

**BOBP/REP/55**



# **A Shri Lanka Credit Project to Provide Banking Services to Fisherfolk**



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by

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At the request of the Ministry of Fisheries and Aquatic Resources, Sri Lanka, the Bay of Bengal Programme for Small-Scale Fisheries Development (BOBP) launched a Fisherfolk Credit Project that would provide comprehensive banking services to the fishing community through the introduction of need-based lending schemes, incorporating the principles of simplicity, timeliness and flexibility. The Project involved a series of activities, such as the conducting of a socio-economic survey, a number of training programmes and several studies of past fisherfolk credit activities, cost and earnings of small-scale economic activities, marketing strategies for fisheries credit and training needs of banks, training and orientation of fisheries and bank officers and the prospective borrowers, all ultimately leading to the design and implementation of a viable fisheries credit scheme. The design and the formulation of the credit scheme was the output of a joint exercise by the participating banks and the fisheries administration and was supported by BOBP. Credit disbursement began in mid-1992.

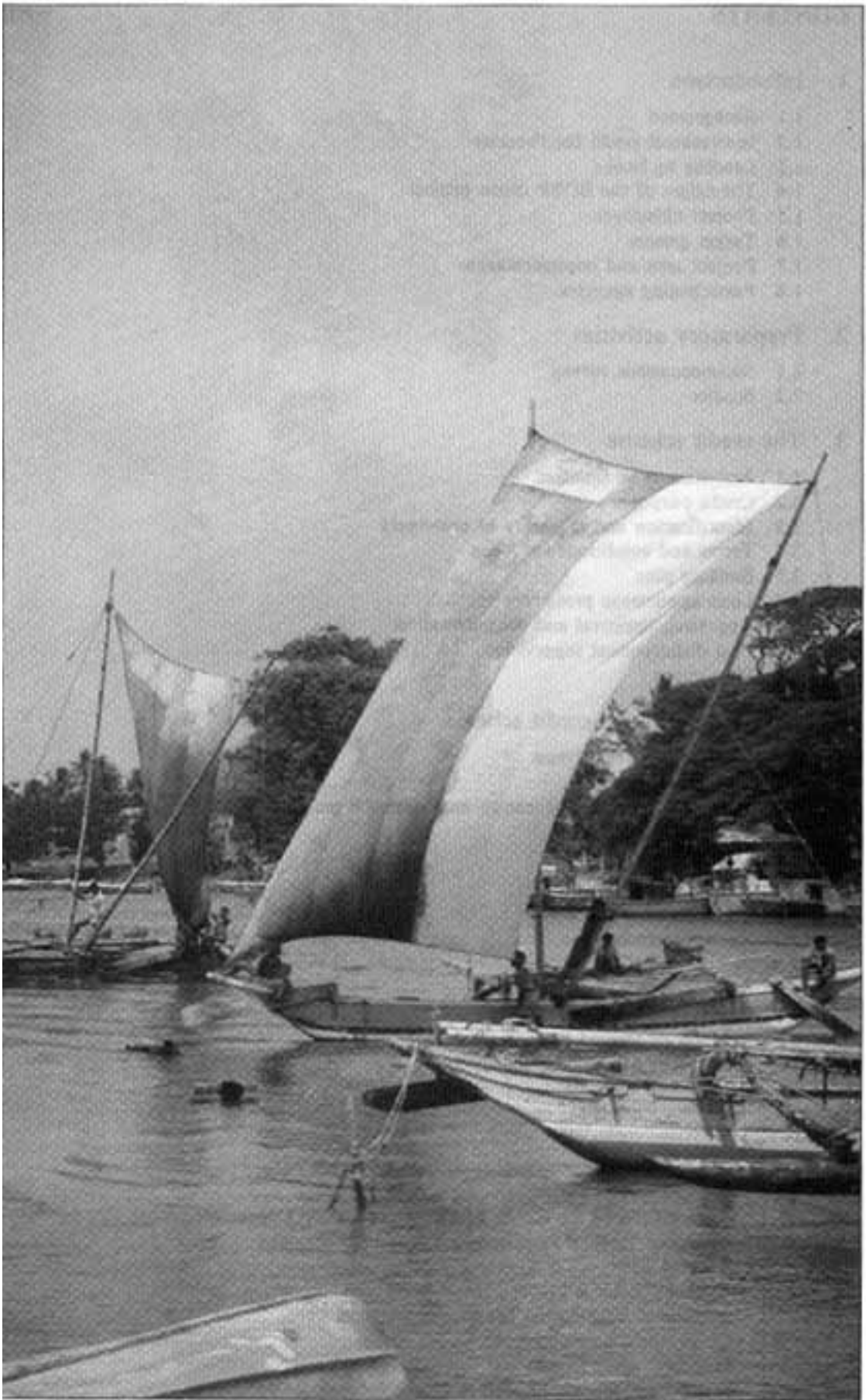
This report describes the activities carried out by the Project, highlights the main features of the credit scheme, and discusses the lessons learnt.

The Bay of Bengal Programme (BOBP) is a multi-agency regional fisheries programme which covers seven countries around the Bay of Bengal — Bangladesh, India, Indonesia, Malaysia, Maldives, Sri Lanka, Thailand. The Programme plays a catalytic and consultative role: it develops, demonstrates and promotes new methodologies, technologies or ideas to help improve the conditions of small-scale fisherfolk communities in member-countries. The BOBP is sponsored by the governments of Denmark, Sweden and the United Kingdom, by member-governments in the Bay of Bengal region, and also by UNDP (United Nations Development Programme) and AGFUND (Arab Gulf Fund for United Nations Development Organizations). The main executing agency is the FAO (Food and Agriculture Organization of the United Nations).

This document is a project report and had not been cleared by the Governments concerned or the FAO.

**December 1992**

CONTENTS	<i>Page</i>
<b>Introduction</b>	1
1.1 Background	1
1.2 Institutional credit for fisheries	
1.3 Lending by banks	1
1.4 The origin of the BOBP credit project	2
1.5 Project objectives	2
1.6 Target groups	2
1.7 Project area and implementation	5
1.8 Participating agencies	5
<b>2. Preparatory activities</b>	5
2.1 Socio-economic survey	5
2.2 Studies	7
<b>3. The credit scheme</b>	9
3.1 Activities to be financed	10
3.2 Credit purposes	10
3.3 Identification and eligibility of borrowers	12
3.4 Terms and conditions for loans	13
3.5 Banking plan	14
3.6 Loan application procedure	15
3.7 Appraisal, approval and documentation	15
3.8 Post-disbursement supervision	16
3.9 Monitoring	16
<b>4. Implementation of credit scheme</b>	18
4.1 Orientation programmes	18
4.2 Training workshops	18
4.3 Fisherfolk borrower education and extension programme	20
4.4 Loan disbursements	22
<b>5. Lessons learnt</b>	22
5.1 Participatory approach	22
5.2 Agency interaction	22
5.3 Sustainability	23
5.4 Role of BOBP	23
5.5 Subsidies and refinance	23
5.6 Transfer of trained staff	24
5.7 Multiplicity of projects	24
5.8 Attitudes of officials	24
<b>Postscript</b>	25
<b>Appendices</b>	
I. Composition of the Credit Scheme Formulation Committee	28
II. Summary Sheet of recommended economic activities	29
III. Banking Plan	30
IV. Application for a Loan	31
V. Additional information for loan application	33
VI. Guarantor's statement	35
VII. Monthly report format	37
VIII. BOBP pamphlet on Fisherfolk Credit Scheme	38
<b>Publications of the Bay of Bengal Programme</b>	40



*A typical fishing village scene on Sri Lanka's west coast, where the small-scale fisherfolk use a variety of fishing craft.*

## 1. INTRODUCTION

### 1.1 *Background*

Shri Lanka has approximately 1600 kilometres of coastline. The marine fisheries industry, therefore, occupies a prominent place in the economic life of the island's coastal areas. The industry provides direct employment to approximately 100,000 persons, besides providing part-time and indirect employment in fishery-related activities to about 15,000 persons. Fish and fish products contribute around 60 per cent to the animal-based protein consumption in the country.

Marine fishing, particularly in the inshore areas, is largely a seasonal activity carried out by fisherfolk using traditional methods, craft and gear. The principal source of credit for the fisherfolk engaged in the fishing industry has been the informal sector, comprising of village level money lenders, and fish traders called *mudalalis*. These informal financiers extend financial assistance to fisherfolk families for subsistence during the 'off season', and to migrant fisherfolk to meet the expenses of moving their fishing craft, equipment and crew to the seasonal fishing bases in the far northwest and the east.

Even after the expansion of fisheries activities as a consequence of the launching of several modernization and motorization schemes, the same informal financiers continue to meet the bulk of the credit needs of this sector in spite of the availability of several credit schemes formulated to provide institutional credit.

### 1.2 *Institutional credit for fisheries*

Institutional credit for fisheries has been made available by the Government of Shri Lanka from 1942 onwards to

- individual fishermen to acquire fishing craft and equipment, and
- fisheries co-operative societies to engage in fish marketing.

This was followed in 1958 by the Fisheries Mechanization Programme, under which the Department of Fisheries started granting loans to fishermen for the purchase of new boats and engines. The Asian Development Bank (ADB)-funded Southwest Coast Fisheries Project (ADB-I-1975) was a landmark in fisheries credit, as, for the first time, the commercial banking sector got actively involved in disbursing credit for fisheries.

However, the Government continued to be the major source of institutional finance till the mid-70s. But by 1977 the Government was confronted with a major problem : the non-recovery of a massive sum of money disbursed under the Mechanization Advance Account of the Ministry of Fisheries and Aquatic Resources (MFAR').

After a review of the fisheries credit policy, the Government decided in 1978 that the outstanding fisheries loans should be written off and that the Ministry/ Department of Fisheries (DOF) should not get involved in the disbursement of credit in the future. Lending for fisheries was then entrusted to the two state banks, Bank of Ceylon and the People's Bank, which, as financial institutions, were considered better equipped to handle credit functions.

### 1.3 *Lending by banks*

From 1978 onwards, the two state banks participated in several fisheries credit schemes in collaboration with the Ministry/DOF and the Ceylon Fisheries Corporation (CFC). These were:

- 1977 – Self Employment Bank Financing Scheme for purchase of fishing craft, engines and gear;

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<sup>1</sup> Ministry of Fisheries (MOF) until 1989.

- 1979 – Cyclone Rehabilitation Scheme;
- 1983 – Madel Fisheries (Beach Seining) Lending Scheme;
- 1985 – Self-employment Bank Financing Scheme;
- 1986 – The Co-operative Fisheries Lending Scheme; and
- 1986 – ADB/Shri Lanka West Coast Fisheries Project (Second ADB Project).

The success or failure of these credit schemes have differed widely on account of various factors. One conspicuous feature common to most of the schemes was that they were implemented along with a substantial subsidy component granted by the MFAR. In addition, the Central Bank provided refinance for all the schemes, thus enabling the borrowers to obtain credit at rates of interest lower than the prevailing market rates.

As for the recovery of loans disbursed under these schemes, the banks found the situation similar to what had prevailed in the case of credit provided earlier by the DOF. But though large-scale non-repayment of fisheries loans could be termed wilful, the lending banks too had to accept the blame for some shortcomings, which were primarily due to their non-familiarity with fisheries in the early years of their involvement. This naturally prompted the two banks to adopt a more cautious attitude towards fisheries lending and there was, consequently, a lull in the flow of credit to the fisheries sector by the mid-80s. By this time, the Government too had drastically reduced its subsidies for boats, engines and gear.

#### 1.4 *The origin of the BOBP credit project*

The MFAR viewed this situation as alarming, as it would have led to a reversal of the development in the fisheries sector achieved over the previous three decades. It was also feared that it would bring about an adverse impact on fish production, the major source of animal-based protein for Shri Lankans.

In 1987, the MFAR requested the Bay of Bengal Programme for Small-Scale Fisheries Development (BOBP) for assistance to formulate and implement, on a pilot basis, a non-subsidized credit scheme for small-scale fisheries and for other economic activities of the marine fisherfolk. MFAR particularly sought BOBP's assistance because BOBP had successfully designed and implemented a fisheries credit project in the early 1980s in Orissa, India.

#### 1.5 *Project objectives*

The proposed project was intended to provide comprehensive banking services to the fishing community, through the introduction of need-based lending schemes incorporating the principles of simplicity, timeliness and flexibility, in order to:

- increase operational efficiency and profitability of fisheries, as well as non-fisheries economic activities undertaken by members of coastal fishing communities, and
- facilitate the management of incomes/earnings within the economic units of the fisherfolk families by inculcating saving/thrift habits through linking credit with savings.

#### 1.6 *Target groups*

The Project's target groups are the small-scale fisherfolk, particularly the self-employed, traditional fishermen, owners of small motorized and non-motorized craft, fishing labourers and youth who wish to acquire craft and gear, and their family members, especially the women, who wish to start new economic activities or to improve existing activities in order to supplement family incomes.





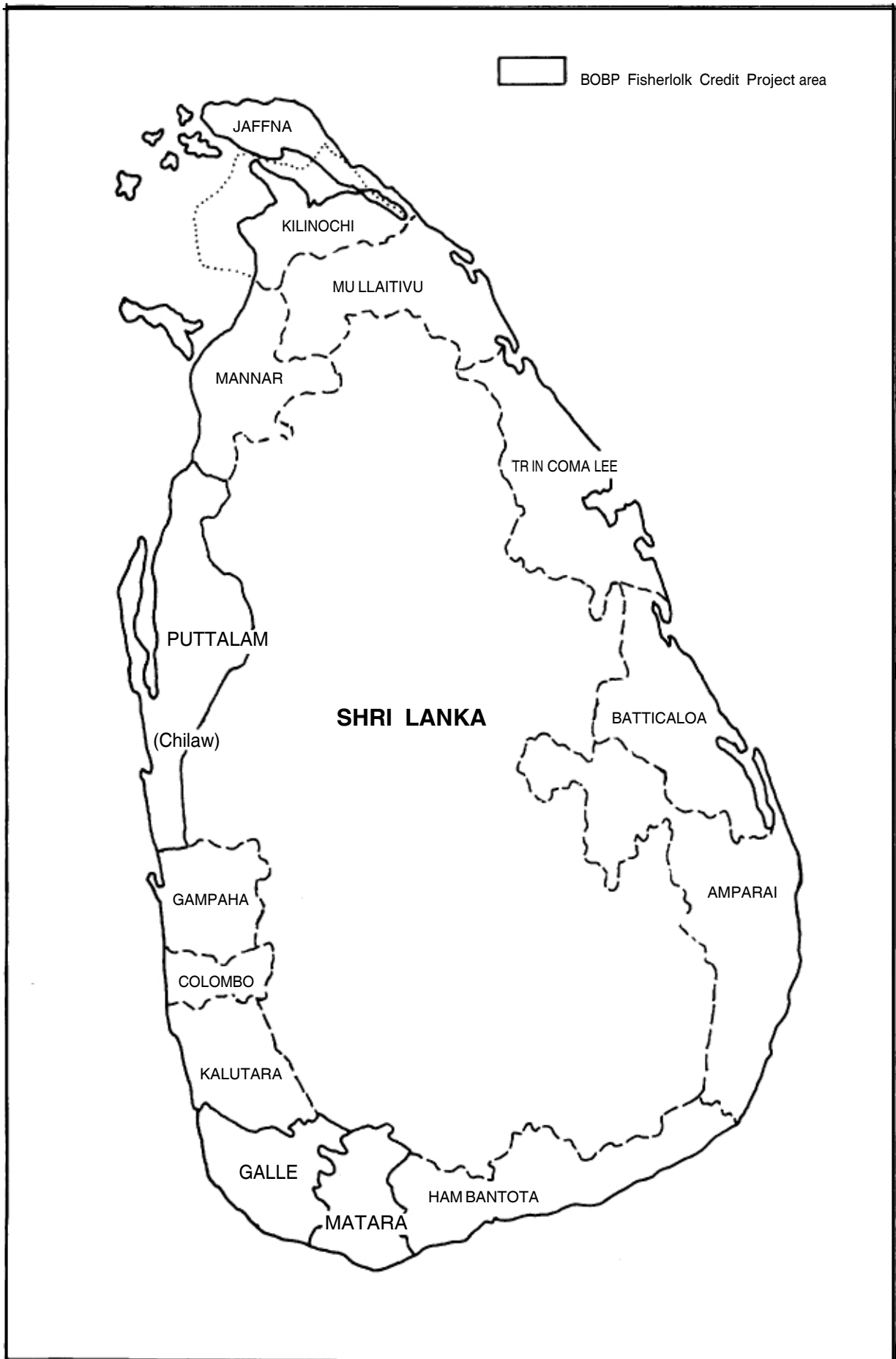
*Selling fish is one of the economic activities many women members of fisherfolk families in Sri Lanka favour and for which they often require assistance.*



*Small-scale fisherfolk in Sri Lanka own a variety of craft, from the traditional to the modern — but, for all of them, they need credit to buy as well as to maintain them.*



Fig 1. The Fisheries Districts of Shri Lanka and the BOBP Fisherfolk Credit Project area



## **1.7 Project area and implementation**

The Project envisaged the formulation of a pilot credit scheme for implementation in the districts of Galle and Matara on the southern seaboard, and in the district of Puttalam, which includes the two fisheries divisions of Chilaw and Puttalam on the northwestern seaboard. This area consists of nearly a fourth of the coastline of the island and accounts for 19 per cent of the total marine fishing households, 20 per cent of the active marine fishermen and 19 per cent of the fisherfolk population of the country. It was envisaged that the project performance would be reviewed keeping in mind the possibility of extending it to other areas of the island. A map of the project area (Figure 1) appears on the facing page.

Although it was envisaged that credit disbursement would commence by July 1991, the preliminary activities of the Project were delayed due to a host of constraints, the major one being civil disturbances. As a result, lending started only in May 1992, ten months behind schedule.

## **1.8 Participating agencies**

Two state-owned commercial banks, viz. Bank of Ceylon and the People's Bank, and the Regional Rural Development Banks (RRDBs) agreed to participate in the Project. A committee was set up to formulate and implement the credit scheme with representatives from the Department of Fisheries and Aquatic Resources (DOFAR), Central Bank of Sri Lanka, Bank of Ceylon and People's Bank, with BOBP acting as coordinator and facilitator. This committee divided into smaller subcommittees which concentrated on special subject areas and gave due consideration to the viewpoints of the different participating agencies. The composition of the committee is given in Appendix 1.

## **2. PREPARATORY ACTIVITIES**

### **2.1 Socio-economic survey**

All fisheries credit projects implemented in Sri Lanka in the past had been exclusively involved with the financing of fishery-related activities and concentrated on financing the purchase by fishermen borrowers of capital goods, such as boats, engines and gear. As it was felt that a more comprehensive credit scheme was required, it was decided to conduct a socio-economic survey among the fisherfolk in the project area in the first instance, to identify and ascertain the genuine credit needs of the fisherfolk, and to then formulate a credit scheme tailored to meet those needs. As there was very scanty information on the socio-economics of small-scale fisheries in the island, and that too outdated, the MFAR felt that a comprehensive socio-economic survey would not only update the existing database but would also help in future fisheries development in the country.

A comprehensive questionnaire covering all aspects of small-scale fisheries was drawn up after consultations in which the MFAR, BOBP, the Women's Bureau, Sri Lanka Foundation Institute, and the Centre for Women's Research (CENWOR) participated. As data collection was to be done by Fisheries Inspectors, those selected for the job were given intensive training on the use of the questionnaire, on techniques of interviewing fisherfolk and on data collection.

The survey was planned to cover 89 fishing villages, constituting 40 per cent of the fishing villages in the project area. These villages comprised 5276 households, representing 22 per cent of the total fishing households, 29 per cent of the active fishermen and 32 per cent of the fishing population in the project area.

Though the survey was intended to commence in early 1988, it ultimately began only in mid-1989. The field work was completed in November 1989.



*A data-collector visits a fisherman's home to record information during the socio-economic survey conducted prior to the formulation of the Fisherfolk Credit Scheme.*



*Data-collectors during the socio-economic survey visited homes, beaches and other locations where fisherfolk were at work.*

The survey resulted in a number of important findings on the socio-economic conditions of the fisherfolk. Among the more important ones relating to credit are the following:

- Sixtyone per cent of the households had not made use of any credit. Of the rest, only 12 per cent had obtained institutional loans, the remainder borrowing from the non-institutional sector.
- The reasons given for not resorting to borrowing are as follows:
 

	%
– Unwillingness to/fear of getting indebted	– 23
– Lack of collateral/high interest rates	– 27
– Procedural difficulties	– 18
– Lack of knowledge on credit schemes	– 8
– Loans not required	– 24
- Forty per cent of the loans obtained are for compensation or consumption-related purposes; only 33 per cent are used for purchases of engines, craft or gear.
- Sixty-nine per cent of all the loans obtained are small ones, below Rs.5000/-.
- There are at least 25 different skills available with the population surveyed. Most of these are suited to self-employment and at least nine of these are the preserve of women. But more than half of those having skills cannot find any outlets for those skills.

The survey findings are reported in the MFAR/BOBP publication *Fisherfolk of Puttalam, Chilaw, Galle and Matara Districts, Sri Lanka* (BOBP/INF/12 - 1991).

## 2.2 Studies

### PAST CREDIT SCHEMES

Prior to the formulation of the proposed credit scheme, a study of the various fisheries lending schemes, both ongoing and those implemented in the past, was done in order to identify the factors responsible for success or failure and to learn from the experience of those credit schemes. The following emerged as the shortcomings of these schemes:

- Improper selection of borrowers;
- Inadequate pre-sanction investigation and post-sanction supervision by banks;
- Delay in the supply of project goods (boats, engines, gear);
- Substandard quality of goods procured under loan schemes;
- Obligations of borrowers to repay the loans obtained from informal sources to bridge capital shortfalls;
- Lack of mutual understanding and coordination between bank and fisheries officials;
- Inadequate support from enforcement authorities in credit recovery; and
- Lack of commitment on the part of borrowers, largely on account of the 'subsidy' mentality.

On the other hand, the following factors were identified as having contributed to the limited successes achieved by some of the recently implemented fisheries credit schemes :

- Satisfactory marketing arrangements;
- The experience gained by the banks in this field over the years; and
- Deployment of cadres of trained field staff by banks for close interaction with the fisherfolk.

## STUDY OF SMALL-SCALE ECONOMIC ACTIVITIES

One of the prime objectives of the Fisherfolk Credit Project was to find ways and means of supporting the economic activities of fisherfolk families. In order to design a suitable credit portfolio, by identifying the existing small-scale economic activities that could be expanded or new activities that could be established, a field study of six weeks' duration was undertaken in the project area by a group of officers from the participating banks. This study, based on the findings of the socio-economic survey, identified as many as 64 economic activities, most of them specific to the respective localities, and assessed their feasibility.

The committee used this information in the preparation of the credit plan. The identified economic activities are listed in Appendix II.

## STUDY OF MARKETING STRATEGY

Since the successful implementation of a credit scheme is largely dependent on proper credit marketing and borrower response, a study was commissioned to look into the past and existing credit marketing strategies in order to find out how far they were/are effective and what measures are needed to improve them. The study revealed that the following strategies were adopted:

- The People's Bank and the Bank of Ceylon employ trained fisheries field officers, attached to their branches in the important fisheries areas and in the head office/regional offices, as well as mass media advertising and printed handouts.
- Hatton National Bank, besides advertising through the mass media, employs a cadre of 'barefoot bankers' selected from each target locality.
- The RRDBs make use of local NGOs and village-level voluntary organizations. They also use mobile banking units.

Conventional publicity through mass media was found to have a positive impact in the long run. However, the deployment of field officers at grassroots level seemed to be very effective; it was found to be much more effective when such field officers were recruited from the same area where they were assigned to work. The mobile banking service seemed to be quite popular. The use of voluntary organizations and NGOs requires more organizational effort, but had a good impact.

All banks have benefited from the publicity, advertising and training carried out by MFAR, the Co-operative Department and other Government and semi-government organizations.

While the field-level staff appeared to be conversant with fisheries activities, their knowledge of banking techniques and procedures was found to be poor. In the case of the middle-level officials of banks, it was generally the other way around.

The following strategies were, therefore, recommended to the participating banks for adoption in the future :

- Deployment in the field of personnel properly trained in banking, to publicize the credit schemes and to develop better understanding with the fisherfolk. The use of women field staff would appear to be a very effective strategy, particularly as family savings and income management were important elements;
- Strengthening and formalizing the field-level links among the officers from the fisheries, banks and co-operatives;
- The use of mobile banking units; and
- Building closer relationships with NGOs and village-level organizations.

## STUDY ON THE TRAINING OF BANK STAFF

A study commissioned under the project dealt with the capabilities of the Bank of Ceylon and People's Bank staff to handle credit programmes supporting the fisheries sector. This study

highlighted two broad categories on which the training needs of bank personnel should depend. They are :

- The extent of interaction and contact between fisherfolk and various categories of bank staff, ranging from ‘very high’ (field workers, *i.e.* development assistants, field assistants concerned with fisheries) through ‘moderate’ (loan officers, clerks, workers etc.) to ‘low’ (those involved in clearing etc).
- Capabilities (resourcefulness) of individual staff members, including the relevant general knowledge they possess (knowledge on types and catches of fish, fishing gear, socio-economic conditions of fisherfolk), their skills (evaluation of marketing organization and management of credit), and personality-related attributes.

The urgent needs of training were identified as follows :

- The number of courses/programmes targeted to the ‘very high’ and ‘moderate’ contact groups were inadequate and needed to be increased;
- The course contents had to be changed to include material that could help bank staff appreciate the attitudes of the fisherfolk, on the one hand, and bring about changes, particularly with regard to the perceptions and attitudes of fisherfolk to bank credit and savings, on the other;
- More training programmes would have to be directed towards the ‘low’ contact groups;
- More field exposure should be given in the training programmes;
- There should be a better co-ordination of the training provided, and
- Officers trained should continue in their jobs for a minimum period to enable them/fisherfolk to reap the benefits of the training.

#### TRAINING PROGRAMMES AND ACTIVITIES

Training and orientation of fisheries officers and bank officers was an important preparatory activity undertaken by the Project. Most such programmes were integral components of some of the preparatory activities already referred to, particularly the Socio-Economic Survey and the Small-scale Economic Activities Study. The more important training activities were as follows :

- Training programme for field officers of DOFAR in preparation for the Fisherfolk Socio-Economic Survey.
- Seminar, on goals, targets and approaches of the Fisherfolk Credit Project for senior staff of Bank of Ceylon, People’s Bank, Central Bank, CENWOR and MFAR/DOFAR.
- Information/Orientation Programme for staff of participatory bank branches in preparation for the Fisherfolk Socio-Economic Survey.
- Training programme for bank officers in connection with the Small-Scale Economic Activities Study.

In addition to the direct impact of these programmes on the quality of preparatory work, another important benefit was the improvement in the working relationships between the bankers and the fisheries officials, which, ultimately, ensured a smooth implementation of the Project activities.

### 3. THE CREDIT SCHEME

The findings that emerged from the Socio-Economic Survey and the Study of the Small-scale Economic Activities of Fisherfolk enabled the Credit Scheme Formulation Committee (Appendix I) to ascertain the credit needs of the fisherfolk and to identify various economic activities, currently engaged in by them or that might be undertaken afresh, which deserved credit support.

### 3.1 *Activities to be financed*

Based on the available information, the fishing activities which needed credit support were identified as :

- Coastal fishing without the use of craft (e.g. castnetting, stiltfishing and other forms of lagoon fishing).
- Coastal fishing using non-motorized craft (*e.g. oru, theppam, vallam, kattumaram* etc).
- Coastal fishing with motorized traditional craft.
- Coastal fishing with outboard motorized FRP craft.
- Offshore multiday fishing with craft over 10m in length.

Economic activities which support capture fishing and needing credit support were identified as :

- Sale of diesel and kerosene.
- Sale of fishing gear and spares.
- Manufacture of traditional craft.
- Repairs to boats, engines and fishing gear.
- Sale of ice.

In addition to capture fishing, the following post-harvest activities were identified as needing credit support :

- Drying of fish.
- Manufacture of Maldive fish.
- Curing of wet salted fish (*jaadi*).
- Sale of fish.

A large number of non-fisheries activities that would help to supplement fisherfolk family incomes while supplying some of the basic consumer needs of the community were also identified as deserving credit support from banks. Some of the more important such activities are coir carpet-making, beedi-rolling, carpentry work and ornamental fish-rearing. Others are listed in Appendix II.

### 3.2 *Credit purposes*

In all earlier fisheries credit schemes, only investment capital had been included. The committee strongly felt since fisherfolk have been compelled to obtain credit from the informal sector, *i.e.* money-lenders, traders, friends and relations, to meet the shortfall between the credit provided by the banks and the value of assets to be acquired with the credit, it was imperative to provide working capital. Due to the seasonality of fishing activities, fisherfolk normally get indebted during





*Coir rope making is a group activity that is on the list of activities that warrant support from the Credit Scheme.*



*Making dried fish, a family business, is another activity listed for credit assistance.*

lean seasons when procuring their basic necessities and tiding over emergencies. To meet this situation, provision was made to grant loans for consumption-related purposes and for emergencies as well.

Based on the results of the findings of the surveys and studies, the credit needs of the fisherfolk communities were categorized as follows :

#### CAPITAL INVESTMENTS

- Non-fishery investments – e.g. land, buildings, equipment, vehicles (motorcycles/bicycles).
- Fishery-related investments – e.g. land, buildings, equipment, vehicles (motorcycles/bicycles).
- Fishery investments – e.g. boats, engines, gear, equipment.

#### WORKING CAPITAL REQUIREMENTS

- Fishery-related activities – raw material, wages, transport.
- Non-fishery activities – raw material, wages, transport.
- Fisheries activities – fuel, wages, food.

#### ACQUISITION/ENHANCEMENT OF ASSETS

- Purchase of land.
- Purchase/construction of house/upgrading of house.
- Construction of wells/water supply.
- Electricity connections, engine repairs, spares etc.

#### DEBT REDEMPTION

Redemption of debt incurred for :

- Productive purposes.
- Consumption purposes.
- Purchase of assets.
- In respect of natural disasters, sickness etc.

#### CONSUMPTION-RELATED PURPOSES

- Purchase of food, provisions etc.
- Education of children.
- Purchase of consumer durables.
- Expenditure on festivals, pilgrimages, family functions etc.

### ***3.3 Identification and eligibility of borrowers***

As a scheme designed to support a poor and socially non-influential section of society, it was necessary to use a combination of the principles of social equity and commercial feasibility in selecting borrowers.

While acknowledging the freedom of the lending banks to select their own borrowers, provision was made for the banks to seek the assistance of the village Fisheries Co-operative Society and the Fisheries Inspector of the area in identifying a deserving applicant for a loan and for certification of his/her application.

To be eligible to borrow under the scheme, the borrowers should:

- be a member of a fisherfolk family and be a resident in a fishing village;
- have maintained a savings account for at least three months prior to release of the loan, with a minimum balance of at least one per cent of the amount of the loan sought;
- be able to provide sufficient proof of his/her ability and experience in the particular activity for which finance is sought;
- be able to satisfy the bank regarding the purpose of the credit and the loan amount applied for such purpose;
- be able to provide minimum equity contribution under the scheme;
- provide the bank with *bona fide* evidence of sufficient income to repay the loan interest and instalments (projected income from investment is acceptable);
- be able to provide adequate proof regarding marketing arrangements in the case of production-oriented ventures; and
- not have wilfully defaulted on previous loans obtained from any credit institution.

It was intended to encourage a prospective borrower to apply for loans jointly with his/her spouse/family members so that there would be a collective, family responsibility towards repayment.

### 3.4 Terms and conditions for loans

#### MAXIMUM CREDIT LIMITS

In order to ensure that a borrower has a genuine stake in a venture, bank finance was limited to 75 per cent of the total cost of his/her project, subject to the following ceilings :

- |   |           |
|---|-----------|
| – Land-based small-scale economic activities :                          | Rs.25,000 |
| – Debt redemption and consumption :                                     | Rs. 7,000 |
| Note : Loans for debt redemption are exempted from equity contribution. |           |
| – Purchase/enhancement of assets :                                      | Rs.15,000 |

#### EQUITY CONTRIBUTION OF BORROWERS

A borrower is required to contribute 25 per cent of the total cost of his/her project. Those who do not have their own funds for this 25 per cent, are required to build up their equity over a period of time, thus encouraging the savings habit among them. (Family labour, where applicable, would be considered as equity contribution or part thereof.)

#### SECURITY AND COLLATERAL

In the case of smaller type of loans, which were expected to form the large majority, the guarantee of family members, relations and neighbours in the community would suffice as security. As for larger loans, mortgage of the project assets to be acquired, movable or immovable assets, and personal guarantors acceptable to the banks would be taken as security.

## RATE OF INTEREST

At the time of the formulation of the project, there were indications of the availability of refinance from the Central Bank. However, as a result of subsequent policy decisions of the Central Bank, refinance facilities are not being made available for these loans. Hence, the banks will utilize their own resources for lending and the interest rates will range between 18 and 21 per cent per year, thus making it a truly non-subsidized credit scheme.

## REPAYMENT PERIOD

Repayment periods for loans for income-generating activities will depend on the cash flow period of each venture and the productive lifetime of its assets, subject to a maximum of ten years and a maximum grace period of 180 days. For loans up to Rs. 7,000, a maximum repayment period of 24 months is permitted and there is NO grace period.

### 3.5 Bunking plan

The lending programme is to be shared by the three banks, viz: Bank of Ceylon, People's Bank and the Regional Rural Development Bank. The Banking Plan (see Appendix III) was originally worked out for a disbursement of SLRs. 384 million \*, but was later reduced to SLRs. 218 million to be disbursed over two years. The plan is, however, to be treated as very flexible and is worked out on the following loan categories and fund-sharing by banks :

<i>Loan categories</i>	<i>Loan for</i>	<i>Amount</i>
Category 1 (a)	for land-based, small-scale economic activities	max. Rs. 20,000
Category 1 (b)	for debt redemption and consumption purposes	max. Rs. 7,000
Category 1 (c)	for purchase/enhancement of assets	max. Rs. 15,000
Category 2	for purchase of individual components – hull, engine and gear for the following types of craft : – Non-motorized craft: <i>oru, teppam, vallam, kattumaram.</i> – Outboard motorized traditional craft. – Outboard motorized FRP craft	max. Rs. 70,000
Category 3	For purchase of craft as a package, complete with engine and gear	max. Rs. 200,000
Category 4	For purchase of individual components (hull, engine and gear or a package) for the following types of craft : – Inboard motorized craft used in coastal fishing. – Craft bigger than 10m used in offshore multiday fishing	min. Rs. 200,000

## SHARE OF PARTICIPATING BANKS

The share of participation of each bank was determined on the following basis :

- In respect of loans under Category 1, Bank of Ceylon and People's Bank will equally share 70 per cent while the RRDB will meet the balance 30 per cent.

\* US \$ 1 = SLRs 44/- appx.

- In the case of Category 2, Bank of Ceylon and People's Bank will equally share 80 per cent while the RRDB will meet the balance 20 per cent.
- In the case of Categories 3 and 4, Bank of Ceylon and People's Bank will share the loans equally. The RRDB will not participate in these loans.

## PARTICIPATING BRANCHES OF BANKS

The branches of the three banks located in the coastal areas in the three districts will be responsible for the disbursement of credit. Borrowers are free to go to any bank branch of their choice. The list of the branches of the banks is given in Appendix VIII.

### *3.6 Loan application procedure*

The prospective borrower who calls at a bank will be issued a loan application form (Appendix IV and V) together with the necessary guarantee form (Appendix VI) by the bank after preliminary discussions with the borrower on the viability of the intended project.

The completed application is to be recommended by the Secretary of the Fisheries Co-operative Society or the Fisheries Inspector of the area and counter-recommended by the District Fisheries Extension Officer (DFEO). Thereafter, it will be forwarded direct to the bank branch by the applicant together with the other supporting documents, such as invoices, and the available documentary evidence regarding training undergone/experience gained to undertake the proposed venture etc.

On receipt of the application in the bank, the Manager/Loans Officer will immediately verify whether the forms have been properly completed and whether all the supporting documents have been submitted. In case of any defects, it will be returned **immediately** to the applicant for necessary correction and return, thus preventing the unnecessary delays of correspondence.

### *3.7 Appraisal, approval and documentation*

Applications which are in order in all respects will, thereafter, be appraised to ascertain the technical feasibility and the economic viability of the activity to be undertaken. Pre-sanction inspection, where necessary, will be carried out by the bank's field staff or by any other officer, where necessary, to verify the following:

- Availability of basic requirements/facilities;
- Sources of supply of inputs and raw materials;
- Facilities available for marketing, where applicable; and
- Availability of the borrower's contribution of the minimum 25 per cent or more of the cost of the project.

An application satisfying the above requirements, will be approved under the delegated authority of the bank branch after the necessary documentation is completed. Care will be taken throughout to expedite procedures so that the concept of **timely credit** is upheld.

In regard to the disbursement of the proceeds of loans, different methods were recommended to be adopted to ascertain proper utilization of loan funds. They are as follows:

- Proceeds to be released in stages, where applicable, after inspection of the progress of activity.
- Where purchases are involved, direct payment as far as possible to be made to suppliers of goods or services.
- Verification of whether the planned goods and services have actually been obtained by the borrower.

- Ensuring that the quality and quantity of goods purchased are the same as planned at the time of appraisal.
- Ensuring that appropriate adjustments are effected to meet cost over-runs or under-runs and changes of the time schedule.
- Ensuring adherence to the marketing arrangements fixed at the time of approval of loan or to alternative arrangements.

### *3.8 Post-disbursement supervision*

After the release of the loan, a careful drawn up supervision programme is carried out to ensure the timely recovery of loan instalments and interest. For this purpose, the following measures are to be adopted :

- Obtaining monthly performance reports from the borrower himself for perusal. (Specimen form is given in Annexure VII.)
- Carrying out surprise inspections to verify the information given in such reports and having an on-the-spot dialogue with the borrower.
- Carrying out periodical field inspections.

During field inspections, steps will be taken to see whether:

- the project is operating as planned;
- production targets are being achieved;
- marketing arrangements are satisfactory;
- project assets are maintained in good condition; and
- loan instalments and interest are being paid regularly.

### *3.9 Monitoring*

#### BRANCH LEVEL COMMITTEES

The progress of the loan scheme, placing special emphasis on the recovery situation, is to be reviewed monthly in the field at the branch level of the lender bank by a committee consisting of the following officials:

- Manager of the bank branch,
- Branch Loans Officer,
- Branch Field Officer,
- Fisheries Inspector, and
- Secretary, Fisheries Co-operative Society.

The bank's Field Officer will prepare a statement of loan defaulters, giving the following details, for discussion at the meeting of the branch level committee :

- Name of borrower,
- Amount of loan,
- Purpose of loan,
- Repayment made so far (capital/interest),
- Repayment due (capital/interest),

- Reasons for delay, and
- Action taken and action recommended.

The branch level committee will evaluate the action taken in each case and decide on future steps to be pursued.

At the same meeting, matters pertaining to new and pending applications will be discussed and agreement reached on any future action regarding the general performance of the credit scheme, with emphasis on recovery.

A brief report of the branch level committee meeting will be forwarded to the following:

- In the case of Bank of Ceylon, to the Provincial Office.
- In the case of People’s Bank, to the Regional Office.
- In the case of RRDB, to the chairman of the District RRDB.

#### PROVINCIAL/REGIONAL/DISTRICT LEVEL COMMITTEES

In order to monitor the progress of the credit scheme, separate action desks are to be set up at the Provincial Office of the Bank of Ceylon, at the Regional Office of the People’s Bank and in the Chairman’s office of the RRDB in the district. The three committees will consist of the following:

- Provincial Asst. Gen. Manager, Bank of Ceylon/Regional Manager of People’s Bank/Chairman of RRDB,
- Officer in charge of loans in the respective offices,
- District Fisheries Extension Officer,
- Secretary to the committee (to be appointed), and
- Secretary of the District Secondary Co-operative Societies Union.

The three committees will evaluate the monthly progress reports sent by the respective bank branches and recommend appropriate measures to be taken by the branches. The Bank of Ceylon and People’s Bank will additionally prepare quarterly progress reports for the Province/District and transmit them to their Head Offices. The Chairman of the District RRDB Office will forward a quarterly report to the Banking Development Department of the Central Bank.

#### COMMITTEE AT HEAD OFFICE

The Bank of Ceylon and People’s Bank will each set up a committee in its Head Office in Colombo, consisting of the following:

- Assistant General Manager in charge of Fisheries,
- Chief Manager/Credit Manager, Fisheries Credit, and
- Any other officers directly handling this subject.

These committees will evaluate the quarterly progress reports and prepare consolidated reports. They will also advise the Provincial/Regional level offices regarding measures to be taken.

The Banking Development Department of the Central Bank will also pursue a similar line of action.

#### NATIONAL LEVEL COMMITTEE

There will be a National Level Committee consisting of the following to monitor and review the progress of the credit scheme.

- Secretary, MFAR, or his nominee,



- Director of Fisheries,
- Deputy General Managers of the two Banks,
- Director, Banking Development Department of Central Bank or his nominee,
- Project Co-ordinators in the banks, and
- Assistant Commissioner of Co-operatives Development (Fisheries).

This committee will meet once in six months, review the progress of the credit scheme and make recommendations where necessary. The findings of the committee will be published and transmitted to the implementing branches of the banks.

#### 4. IMPLEMENTATION OF CREDIT SCHEME

##### *4.1 Orientation programmes*

During the first half of 1991 the Credit Scheme Committee was able to formulate the Fisherfolk Credit Scheme. The Committee, however, did not recommend immediate commencement of the disbursement of loans. In view of past experiences relating to fisheries credit schemes, arrangements were made to conduct a series of orientation, training, education and extension programmes for all who would be involved in the credit scheme. These programmes were formulated to suit the officials of the institutions involved, representatives of village-level organizations and even the prospective borrower fisherfolk.

In view of the importance of keeping key decision-making personnel of the participating institutions well-informed and briefed, a full-day's orientation programme was conducted in Colombo in September 1991. It was attended by 51 officials, including

- the Director, Deputy Director and Assistant Directors of Fisheries,
- District Fisheries Extension Officers and Fisheries Inspectors of the three districts,
- the Deputy General Managers, Assistant General Managers and Fisheries Officers of the Bank of Ceylon and People's Bank,
- the Provincial Assistant General Managers of the Bank of Ceylon and Regional Managers of People's Bank,
- the Directors of the Banking Development and Rural Credit Departments of the Central Bank,
- Chairmen of the Regional Rural Development Banks of the three districts,
- Representatives of the Women's Bureau, the Centre for Women's Research and BOBP.

Representatives of the different institutions participating in and facilitating the scheme were given the opportunity to address the audience on their roles in the implementation of the credit scheme. It proved to be an ideal forum for a free exchange of views on the problems that were likely to crop up during the course of project implementation.

##### *4.2. Training workshops*

Two residential weekend programmes were conducted during November 1991 in Negombo and Galle for the benefit of the following officials:

- Branch Managers of the participating branches of the three banks with the responsibility for taking decisions – in other words, the deciding authority on the granting of loans in each branch, and



*Bank and fisheries officials at a training programme and workshop of the Credit scheme in Hikkadwa.*



*Bank and fisheries officials evaluate a loan as part of a workshop held in Chilaw before implementation of the Credit Scheme. Such interaction helped develop greater understanding among the representatives of the different sectors.*

- District Fisheries Extension Officers and the Fisheries Inspectors of the Districts expected to provide the staff of banks with the necessary technical backstopping on fisheries and help to identify genuine and deserving fisherfolk borrowers.

The training programme included lectures by officials of BOBP, the banks and the DOFAR and these were followed by discussions. The programme also included field visits to fisheries settlements in the area to meet fisherfolk. Seventytwo officials participated in the two programmes.

During December 1991, January and February 1992, four programmes were conducted in Galle, Matara and Marawila (Puttalam District) to train personnel in the three districts. Participants were:

- Junior Loans Officers of banks (who normally interview the prospective borrowers and process loan applications for submission to their branch managers for approval),
- Field Officers of the bank branches, who keep close contact with the fisherfolk,
- Fisheries Inspectors in the respective project areas, and
- Officials of the District Fisheries Co-operative Unions.

The curriculum was such that the Junior Loans Officers, while becoming conversant with the various aspects of the project, would also acquire practical training in the processing of loan proposals. Bank and Fisheries Field Officers, together with the representatives of the Fisheries Co-operative Union, provided them with technical and other information that they might need in the assessment of loan proposals.

After they were briefed on the various aspects of the Project, they were formed into several groups with mixed representation, presented with pre-determined. 'sample loan requests' and requested to appraise the simulated loan exercises.

In all, 143 officials participated in these training and workshop programmes.

#### ***4.3. Fisherfolk borrower education and extension programme***

On completion of the training of the different categories of officials involved in the implementation of the credit scheme, a programme was launched to educate the members of fisherfolk families. The intention was to:

- Create an awareness in the minds of the fisherfolk about the benefits available to them through this credit scheme.
- Impress upon them the importance of repaying loans obtained.
- Dispel the wrong notions they normally harbour towards project credit and, thereby, building up credit discipline among them and making them responsible borrowers.
- Inculcate in their minds the usefulness and importance of the thrift/savings habit, one of the principal aims of the project.

Meetings with fisherfolk were convened during April and May 1992 with the assistance of area Fisheries Inspectors and the supervision of the DFEO.

The Secretaries of Fisheries Co-operative Societies, Field Officers of banks, the DFEO and Fisheries Inspector of the area, and representatives of BOBP and local voluntary organizations attended these meetings. They were generally held in schools, temples or church premises, in community halls and, at times, even outdoors.

Since fisherfolk do not have much free time to spare, the duration of a meeting was limited to around two hours, within which time they were briefed on various aspects of the credit scheme. They were also afforded an opportunity to ask questions and initiate discussions. At these meetings, a pamphlet in Sinhala and Tamil, outlining the credit scheme in statement



*A part of the fisherfolk audience in Chilaw listening to the Credit Scheme being explained.*



*Fisherfolk seek clarifications after the meeting in Chilaw.*

form, was handed to the participants (an English translation of it appears in Appendix VIII). Attendance at these meetings was very encouraging, gatherings of a few hundred not unusual. A conspicuous feature was the presence of a large number of women and youth. Fiftyeight such meetings were held in the three districts and 6188 persons, in all, attended them.

#### **4.4 Loan disbursements**

The committee had designed the loan application forms and a guarantee form with ‘simplicity’ in mind. Each was confined to the two sides of a single sheet of paper and was in easily understandable Sinhala and Tamil.

These forms, to be used in common by the branches of all three banks, were issued to the bank branches in April 1992.

Even while the Fisherfolk Borrower Education and Extension Programme meetings were in progress, prospective borrowers began trickling in to the bank branches with their proposals to obtain loan applications. The first applications were processed and loans released by early June 1992 and the lending activity has been gradually gaining momentum ever since.

Between June and September 1992, 263 loans amounting to Rs. 6903,050 were released by bank branches. The details of such disbursements are as follows:

<i>District</i>	<i>Bank</i>	<i>No. of loans</i>	<i>Amount disbursed</i>
Matara	Bank of Ceylon	36	339,000
	People’s Bank	1	52,500
	RRDB	23	506,800
Galle	Bank of Ceylon	13	165,530
	People’s Bank	4	1,225,000
	RRDB	18	75,000
Puttalam	Bank of Ceylon	3	103,500
	People’s Bank	3	1,200,000
	RRDB	162	3,235,720
		263	<u>6,903,050</u>

## **5. LESSONS LEARNT**

### **5.1 Participatory approach**

From the very inception of the Project in 1988, up to the time of disbursement, all activities of the Project were collectively planned and executed by the committee drawn from the different participating institutions. They were entrusted with the task of formulating the credit scheme which they would themselves later be called upon to implement. In such circumstances, it was natural that they would act with a sense of commitment and responsibility. This was in contrast with most of the past fisheries credit projects which were hurriedly formulated by a group of non-representative individuals and thrust upon fisheries and bank officials for implementation.

### **5.2 Agency interaction**

During the course of the socio-economic survey and later during the studies, an opportunity was afforded the bank and fisheries officials to interact freely with a large cross-section of the fisherfolk and the representatives of voluntary organizations. This situation improved further during the

latter stages when the officials met them again in their villages during the Fisherfolk Borrower Education and Extension Programme meetings at which the details of the credit scheme were explained to the fisherfolk.

This close association has been useful in understanding the lifestyle and the problems of the fisherfolk in their true perspective.

Fisheries and bank officials, who generally used to work within their own closed confines, also came to meet one another frequently during various discussions pertaining to the Project. They also participated together in a number of residential training programmes and workshops conducted by the BOBP. Such interaction over a period of three years and more has resulted in bringing about better mutual understanding and goodwill and, thus, a more effective working relationship. They are now a friendly team devoted towards the achievement of a common goal. The constant dialogue and discussions among these officials have been of immense help in improving and refining their attitudes towards the credit scheme.

### ***5.3 Sustainability***

The three participating banks are adequately represented in the Fisherfolk Credit Committee. Their representatives have all along taken much of the initiative in the formulation of the credit scheme. The simplified loan application forms and the guarantee form have been designed by these members of the committee to help the fisherfolk while fitting into their internal systems and procedures. With the banks themselves playing the leading role in the formulation of the credit scheme, providing resource persons and instructors for the several training programmes, workshops and education and extension programmes and in the designing of the forms, there are unlikely to be problems in the implementation.

The close involvement of bankers in every stage of the credit and recovery functions has made this their own project. Hence, when they finally take over the credit scheme, it is likely to be a smooth exercise.

With the banks agreeing to allocate their own resources for the disbursement of loans, it can be presumed that, as responsible financial institutions, they would take every precaution to ensure proper recovery of the loans disbursed and gradually take upon themselves the functions of lending, recovery and deposit mobilization within the fisherfolk community as envisaged by the Fisherfolk Credit Project.

### ***5.4 Role of BOBP***

As mentioned earlier, the role of BOBP has been a low-key one, the Programme merely acting as a catalyst, guide and facilitator. Once the lending process by the participating banks progressively increased, BOBP has gradually distanced itself from the scene, confining its activities to a mere review of the progress of lending and recovery.

### ***5.5 Subsidies and refinance***

For over three decades, the element of 'subsidy' has been in-built into fisheries credit as a result of the desire of successive governments to promote speedy development of fisheries. The subsidies granted to fisherfolk related to fishing craft, engines and gear as a package or as individual items. A further concession was the Central Bank refinance, whereby the fisherfolk could obtain loan facilities at rates of interest much lower than the prevailing market rates.

The Government has recently withdrawn the grant of subsidies for fishing craft and equipment and the Central Bank has suspended its refinancing facilities. Thus, lending under the credit scheme has to be 'non-subsidized', a characteristic that was advocated at the outset of the scheme itself.

Fisherfolk accustomed for years to benefit from subsidies voiced their dissatisfaction about this situation at some of the meetings held with them. It was explained to them that the subsidy should not be necessary, provided they took due and proper care of their assets and incomes. It was also pointed out that Government's policy now was to encourage increased efficiency and self-reliance.

### *5.6 Transfer of trained staff*

On visits to bank branches, BOBP staff found that branch managers, loans officers and field staff who had received training in implementing the credit scheme have been transferred to other branches on promotion or due to other administrative requirements of the banks. It takes time for officers replacing them to familiarize themselves with the Project activities and this has occasionally led to temporary setbacks in the smooth implementation of the credit scheme.

### *5.7 Multiplicity of projects*

The implementing banks, viz. Bank of Ceylon, People's Bank and the RRDB, all of which are state-owned, are actively participating in numerous development projects throughout the country, particularly in those connected with Shri Lanka's Poverty Alleviation Programme.

In their eyes, the BOBP Fisherfolk Credit Project is just another project among the many credit projects which come under their purview. It is therefore unrealistic to expect favoured or special treatment or attention from them towards this Project. More important is the competition from those schemes which offer lower rates of interest as a result of subsidies.

### *5.8 Attitudes of officials*

There also appears to be a tendency among some officials to consider that any work performed on behalf of the Project as falling outside their normal duties. Some bank personnel have been complaining about the absence of refinance and having to utilize the scarce funds of banks for lending. A few of them appear to feel that BOBP should provide the funds for lending. It has had to be pointed out to them that the BOBP role was a catalytic one and that it has played this role quite effectively, providing guidance and leadership, and, within its means, funding all the major activities preceding the credit disbursement phase.

Misconceived attitudes of this nature will certainly tend to make such officers half-hearted and lethargic and, in the long run, this could have an adverse impact on the sustainability of the results of the Project.

In spite of all this, it is a cause for much satisfaction that the majority of the officers have performed extremely well and continue to work with a sense of dedication and co-operation in the larger interests of the fisherfolk beneficiaries.