to FINCA for establishing an office in Bagamoyo because earlier they had to go to Dar es Salaam to access microcredit.

Overall, it seems that men are more negative towards the social collateral requirement than women. The Msichoke men complained that they did not think it was fair that the group members should be responsible for paying when a group member failed to make an installment, whereas the women said that it was a good policy and that if you signed up for a loan, you must be aware of and willing to follow the rules. The Kisutu mamas maintained that they accepted the social collateral, but that it happens relatively often that group members fail to make a payment because they have to use the loans for family-related expenses, such as school fees. They said that it is a big burden on the group members to cover for failing individuals. The Msichoke women did not see the social collateral as such a large problem. They have established a system where they recover the funds from the members who fail to pay back (by visiting them and requesting that they pay back either in cash or by giving the group something that they could sell to cover the debt). The men, on the other hand, complained that it is unfair that the group forces failing members to pay their debts.

Perceived Impacts of the Micro Loans

The largest immediate impact of the micro loans is that they provide access to capital to women, who otherwise would have none. With the loans they have been able to expand existing small businesses and start new enterprises[2]. Interviews showed that for SUCCESS supported beneficiaries, the enterprises that are funded through FINCA are their second or third livelihood activity. For most, seaweed farming, fishing (among the male members), agriculture, and livestock are the primary livelihood. In the Kisutu Mamas group, on the other hand, the FINCA enterprises are the group members' primary livelihood. Both groups admitted that they only invested part of the loans into the enterprises and that they had to use some of the money for immediate needs, such as buying food or paying school fees.

The beneficiaries also stated that the loans have had positive impacts on their lives by improving their enterprises. There was a sense that the funds had increased food security, more children are sent to school, and there is more money for buying clothes and other household needs. Because of the increased income, some individuals have even bought land and built houses.

Conclusions and Recommendations

The main conclusion of this case study is that the FINCA microlending program is not suitable for the livelihood activities promoted by the TCMP and SUCCESS (e.g. seaweed farming and tour guiding). Due to the high interest rates and frequent pay-back installments, the villagers involved chose to use the loans for small petty businesses instead of natural-resource based enterprises. However, no beneficiary has stopped any of their original resource-dependent livelihoods, such as fishing or farming, to expand their FINCA enterprises. Instead they add the FINCA enterprise to their current mix of livelihood activities as a diversification strategy. This is good for the beneficiaries since it reduces their economic vulnerability, but it also does not reduce the pressure on natural resources. A related finding is that regardless of FINCA, anecdotal evidence suggests that the SUCCESS beneficiaries have more diversified livelihoods than others (e.g. Kisutu Mamas). This is probably a result of the multiple forms of extension and livelihood support beneficiaries receive through SUCCESS. This finding needs to be explored further through the quantitative survey.

From FINCA's view point, a group is successful when it has a high re-payment rate and FINCA does not require that group members stick with the environmentally friendly livelihoods that they originally proposed. Since repayment rates are close to 100%, this is successful by FINCA standards. However, in a few cases, members even invested in enterprises such as charcoal making or selling, which has a negative impact on the environment – working against the vision of coastal management in Tanzania. It seems that the links between the FINCA lending program and coastal management are virtually non-existent. The major recommendation of this study is therefore to explore alternative microfinancing options for the types of natural-resources based enterprises that TCMP and SUCCESS support. One alternative could be savings-led microfinance groups. Piloted by Oxfam, such groups have been shown to be sustainable and effective in reducing poverty of the poor in rural communities in other African nations.

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[2] According to FINCA's rules, loans should only be used to expand existing enterprises, but this rule is not always followed by the borrowers, who sometimes invest the funds in new enterprises.

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