

## **INSTITUTIONAL FISHERY CREDIT AND COMMUNITY-BASED FISHERIES MANAGEMENT**

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### ABSTRACT

Since the Government of Sri Lanka started to implement free market economic policies, the current National Fisheries Development Plan includes strategic objectives for fisheries development but no specific financial targets or mechanisms. These are to be left to private enterprise and government will only be concerned with such support activities as infrastructure development, training and research.

In this paper the failures of previous fishery credit and subsidy schemes, operated through the then state controlled banks and other institutions, are reviewed, as are the reasons why commercial banks have until recently been reluctant to undertake fishery credit business. Nevertheless, there is an urgent need, and desire on the part of government, to make reasonably priced credit available at local level to small scale enterprises and all sections of the fisherfolk communities and to link financial arrangements to community based management of fishery resources, exploitation and marketing. This is most likely to succeed if credit is channelled through commercial banks to groups such as the fisheries cooperative societies who would then lend on the small sums required by individuals and small enterprises. Close monitoring and supervision would be required of such a scheme if loans are to be successfully recovered and the confidence of banks retained. Strategies for the implementation of these ideas are set out and discussed, as are aspects of marketing and credit availability specific to the needs of community based management. The financing of the processing, marketing and aquaculture sectors of the industry are also described and discussed. A number of possible developments to increase exports of, and add value to, fishery products are suggested.

## **1. THE ROLE OF INSTITUTIONAL CREDIT IN THE NATIONAL FISHERIES DEVELOPMENT PLANS**

### **1.1 Government policy objectives for fisheries development in Sri Lanka**

The first half of the 1990s has witnessed several important developments concerning the fisheries of Sri Lanka. Among these are (i) the rapid expansion of the offshore fishery into extensive areas of the Exclusive Economic Zone, which is now popularly called 'multi-day' fishing, (ii) the formal recognition of the need to have a management regime for marine fisheries of Sri Lanka as reflected in the Government's request for and receipt of UNDP's assistance for marine fisheries management, (iii) the resurgence of fisheries cooperative societies and their utilisation as the foremost vehicle for fisheries and fisher folk development, (iv) the implementation of an investment programme with external financial assistance to upgrade the physical and social infrastructure to support fisheries, and (v) a major change of policy (withdrawal of direct state patronage) in regard to inland fisheries.

In 1990, the Ministry of Fisheries and Aquatic Resources formulated a Five Year Plan for Fisheries Development 1990—1994 with the following objectives:

1. To increase the production of fish in order to increase the nutritional status of the people of Sri Lanka through a higher per capita consumption of fish.
2. To promote the rational and optimum exploitation of Sri Lanka's fisheries and aquatic resources based on the application of modern science and technology.
3. To support the National Programme for Alleviation of Poverty by increasing the incomes and standards of living of all those dependent on fisheries and fisheries-related activities.
4. To increase employment opportunities through fisheries and fisheries related activities.
5. To increase foreign exchange earnings through exports of fish and aquatic products.

The Ministry has also prepared a draft of the plan for the period 1995—1999, which has yet to be finalised. Its objectives are as follows:

1. To bring about a rational and optimum exploitation of Sri Lanka's fisheries and aquatic resources.
2. To facilitate improved efficiency of the fishing industry.
3. To provide better infrastructure to support the fishing industry.
4. To ensure the maximum utilisation of fish harvested and reduce post-harvest losses.
5. To increase foreign exchange earnings by exporting value added and high quality products.
6. To facilitate the improvement of the living standards of fisherfolk.
7. To rehabilitate the fishing industry in the northern and eastern areas of the country.

With regard to investments in the fisheries sector the following are noteworthy:

- The country's ability to increase and sustain domestic fish production in the future will depend upon: (i) the intensified development of its offshore fisheries which have been hardly tapped, (ii) the reduction of pressure on its coastal fisheries through the implementation of sound fisheries resource management and the monitoring programme, and (iii) the provision of support and incentives to the private sector.
- A strategic shift in public investment is needed away from providing fishing vessels and accessories and towards the construction and rehabilitation of the sector's supporting infrastructure such as harbours and anchorages, and marketing facilities.

- There is a need for a full technical assessment of all project components at the design stage and for a clearer understanding of the perceptions and requirements of end-users of goods and services.

## 1.2 Investment and supporting credit arrangements envisaged in the National Fisheries Development Plan

Sri Lanka now has an open economy as a result of the major economic adjustments which took place in the late 1970s and does not have centralised planning. Consequently the Fisheries Development Plan, like the other sectional development plans, is purely an ‘indicative’ plan which reflects the basic tenets of fisheries development within the overall framework of national economic policy. Thus, the National Fisheries Development Plan merely sets out the development objectives, attempts to target very broadly the production, employment, foreign exchange earnings expected to result from the implementation of the plan and estimates on a very ‘indicative’ and broad basis the types of investment which ought to take place for the achievement of the objectives.

In relation to investments for fisheries development the most important principle underlying the plan is that the state sector will not undertake any new commercially oriented investments nor any major expansion of any existing commercial ventures. Such investments are left exclusively to the private sector. Thus, direct investments in fishing such as in boats, engines and gear and other supporting investments such as ice plants, cold storage facilities, boat and engine repair workshops, fish processing, marketing and transport, and activities such as culture/fanning of fish, shrimp and other aquatic organisms will be undertaken exclusively by the private sector. In pursuance of this policy, most of the assets/facilities required for commercial activities conducted by the Ceylon Fishery Harbour Corporation (such as ice plants, cold rooms, workshops and slipways) have been leased or rented out to the private sector. Most of the assets of the Ceylon Fisheries Corporation have also been leased out to the private sector. The fishing-gear manufacturing enterprise Ceylon Development Foundation, which earlier functioned as a state agency, has been converted into a company.

State sector investments have thus been limited to the construction and maintenance of physical infrastructure such as harbours and anchorages, and social infrastructure such as roads, common amenities and allied marine structures, and the basic services needed to support the fishing industry such as research, extension and training.

### *1.2.1 Types and magnitude of investment*

There is no single official document which indicates the planned or projected investments in the fisheries sector for the ten year period 1990-1999. However, a projection prepared by the Ministry as an accompanying document to the draft Fisheries Development Plan 1995—1999 (referred to in Section 1.1) revised to include the investments envisaged under the biggest investment project, viz. Fisheries Sector Project, funded with Asian Development Bank assistance, is summarised in Table 1.

The projected investment indicated in Table I will be undertaken by the private as well as the public sector. Based on the current economic policies of the Government referred to above it

Table 1.  
Projected investment 1995 – 1999

Category	Amount (Rs. million)
1 Fishing craft and engines	1 063
2 Fishing gear	296
3 Fish marketing and processing	665
4 Shrimp/ fish culture/ farming	401
5 Micro-enterprises	300
6 Fisheries management and regulation	239
7 Harbours, anchorages and coast protection	1 683
8 Fishermen's welfare	190
9 Training and extension	111
10 Fisheries research	342
Total	5 290

is certain that investment covered by categories 1 to 5 (relating to fishing craft and engines, fishing gear, fish marketing and processing, shrimp/fish culture and farming, and the micro-enterprises) will be undertaken entirely by the private sector. This will account for roughly Rs. 2725 million or 51 percent of the total projected investment. These private sector investments will depend heavily on the supply of credit, both formal and informal.

The other investments in groups 6 to 10 such as infrastructure development, fisherfolk welfare (including safety aspects), training, extension and research will be undertaken by the Ministry, the Department, and the National Aquatic Resources Agency (NARA). Fisheries management investments will be largely supported by the UNDP while in the other areas, particularly infrastructure development and research, ADB will provide extensive assistance.

The most important single item is the rehabilitation and development of infrastructure directly relating to fishing such as harbours and anchorages. Heavy investments are required in this particular area because these facilities have not been properly maintained and serviced in the past, primarily due to lack of funds. Physical infrastructure development and rehabilitation accounts for Rs. 1683 million, or nearly one third of the total investment outlay in the sector.

The next most important category, in terms of funds required, is the investment directed at relocation of the fishing effort, namely the promotion of multi-day/deep sea fishing, to be undertaken through the introduction of larger and stronger boats. This category also includes funds to modify vessels, adding insulated fish/ice holds, and install navigational and safety equipment. Investment in such craft is projected at around Rs. 760 million or 15 percent of total investment.

The replacement/ of existing fishing equipment is likely to account for around Rs. 260 million or 5 percent of total investment. Fish marketing, processing and storage is expected to take a fair slice of the total investments. Included in this category are items such as ice making equipment,

storage and freezing facilities, fish transport vehicles and processing facilities. These are now given higher priority as a result of the increasing quality consciousness among the local consumers of fish and the expansion of the marine products export sector, where an awareness of the need to add value and earn more foreign exchange by further processing and by using better methods of packaging is vital. This is likely to account for around 12 percent of the total investment.

Generation of alternative employment opportunities and increased incomes for the fisherfolk communities has been accorded very high priority in the fisheries sector as a part of the national poverty alleviation strategies. In addition to other programmes which already exist for this purpose, a direct effort is being made through a micro-credit enterprises development and promotion programme of the Sri Lanka Fisheries sector project. This is likely to result in a minimum investment of Rs. 300 million roughly 5 percent of the total sector investment.

Fisheries research, training, extension and management taken together will require around Rs. 770 million (around 14 percent of the total). One of the important research inputs will be a comprehensive survey of fish resources within Sri Lanka's EEZ (beyond the continental shelf), which is to be conducted by NARA over 24 months under the aegis of the Fisheries Sector Project.

### ***1.2.2 Sources of funds***

The public sector investments in the areas already referred to will be undertaken using the Government's annual budgetary allocations to the Ministry, which will include a considerable amount of external assistance such as foreign grants. Hence commercial credit from local financial institutions will not be used to finance these investments. On the other hand, as shown in Section 2, institutional bank credit will play a critical role in supporting most of the private sector investments. The magnitude of such investments, given the proper investment climate, will be determined by the attitude of the banking sector towards fisheries projects.

The Development Plan 1990—1994 does not provide specific details relating to credit such as the credit/financial institutions involved, or the applicable rates of interest and loan conditions. However, the policy statement included in the plan in regard to credit for fisheries is noteworthy since it focuses attention on some of the problems constraining fisheries credit in the past and the measures which ought to be taken to resolve them.

Since 1979, credit for fisheries has been channelled through commercial banks and no change is envisaged during the plan period. After being very active in providing credit until 1983—1984 the banks have reduced the amount of credit offered mainly for reasons of poor recovery during the past four years. This trend has now been arrested, and the banking system once again is geared to cater to the credit needs of the fisheries sector. Improvements both in the delivery as well as the recovery of credit are being made as the bank officers become more familiar with the attitudes and problems of fisherfolk. The FAO/BOBP fisheries credit project has contributed towards this and will continue during the plan period. The fisherfolk have also been made more conscious of their obligations and this will be further consolidated through training and extension programmes and the new cooperative societies. The banks will establish direct links with the fisheries.

One noteworthy feature of bank credit in future will be provision of working capital. Lack of working capital is known to be one of the key factors that cause small fishermen to go to the middlemen, particularly during lean fishing seasons.

The Ministry of Fisheries and Aquatic Resources and relevant organisations will provide technical and other support services to lending institutions before loans are granted and also in post-sanction recovery activities. The plan also states that loan recovery mechanisms will be improved through a series of strategies and measures which are discussed in detail in Section 2, where details of existing and proposed credit schemes which could be used by the private sector for fisheries investments, and the strategies and policies envisaged, are analysed and discussed.

### 1.2.3 Foreign investments in fisheries

An important policy of the Government is that foreign investments will be encouraged in all areas provided such investment is beneficial to the country. Under this policy the Board of Investment and the Ministry of Fisheries and Aquatic Resources Development have attempted to attract foreign investments primarily in the area of offshore and deep sea fisheries, culture and farming of aquatic products, processing of fish and aquatic products, boatbuilding, manufacture and assembly of gear. An analysis of the approvals given by the Board of Investments for establishment of fisheries and fisheries related enterprises during the period 1991 and 1994 (up to August) indicates that 47 private enterprises have been approved, of which only 16 have foreign investments (Table 2).

Table 2 shows that there has been very little foreign investment in the recent past. Since foreign investments, particularly in the offshore and deep sea fisheries, are coupled with export marketing further effort should be made to attract foreign investments in this area. Shrimp farming investment opportunities will increase considerably, particularly on the eastern coast when the political situation stabilises.

Table 2.  
Types and number of private enterprises in fisheries and fisheries related investments approved in the period 1991 – 1994 (August)

Type of enterprise	No. of units	Estimated investment (Rs. million)
Prawn farming/ aquaculture	10	358
Fishing/ fish processing	6	456
Totals	16	814

### 1.3 Relationship between fisheries management and investment/credit in National Fisheries Development Plans

The Five Year Development Plan (1990—1994) and the draft Five Year Plan (1995—1999) both refer to management of fisheries in terms of principal policy objectives for future development of fisheries and aquatic resources in Sri Lanka. Hence in the formulation of projects and development programmes the proper management of fisheries has been a major consideration.

In the public sector investment programme for fisheries the two major development projects, viz, the UNDP project and the ADB project, have a major focus on fisheries management. Marine fisheries management is in fact the sole concern of the UNDP project. It concentrates primarily on the identification and study of fisheries management issues, creating an awareness of the fisheries management and resource conservation issues among fisherfolk, policy-makers and the other stake-holders and promoting the participation of fishing communities in the management of fisheries at the local, provincial and national levels. The other major output expected from the project is improved capability of the Department to forge ahead in promoting management for sustainable development of fisheries. Considering that fisheries management is relatively new in Sri Lanka the task of promoting it will undoubtedly be a formidable one.

The Fisheries Sector Project of the ADB also has several components in support of fisheries management. These include the fish resource survey, which will result in a better understanding of the resource situation, particularly in the offshore areas of the EEZ, and of the management related issues such as the interaction between the coastal and offshore fisheries. The survey should also throw light on the feasibility of further diversifying the fisheries and thereby reducing the pressure on the coastal fish stocks.

In terms of the categories of investment referred to in Section 1.2, those that tend to support the fisheries management process, at least insofar as it concerns the coastal fishery, are the introduction of multi-day boats, and the rehabilitation and development of the fisheries infrastructure, extension and training, fisheries research and micro-enterprise development.

Introduction of multi-day boats and the conversion of day boats to multi-day boats will help to reduce the pressure on the limited coastal fish stocks and at the same time extend fishing into areas in which the stocks are less fished. This promotion of multi-day/offshore fishing is also supplemented by NARA's resource survey programme already referred to above. NARA is also involved in the monitoring and assessment of fish stocks, particularly in the coastal fisheries, where several resource conflicts have arisen between users of different types of gear (e.g. trawl nets, purse seines, etc.). This has led to social conflicts. The infrastructure development programme of the Government, particularly the harbour rehabilitation programme, will also assist the processes of off shore fishery development.

The training programmes under the Development Plan are also management oriented. The dissemination of information on resource issues such as conservation, use of resource friendly methods, and improving the awareness of fisherfolk will be a major component of both formal and informal training programmes. In addition, the training of multi-day boat crews in navigation and safety has also been given priority.

Another important management oriented investment category is the development of micro-enterprises at the village level. These will provide opportunities for members of fisherfolk families to start local, resource based, labour-intensive economic activities which can offer alternative employment to members of fishing communities either on a seasonal basis or all year round. The banking system is already implementing several credit schemes to promote such

activities among fishing communities as indicated in Section 2. To these should be added the micro-enterprises credit scheme of the Fisheries Sector Project, which envisages disbursement of Rs. 220—250 million in credit during the next four years. The project has, on the basis of earlier studies and experience, identified a series of activities which could be supported. In this programme heavy reliance is to be placed on non-Government and voluntary organisations. This scheme is referred to in detail in Section 1.4.

One particularly noteworthy aspect which has an impact on fisheries management is that some of the credit schemes under implementation have as their primary focus the strengthening of the cooperative societies. These are the most important organisations in many fishing villages and are thus capable of supporting or even initiating fisheries management within their area of operation or their communities.

#### 1.4 Policies of international lending agencies and donors with regard to investment/credit and fisheries management

Since 1990 the Sri Lanka fisheries sector has benefited from programmes of assistance carried out by several multilateral and bilateral donor agencies, Governments and international development finance institutions. In the area of fisheries credit, assistance has come from at least two external sources. Of these, the more important is the Asian Development Bank (ADB), which provides \$US 5 million for credit within its loan for the Fisheries Sector Project. These funds are to be used for disbursement among the fisherfolk in the coastal areas of the North-Western, Western and Southern Provinces. The Bay of Bengal Programme (BOBP), a regional programme of FAO, also provided technical assistance in fisheries credit with the aim of improving its delivery system, giving it a market orientation and improving utilisation and repayments.

The Asian Development Bank provided a loan of \$US 26 million for a six year Fisheries Sector Project (1993-1999). Within this, a \$US 5 million credit scheme has been formulated to provide “credit for sub-projects of small scale, micro or selected medium scale credit to fishermen, rural women, selected private entrepreneurs and fisheries cooperatives for income generating self-employment activities as well as for diversification of their livelihood to onshore activities involving fisheries and non-fisheries activities”. This credit scheme can be said to contain two important facets: (i) the funding of boats, engines and gear has been deliberately excluded, primarily to support the management of marine fisheries; and (ii) it also supplements the fisheries management efforts by attempting to provide alternative employment opportunities to members of fisherfolk families in order to lay the foundation for a possible future movement of ‘excess’ personnel from fisheries to other economically viable activities in the project area.

The Bay of Bengal Programme also provided technical assistance by formulating a credit programme in response to a request made by the Ministry of Fisheries and Aquatic Resources in 1987. The request was for assistance 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:



- i. increase the operational efficiency and profitability of fisheries, as well as non-fisheries economic activities undertaken by members of coastal fishing communities, and
- ii. facilitate the management of earnings by fisherfolk families by encouraging the savings habit through linking credit with savings.

The policies of these two donor agencies in relation to investment/credit and fisheries management in Sri Lanka are discussed below.

The ADB's policy for fisheries assistance to developing countries is guided by the five main principles of productivity, sustainability, efficiency, equity and beneficiary participation in project planning and implementation. The main features of the ADB's credit programme are as follows:

- i. It will cater to the organised sector as well as the rural informal sector.
- ii. The rates of interest will be close to market rates – the minimum will be 16 percent.
- iii. Loans for small borrowers will be supported by training and extension and a social mobilisation programme.
- iv. Security in the case of small loans will be personal integrity.
- v. Participation in group action programmes will be a pre-condition of small borrowers for obtaining loans.

The loan scheme, which will be co-ordinated and executed by the National Development Bank (NDB), will be administered through a network of PCIs (participating credit institutions). Among these are four commercial banks, seven regional rural development banks (RRDBs) and several NGOs including fisheries co-operative societies that fulfil the necessary requirements.

The PCIs shall be selected by NDBSL according to the following criteria:

- i. The PCI shall have at least two years experience in lending to the target sub-borrowers,
- ii. The loan recovery rate of the PCI during the two years preceding the sub-loan shall be at least 70 percent of the loans falling due,
- iii. The PCI shall operate with sound financial, banking and management practices, including maintaining an appropriate debt-equity ratio and making adequate provision for bad debts in accordance with the general guidelines of CBSL and, with respect to TCCSs and fisheries co-operatives, the general guidelines of the Cooperative Department of the borrower (CD),
- iv. The PCI shall establish an accounting and financial reporting system and credit monitoring procedures acceptable to NDBSL and CD, and agree to have accounts audited annually by an independent auditor, and

- v. The PCI shall, where relevant, use a group lending approach towards its sub-borrowers under the micro-credit and self-employment credit schemes under each credit sub-project, operate a savings programme for the duration of each sub-loan, and rely primarily on character reference rather than on collateral in evaluating credit applications.

Criteria used in the selection of Sub-borrowers are as follows:

- a. Enterprises in which the value of fixed assets does not exceed Rs.8 million or a member of a self-help group.
- b. Preferably a resident of the project area.
- c. A person who has been trained or followed a social mobilisation programme for a period of at least three months prior to the request for a sub-loan.
- d. A person who has agreed to participate in a mutual support group.
- e. A person who agrees to participate in a saving programme for the duration of the sub-loan.

Selection criteria relating to sub-projects are as follows:

- a. Those sub-projects in which the investment cost does not exceed SUS 200,000.
- b. Those which are productive, income generating, labour intensive, employment creating, preferably involving women.
- c. Those which use local materials.
- d. Those which provide arrangements for marketing of finished products.
- e. Those with a return on investment of 20 percent.
- f. Those which are environmentally sound.

Other particulars relating to loans are as shown in Table 3.

Table 3.  
Conditions of loans made to fisheries projects by the  
National Development Bank of Sri Lanka

Terms	Projects over Rs. 500 000	Projects/ activities under Rs. 500 000
Repayment	10 years	5 years
Grace period	2 years	1 year
Equity (as % of total cost)	25%	10%
Security	Security acceptable to PCI	Personal integrity or group system

It is very likely that the larger loans to the organised enterprises will be issued almost exclusively by the commercial banks while the bulk of the smaller loans for village level enterprises and individuals are expected to be held with the regional rural development banks, fisheries cooperative societies and other village level organisations. Thus while contributing to the objective of poverty alleviation, employment generation and diversification of economic activities, the credit scheme will also help to strengthen the cooperatives and other fishing community organisations which will be important agencies in any community-based fisheries management programme. Cooperatives, like the rest of the PCIs will be able to keep a margin of about 8 percent. This will enable them to meet the cost of their services and at the same time increase their financial resources, thereby adding to their prestige and recognition as leading organisations through their borrower contacts.

BOBP's aim was also to develop a credit programme which is not subsidised. The primary objective was to assist a series of financially viable and sustainable small scale enterprises rather than inefficient enterprises which cannot withstand the rigours of competition in a market-oriented economy. The lending institutions were given complete freedom to decide on the applications submitted to obtain credit. More information on the BOBP's Pilot Credit Project is given below.

## 2. FISHERY CREDIT PROGRAMMES IN SRI LANKA AND THE REQUIREMENTS OF FISHERIES MANAGEMENT AND DEVELOPMENT

### 2.1 Past institutional and informal credit arrangements for the fisheries sector

Credit is regarded as an integral component of any development plan. The National Fisheries Development Plan in Sri Lanka is no exception, and some of the reasons for this are set out below:

- a. The urgent need to increase production;
- b. The need to assimilate new technology to increase productivity;
- c. The capital intensive nature of new technology which has to be imported, e.g. engines and fishing gear;
- d. The obligation of the banking system to generate more land-based selfemployment opportunities for low income groups;
- e. The need to have relevant infrastructure facilities in place, e.g. ice plants, storage rooms, repair and maintenance workshops, and transportation.

Fisheries activities, in common with other rural activities in Sri Lanka, are funded by informal credit, formal credit, subsidies, fiscal incentives or are self financed. The extent to which each category contributes to sector financing the sector varies considerably.

Successive Governments in Sri Lanka have provided formal credit to the fisheries sector through the Department of Fisheries, commercial banks, RRDB and the cooperative banking system. The Central Bank was charged with some of these programmes on behalf of the Government and it also made the required funds available through a refinancing mechanism which

enabled lending at low or concessionary interest rates. A substantial part of the risk to be borne by the credit disbursing banks was cushioned through default reimbursement guarantee schemes and strict guidelines imposed regarding on-lending, procedures and loan sizes. Despite these efforts, it has not been possible to build up a viable and self-sustaining fishery credit system. This is evidenced by the failure of much of the disbursed credit to reach the target groups, the small number of borrowers, high default rates, large amount of subsidies given by both the Ministry of Fisheries and under refinancing schemes, and above all the reluctance of the banks to provide fisheries credit. The following comment was made in an FAO report regarding rural credit in Sri Lanka: “the lack of enthusiasm for rural credit on the part of the commercial banks is not only a symptom of the failure of formal rural credit but also one of its major causes”.

### ***2.1.1 Fisheries banks***

Fisheries banks were set up by the People’s Bank in 1978 with a view to popularising the banking habit and helping to raise the socio-economic standards of the poorer segment of the fishing community. The objective of these specialised banks was to service less privileged fishermen more effectively than the fisheries cooperatives and provide a comprehensive credit structure for those engaged in the fisheries industry. These banks were however to be housed as far as possible in buildings occupied by fisheries cooperative societies and were expected to liaise closely with the cooperatives.

A study was made by the People’s Bank in 1990 on the problems encountered by the fisheries banks. It revealed that although the intention was to set up these banks amid heavy concentrations of fishermen, some of these banks were located at sites away from the fishing centres. It also emerged that the fisheries banks, with their formal procedures and systems, found it difficult to meet the competition posed by private businessmen who had established themselves among fishing communities. One of the objectives in setting up fisheries banks was to break the dependence of the fishermen on the Mudalali, but the task proved far from easy.

Instead of maintaining separate full fledged fisheries banks, the People’s Bank, in the course of time, decided that a counterservice in a main branch of the People’s Bank would be sufficient to meet the needs of the fishermen. This service would be available with different banking hours to suit the locality. However, this programme is not being strongly pursued by the bank at present.

### ***2.1.2 Regional Rural Development Banks (RRDB)***

In 1985 the Central Bank launched the RRDBs as new credit institutions at district level. The RRDB’s also faced the same fundamental problems as the rural branches of the commercial banks, eg. difficulties in making rural lending viable under the previous conditions, having to compete for savings deposits, and the need to put funds into commercial activities. Lack of capital was another constraint experienced by the RRDB. The RRDBs’ contribution to the fisheries sector could be considered negligible at present.

### ***2.1.3 Informal sector***

The informal sector still dominates lending to the fisheries community. Fish traders and

middlemen play an important role in short term fisheries financing. The fish marketing system in Sri Lanka is also controlled mainly by the private traders or Mudalalis who procure catches at the landing site from fishermen who are under an obligation to them. These informal lenders also establish a linkage between production and marketing. There are various other informal credit sources, such as friends, relatives, landlords, traders and money-lenders. These informal loans have advantages both for the lender and the borrower such as reduced overhead costs, simple procedures, quick disbursements as well as access to credit without collateral requirements. Interest rate levels in the informal credit market are 30-40 percent per annum, which is not out of line with the financial sector when transaction costs are taken into consideration.

The relative advantages of non-institutional credit vis-a-vis the formal sector have led to the idea of integrating both sectors. The introduction of Praja Naya Niyamakas (PNNs) (community credit facilitators) was an attempt to do this. The main objective of the PNN scheme was to supplement and strengthen the financial system, particularly in rural and semi-urban areas, by introducing a host of non-banking intermediaries at hamlet level so that the usurious interest rates charged by informal monopolists could be brought down by the application of market forces. The PNN scheme has, however, not met its objectives so far, mainly owing to difficulties in identifying effective and committed PNNs. Rotating Savings Associations are another means of informal sector financing among fisherfolk. They are popularly known as Seettu, which is a blend of both savings and credit.

#### **2.1.4 Subsidies**

The main distorting elements of past fisheries financing included direct investment subsidies and concessional credit schemes. The administration of the subsidies from the inception was jealously guarded by the Ministry of Fisheries. The rationale for subsidies was based on three major objectives, viz., to encourage more investment and production in new and high risk fishery activities, accelerate the adoption of new technologies and improve the distribution of assets and income among the fisherfolk. However, owing to a combination of several factors regarding the administration of the fisheries subsidy programmes, these objectives have not been achieved.

#### **2.2 Linkage of past Fishery Credit Programmes to fisheries management measures and their impact on management related issues**

Credit programmes for the fisheries sector date back to 1947 when the Department of Fisheries provided credit to individual fishermen to acquire fishing craft and equipment, and to fisheries cooperative societies to engage in fish marketing. In 1958 the Government introduced a fisheries mechanisation programme under which the fishermen were granted loans for purchase of new boats and engines. However, by 1977 Government financing of the fishery sector faced severe problems since the loans granted for mechanised craft had not been repaid, burdening the Department of Fisheries with financial losses. Considering the high level of defaults, the Government decided to write off all fisheries credit and suspend the disbursement of credit to the fishery sector. Thereafter, lending to the sector was undertaken by the state-owned commercial banks, through the Bank of Ceylon and the People's Bank, which, as financial institutions, were better equipped to handle credit functions.

The Bank of Ceylon and the People's Bank initiated lending to the fishery sector through various credit schemes formulated by the Ministry of Fisheries from 1978 onwards. A brief description of these credit schemes is given in Appendix I.

Fisheries credit schemes in Sri Lanka, both ongoing and those implemented in the past, have had an impact on fishery management related issues and provided bankers and policy makers with valuable experience that will help them formulate and implement more effective fisheries credit schemes in the future. Points of special note to emerge from past credit schemes are briefly outlined below.

a. Improper selection of borrowers

There was no proper selection of bona fide fishermen under many credit schemes. Although a committee comprising district/Area Managers of the two state banks, a District Fisheries Extension Officer and the District Manager of Ceylon Fisheries Corporation was responsible for the selection of borrowers, many of them were not suitable candidates for credit under the schemes as the final selection of borrowers and sanction of loans did not rest with the lending bank. Many influential fishermen obtained credit under the schemes irrespective of their eligibility. This could also be attributed to the linkage of subsidies with credit, thereby making the banks passive participants in the selection process.

b. Inadequate pre-sanction, investigation and post-sanction supervision by the banks

Since the borrowers were selected by District Committees, the banks were not encouraged to undertake pre-sanction investigations prior to disbursement of loans. Furthermore, the post-sanction supervision was generally inadequate to ensure successful recovery of credit. This was mainly a result of the low priority given by the banks to the portfolio and problems connected with employment of field staff for supervision. Some bank branches did not employ field officers because of administrative difficulties.

c. Delay in the supply of project goods

Supply of project goods was the sole responsibility of the boat manufacturer. He supplied the vessels to the borrower, provided he received a request from the lending bank to hand over the boat to the customer. There was a considerable time lag between receipt of payment and delivery owing to technical and financial problems encountered by the boat manufacturers.

d. Substandard quality of goods procured under the schemes

Certain boat manufacturers did not construct the boats to the standards required under the credit scheme. The poor quality of such vessels affected operations and in certain cases has led to a complete halt to fishing activity.

e. Obligation of borrowers towards informal suppliers of credit

Informal credit is still a major source of credit for consumption and working capital

requirements among the fishermen. Such credit is granted by village retail traders (Mudalali) or fish traders. Although the rates of interest are higher than those for formal borrowing, fishermen tend to obtain informal credit since this is available at short notice without formalities and also because of the symbiotic relationship between traders and fishermen. Formal credit to the fishery sector has suffered in terms of recovery performance, because of the priority given by fishermen to repaying informal loans.

f. Poor coordination between banks and fisheries officials

After disbursement of loans to the fishermen, their recovery became the sole responsibility of the lending banks. Fisheries officials were not interested in helping the banks recover loans disbursed to borrowers, mainly because of the lack of coordination between bank and fisheries officials.

g. Lack of commitment of borrowers to repay loans

The past performance of fisheries credit schemes in recovering loans has been unsatisfactory. The overall recovery rate of all fisheries credit schemes implemented to date is less than 70 percent. The borrowers, in many cases, purposely defaulted on their loans since they had no proper understanding of the difference between subsidy and credit. The lending banks had no arrangements to recover loans at the time catches were sold to private traders or the Fisheries Corporation.

h. No link between credit and marketing

Although the banks were involved in fisheries credit, the marketing arrangements for the fish industry were very poor. However, the RRDBs established on a district basis, were able to recover loans since their field staff were present when the fish catches were sold to traders. The unsatisfactory repayment performance of the two state banks was mainly a result of the lack of post-credit supervision and linkage between credit and marketing. The poor recovery performance of the past fisheries lending schemes operated by the Bank of Ceylon (BOC) and the People's Bank (P/B) is shown in Annex II and III respectively.

Obligations and monopoly of fish traders

The fisherfolk are compelled to sell their catches to middlemen at prices quoted by the latter. This is not only because the catch has to be sold immediately to avoid physical and quality losses but also because the fisherfolk have financial and other obligations to the middlemen. The incomes of fishermen are lower than they would otherwise be because of the low prices offered by fish traders.

j. Recent experiences however reveal that fisheries credit programmes have become fairly successful in terms of overall lending recovery rates under the various credit schemes. (see Appendix V).

The recently terminated pilot credit scheme for fisherfolk under the FAO/BOBP fisheries

credit project has also thrown up important issues pertaining to fishery management measures. The main issues are as follows

- a. Many would-be borrowers seem to think that 25 percent equity participation by them in a venture, as stipulated by the credit scheme, is unfair. It is difficult to convince them that such a provision is just.
- b. Many insist on the relaxation of security requirements for larger loans (for instance, Rs. 1.5 million for a multi-day boat and equipment), in line with smaller loans, where the guarantee of two family members normally suffices.
- c. The absence in this credit scheme of subsidies, to which the sector has been accustomed over the years, seems to discourage borrowing.
- d. The demand which existed for credit at the time the project began is now being easily met by several other recently launched credit schemes, some of which offer subsidy components, lower interest rates and liberal security requirements.
- e. Some bank officials trained by the project have been transferred elsewhere, after promotion or at their own request, or for administrative reasons. As a result, the smooth functioning of the credit scheme was disrupted in some branches.
- f. Whilst lending 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.
- g. Some officials appear to consider any work performed on behalf of the project as falling outside their normal duties. Some bank personnel have complained about the absence of refinance and the use of scarce bank funds for this lending. A few appear to feel that BOBP should provide the funds for lending.

The recommendations made at a National Seminar on the BOBP fisherfolk held in Colombo in January 1993 in relation to the below issues also merit mention.

- a. Steps should be taken to bring the various committees into operation at various levels, viz, bank branch level committees, district/provincial level committees, head office level committees and the national level committees of the project so that there will be continuous reporting and follow-up of lending activities.
- b. An officer taking over duties from an out-going trained officer should be given an opportunity to understudy the latter's work for a reasonable length of time.
- c. The quantifiable and non-quantifiable benefits of the project should be assessed periodically in order to make suitable amendments. Since the project has been designed primarily to benefit small scale of fisherfolk, large loans for single items should not be granted.



### 2.3 Ongoing credit programmes for capture and culture of aquatic products in Sri Lanka

Credit programmes run by the banking system have been rationalised as a result of past experience in lending to the fisheries sector; ongoing credit schemes are summarised in Table 4.

Table 4.  
On-going credit schemes for the fisheries sector.

	Name of scheme	Implementing agencies	Date Launched
a.	Credit scheme to assist fisheries sector to generate self-employment opportunities for fishermen without Government producer subsidy support	BOC only	15.12.80
b.	Credit scheme to assist members of Grama Niladhari level Fisheries Cooperative Societies to engage in self-employment activities	BOC & P/B	30.4.90 in all coastal districts
c.	ADB Agriculture and Fisheries Rehabilitation Project	BOC, P/B and Hatton National Bank (HNB)	26.4.90
d.	Credit scheme to assist fish wholesale traders to purchase insulated trucks for transportation of fish	BOC only	June 1989
e.	Sethsarana Canoe Project	BOC only	September 1993

It is worth noting that all the schemes outlined in Table 4 are confined to capture fisheries and financed by the banks out of their own funds. However, the Hatton National Bank, the Development Finance Corporation of Ceylon (DFCC) and the National Development Bank are reported to be lending to the fisheries sector through the World Bank-funded Small and Medium Industry Loan Scheme (SMI IV), which also provides funding for aquaculture projects.

The People's Bank and the Bank of Ceylon also lend through SMI schemes financed out of their own funds. The main features of all schemes, mentioned above, including the purposes for which loans are granted, eligibility criteria for borrowers, collateral requirements, rate of interest and repayment periods are given in Appendix IV.

The disbursement statistics and the loan recovery rates of these ongoing credit programmes are given in Appendix V. An assessment of the performance of these credit programmes indicates that they are not posing difficulties to the banks and their portfolios at present. There is no doubt that these credit programmes have contributed to the national economy in terms of production, employment and income. However, with the recent changes in the credit scenario in Sri Lanka and the commercialisation of the banking system with special emphasis on the state banks, a review of the current credit programmes is imperative in order to develop suitable strategies to meet the investment and credit requirements of the national fisheries development plans and the needs of the community based fishery managements. The development plan already in operation recognises the need to remove the emphasis from subsidies and instead rely on credit.

### 2.4 Recent changes in rural credit and their impact on fisheries credit programmes

The problems of rural credit to a large extent also apply to the fisheries sub-sector, especially its small scale element. The high level of credit losses in rural agricultural lending in Sri Lanka is

caused by structural problems rather than credit process problems in the banks. The two state owned commercial banks have financed nearly 87 percent of this high risk business.

The state banks have had to play a dual role in implementing government policy on economic development whilst functioning as commercial entities. This dual role has affected the management of the loan portfolios adversely. The state banks also had to service the credit needs of large, small and less credit worthy customers, assuming high credit risks. In contrast, foreign and domestic private banks have been selective and dealt selectively with credit worthy customers, particularly financially strong multinational and other large companies.

In Sri Lanka today, the banking sector operates in a deregulated environment in keeping with international banking standards. This sector is fast progressing by absorbing new products and techniques available in the global markets a fierce competitive environment which affords the clients an opportunity to obtain maximum benefit from the banking services available in the country. At present there are 24 commercial banks and, together with the National Savings Bank, regional rural development banks, State Mortgage & Investment Bank, Development Finance Corporation of Ceylon, National Development Bank, merchant banks and finance companies, they comprise Sri Lanka's institutional financial sector. However, the two state owned commercial banks, Bank of Ceylon and the People's Bank, dominate the banking sector and account for over 60 percent of its total assets. The financial sector reforms, initiated by the World Bank/IMF in keeping with the principles of market economics, compelled the government to restructure the two state owned commercial banks. Some of the restructuring measures involved the following:

- a. Adequate provision to be made for bad and doubtful debts.
- b. Both banks to conform to the capital adequacy requirements prescribed under the Banking Act in terms of the 'Basle Agreement' (minimum of 8 percent of risk weighted assets to be retained as capital).
- c. The state banks to function as autonomous commercial organisations, as other private commercial banks.
- d. The banks to conform to international accounting and audit standards and to adhere strictly to provisioning for bad loans at branch level.
- e. To achieve agreed profitability targets at the end of each year and to yield a stipulated return on assets (ROA), comparable to the ROA of private commercial banks.
- f. A conscious effort to be made to reduce the intermediary cost of the state banks by reducing overheads and restricting certain operationally high risk areas.
- g. The most stringent stipulations were to halt the expansion of the branch network and recruitment of new staff, and retain them at December 1991 levels. It should **be noted that** as a result of the application of these stringent international norms, coupled with a requirement to maintain a minimum cumulative collection ratio of

80 percent under the covenants of the SMI IV agreement with the World Bank-IDA, the two state banks were suspended from disbursing credit under this scheme. The suspension of this scheme has had a direct impact on the provision of investment credit for multi-day boats, engines and gear. However the two state banks have responded by formulating an indigenous SMI loan scheme and implementing it using their own funds, though at a higher rate of interest.

The conceptual framework of liberalisation also took cognizance of the 'unevenness of the playing field' in banking operations. Both the state banks and the private banks made representations to the Presidential Commission on Finance and Banking and the former have drawn attention to the constraints, both direct and indirect, under state ownership. The private sector banks, on the other hand, complained about the 'favoured treatment' afforded to the state banks. However the measures that have been taken to level the 'playing field' have had certain adverse implications on developmental banking activities. Meanwhile the Central Bank is pursuing a policy of restricting refinance facilities and bank guarantee schemes provided hitherto.

The interest rate policy has been geared towards the market-oriented interest rates of the commercial banks. The objective of adopting such interest rates for the commercial banks and financial institutions was to encourage the latter to participate more actively in the rural financial market. However, with the reduction of other subsidies provided by the Government, the introduction of market-oriented rates appears to be a harsh measure to adopt in the short term. Nevertheless, it is argued in certain quarters that the poorer sector is not sensitive to interest rates and what is required is to cut down the transaction costs of lending and borrowing through appropriate measures and strategies.

Although the recent financial sector reforms were necessary to keep abreast of the changes in the international financial market, these changes have had some adverse effects on the rural financial market, aggravated by the phasing out of refinance and subsidies. These effects have been particularly felt by community-based fishery programmes, since the two state sector commercial banks are the principal players in this field of activity.

## **2.5 Channelling of external funds and credit intermediaries**

The record of fisheries credit projects funded by the international funding agencies generally bears out the wisdom of choosing commercial banks as the appropriate conduit for credit to this sector. While further analysis will be necessary to verify that coverage has been as good as the initial reading suggests, the tentative conclusion is that these projects have been well designed to reach a certain target group generally composed of the middle size rather than very small and frequently not first time investors. This is particularly apparent in the ADB Sri Lanka Agricultural Rehabilitation Project. It may also turn out that there are potentially important target groups in the fisheries sector that cannot normally be reached by the commercial banks, in which case other models may warrant consideration or reconsideration as ways of complementing the currently preferred design are sought. The commercial banks were preferred intermediaries in the past because the development finance institutions tend to suffer from excessive centralisation (having few or no branches), which may make access difficult for small fishermen outside the metropolitan

centres. These institutions also tend to have complex appraisal procedures. On each of these counts the state-owned commercial banks have the advantage. The concerns with respect to the private commercial banks are different: their disinclination to engage heavily in fisheries lending due to the high risks and administrative cost; their lack of experience in, and reluctance to gear up to help, small fish enterprises; their limited capacity for, or tendency not to engage in, loan supervision; and a further disincentive sometimes provided by interest rate ceilings or other problematic financial policies.

The NDB has, as the executing agency, successfully implemented the SMI credit line with several participating credit institutions. While in many respects the effectiveness of the commercial banks cannot be challenged, it is apparent that their capability to execute the credit line has in general been overestimated. The NDB never absorbed the creditor risk. The supervisory mechanism was limited to a post-lending operation rather than a continuous monitoring process. However, the commercial banks at the periphery were involved throughout, from the time of appraisal to the last stage of recovery. The sudden decision of the World Bank to suspend state commercial banks from the SMI IV credit line has caused the international funding agencies to consider asking private commercial banks to act as participating credit institutions. The criteria for selection of PCIs have been clearly defined:

- a. They should have adequate experience in providing and monitoring term loans.
- b. They should have branch networks in the project area.
- c. They should be willing to participate in the project.
- d. They should agree to provide staff to ensure the required level of loan appraisal and supervision, including an adequate number of loan officers trained in term lending, supported by an adequate number of field staff.
- e. They should be prepared to continue to promote and develop their capabilities in term lending through staff training.

It is very doubtful whether the private commercial banks would be inclined to conform to the above criteria and whether they can still demonstrate the commitment and sincerity expected to implement a national fisheries credit programme of large magnitude.

## **2.6 Adaptation of institutional credit programmes to the requirements of community-based fishery management**

Although the national fisheries development plan provides an estimate of the funding requirements for investment in the fishery sector, a financing plan indicating, inter alia, the share of bank credit has not been incorporated. The election manifesto of the new Government indicates that a special national programme will be devised to assist the development of the fisheries and water resource-based industries. It will include a special scheme to provide modern fishing boats, engines, fishing nets and implements. The manifesto also recognises the poverty among fisherfolk and their low productivity. Thus fishery related micro-enterprises will have to be promoted. There is an urgent need to formulate financing plans, setting out sources of funds, to meet the investment

cost indicated in the national fisheries development plans. The institutional credit strategy for the development of the fisheries sector in the future could be split into two main components:

- a. Credit to individuals and enterprises engaged in capture fisheries, marketing and processing.

The major portion would be set aside for replacement and the balance for expansion of capture fisheries. A phasing out of credit in conjunction with some expansion is possible for the small scale, multi-day offshore vessels which show high profitability and the ability to attract enough equity funds or venture capital without having to resort to loan financing. If it is proposed to include part of this fleet in a formal credit programme, it is mainly to distribute the ownership more widely.

- b. Institutional financing for fishery communities covering land-based, fish micro-enterprises.

Lending to communities on a group basis would be most compatible with the structure of financing needs in fishing communities without involving costs for loan appraisal, supervision and recovery, which are disproportionate to the small sums disbursed to individual borrowers. The existing credit scheme for fisheries co-operative societies needs to be strengthened. Another possibility could be the model of 'Thrift and credit cooperative Societies' adopted to serve fishing communities. Other forms of on lending through intermediary institutions such as NGO could also be explored. In this regard, the imparting of legal status to these community based organisations needs special attention.

The success of any credit scheme for co-operative societies lies in the soundness and the efficiency of the societies themselves. The following points should receive special emphasis when societies are selected.

- a. Financial viability – the capital base must be strong enough to absorb short term financial shocks.
- b. The society should have a good financial management and administration.
- c. The sub-borrowers should be selected purely on merit.
- d. The officials of the societies should be of high standing and integrity.

Providing credit successfully through fisheries cooperatives, also depends on the degree of close monitoring, follow-up and supervision, the adoption of an efficient recovery mechanism by the banks in collaboration with the Ministry of Fisheries and Aquatic Resources and the cooperatives.

To this end, the following strategies are strongly recommended:

- a. Officials of MOFAR/Department of Co-operative Development (DCOD) should be appointed as managers to supervise the overall affairs of the societies until they are in a position to manage their own affairs. These officials should be given the following responsibilities .

- i. The framing of rules and regulations to guide the societies in respect of bank credit facilities, marketing of fish, collection of sale proceeds, distribution of earnings, settlement of bank loans and other general affairs of the societies.
- ii. Training the societies' officials in management and accounting procedures.
- iii. Training/educating society members and developing their skills in the use of modern technology in fishing, storage, processing, etc..

In essence, the formation, registration and functioning of the societies should be closely monitored by the MOFAR and the DCOD. In the past, agreements of this nature existed only on paper. It is envisaged that the inclusion of these strategies in the FDP would ensure their effective implementation.

- b. The Fisheries Field Inspectors and the Inspectors of the DCOD should forward the societies' monthly progress reports to the MOFAR and the lending banks through the District Fisheries Extension Officer (DFEO).
- c. Audits should be carried out annually by the DCOD.
- d. A maximum credit limit should be fixed after carefully assessing the credit absorption capacity of the society in consultation with the relevant Government and bank officials.
- e. Bank staff should carry out independent verifications of the societies' accounts.
- f. The society should make firm marketing arrangements to ensure the sale of catches at optimum prices. Fish auctions should be organised by the societies for this purpose.
- g. To ensure expeditious loan recovery the provisions of the Debt Recovery Act should be extensively used. In the event that these cannot be used effectively it is proposed that new legislation be introduced by an act of parliament. Such legislation should contain provisions similar to the relevant provisions of the Agrarian Services Act No. 58 of 1979,
- h. The existing system of taking defaulters' boats into protective custody should be given legal strength to protect the interests of the banks.
- i. To promote the expansion of community-based fishing, the banks should evolve a rescheduling scheme for borrowers who have defaulted on previous loans. This category should include only non-wilful defaulters, with a moratorium on loans, if necessary.

The following limitations have to be overcome when adapting the existing credit scheme for the future:

- a. Since membership of fisheries cooperatives is limited to small and medium scale fishermen, large scale investors such as boat-yard owners, ice plant owners and investors in shrimp aquaculture will not qualify for bank funding under the cooperative scheme.
- b. Borrowing by cooperatives is linked to their financial viability and debt absorption capacity.

## 2.7 Suggestions for an efficient credit delivery and recovery mechanism

- a. In view of the aforesaid limitations in bank funding through cooperatives, it is proposed that non-member investors be provided with concessionary credit facilities, though perhaps not to the same degree as those afforded to the cooperatives. Export-oriented ventures such as shrimp aquaculture, grouper culture, seaweed culture and ornamental fish breeding merit concessionary financing.
- b. If concessionary financing is to be considered, corresponding soft credit lines should be made available to the banks directly from international funding agencies such as ADB and World Bank. Interest spreads under these credit lines should, however, be attractive to the banks. It is prudent to consider the possibility of channelling external funds without an intermediary at the apex level direct to the participating commercial banks which conform to the criteria spelt out above. The World Bank is currently reviewing the possibility of readmitting the state commercial banks under the SMI IV since both banks are capitalised and restructured organisations with clearance obtained from international auditors.
- c. Special training should be provided to bank staff engaged in fisheries lending to improve the quality of loan appraisal and granting of timely and adequate credit.
- d. The mobility of staff engaged in fisheries lending should be increased through provision of motorcycles, jeeps, etc.; these items should be negotiated under foreign assistance programmes.
- e. The lending banks should be provided with an independent technical support service panel to obtain final opinions on the quality of work done/seaworthiness of boats etc.; prior to the release of loan proceeds.
- f. It is recommended that an Investment Support Group be formed to offer technical advice to banks as well as investors. This group will carry out studies of potential investment opportunities in a range of areas such as shrimp aquaculture, cold storage, canning, deep sea fishing and international marketing of Sri Lanka fish.
- g. In keeping with the withdrawal of subsidies the lending banks should also be allowed to charge market rates of interest for fisheries lending in general.
- h. To improve the loan recovery mechanism, the following strategies are suggested .
  - i. An incentive commission scheme to those engaged in loan collection.
  - ii. Spot collection at landing points to be emphasised.
  - iii. Deployment of private debt collectors.
  - iv. Repayment schedules to be made flexible to accommodate seasonality of activity.
  - v. Implementation of realistic loan rescheduling programmes for non-wilful defaulters.

- i. Provisions should be made for the secondment of technical cadres from the Ministry of Fisheries to the banks as and when required.
- j. In order to avoid problematic scattered lending, banks should concentrate in areas with landing points. However, it may not be reasonable to limit the lending in this fashion where the landing points are situated far apart.
- k. Working capital requirements of fishermen should be taken into account when granting credit.

In order to increase the accessibility of credit to small scale fishermen, a multipronged approach is recommended. In this regard the following strategies are suggested.

- i. Project profiles to be involved in respect of small scale, land based, self-employment ventures of fisherfolk families. In this regard a cost and earnings study of small scale fisherfolk activities in the districts of Galle Matara and Puttalam undertaken by the BOBP merits mention. It was envisaged that this study would eventually lead to an inventory of small scale project profiles for fisherfolk.
- ii. Identify new areas for fisherfolk activities, eg. milkfish culture, and ornamental fish culture.
- iii. Involvement of women in bank lending and savings activities.
- iv. Collaborating with NGOs involved in fisheries community development.
- v. Aggressive marketing of bank credit schemes to be undertaken.
- vi. Fisherfolk to be educated in regard to bank credit through meetings, workshops and seminars.

Although the FDP has provided for an estimate of the fund requirement for investment in fisheries sector development 'Financing Plan' indicating inter alia the share of bank credit has not been incorporated. It is recommended that a financing plan spelling out the sources of funds to meet the total investment cost be included in the FDP.

### **3. FISHERIES MARKETING/PROCESSING IN RELATION TO INSTITUTIONAL CREDIT AND COMMUNITY-BASED FISHERIES MANAGEMENT**

#### **3.1 Fisheries production**

Fish and fish products have traditionally been an important part of the Sri Lankan diet and a principal source of animal protein for the population. Proximity to the sea and an aversion to red meat for religious reasons, rather than the more recent health concerns, are two factors that help to explain this. With population growth estimated at 1.2 percent per year, increasing incomes and rising prices of competing protein products, per capita consumption of fish and fish products can be expected to rise. While imports of dried and canned fish will continue to meet the needs of a large segment of the population, the traditional preference for fresh marine fish and continuing improvements in preservation, processing and marketing will serve to strengthen demand and will have implications for fisheries management.



Meanwhile, enhanced export marketing efforts and a hard-won reputation for quality have resulted in a steady increase in the export of fish products from Sri Lanka. This comprises primarily shrimp to Japan, lobster and certain 'exotic' products such as beche de mer, shark fin and fish maws. The export of ornamental fish is becoming more important. In addition, exports of live crab to Southeast Asia and frozen fish fillets to the United States and Europe are growing. At the same time the current scramble to cash in on the high shrimp prices currently prevailing in the world market by opening more and more farms concentrated in one area could also have deleterious consequences for the local communities.

The prevailing high prices of raw material for export as well as the domestic market are a strong incentive for increased production. With certain rich fishing grounds in the north still largely unavailable there will be greater pressure on stocks elsewhere in the coastal fishery. Recent studies show levels of coastal fishery production, especially of pelagic species, now close to their maximum sustainable yields. While there has been a considerable increase in the number of locally built multi-day boats, the coastal fisheries still provide about 80 percent of the total catch. Inevitably, the means of generating increased production to meet the projected demand for fish must lie in accelerated exploitation of offshore/deep sea resources. The consequence otherwise would be still more increases in real prices, placing fish further beyond the reach of low income groups, and more pressure on the country's foreign exchange reserves through increased imports of canned and dried fish.

### **3.2 Domestic marketing and processing**

With fishing still in the hunting stage, the absence of a fishing industry as such is reflected in the marketing process for fresh fish. Individuals representing three categories of middlemen dominate the marketing procedure. The small scale fishermen supply the product to the retailers who cut up large fish for sale directly to the rural and suburban consumer. The beach trader (assembler) transports fish to the metropolitan and urban markets, supplying wholesalers who in turn sell to institutional buyers and retail traders.

Most of the catch is sold at competitive auctions conducted increasingly by the fishermen themselves at the landing centres. The beach traders' margins can vary substantially depending on the price of the consignment at its destination. The wholesaler's margin is usually 10 percent as is that of the market retailer. The itinerant vendor's margin is higher (approximately Rs.10 per kg) since they usually provide highly convenient door-to-door service. It has been estimated that the consumer ends up paying from about 60 to 100 percent above the price paid to the producer.

Fish is transported by trucks, vans, rail, motorcycles and bicycles. Refrigerated or insulated trucks are not used as consumer preference is for wet fish and the travel times involved are relatively short. Operators prefer regular vehicles which can also be used for other transport purposes. Losses are negligible in quantitative terms especially for fish transported whole on ice in wooden boxes. Losses of large sized fish, which are deheaded and gutted before transport, are estimated to be 10 to 20 percent.

In the absence of a canning industry, the preparation of dry fish constitutes the main processing

activity. This is resorted to in the case of smaller varieties such as anchovy, which have greater consumer acceptance in dried form, or in glut situations, or when fish is landed in remote areas by migratory fishermen and where ice is not available. The large sized fish are salt cured and dried – they are split open and then subjected to a dry salting process. Drying time is generally about one week. Medium sized fish are split and immersed in heavy salt solution for six to eight hours. Drying time is around four to six days. The anchovy and other small fish are dry cured without salting. The north and east of the country are the main dry-fish producing areas. Meanwhile consumer preference is for fin fish species such as Spanish mackerel, jew fish and thread fin bream imported in dried form. These obviously are not processed locally because of their much greater value in fresh form. Processing of skipjack tuna for the production of maldivian fish is increasing at a cottage industry level, especially by women in fishing areas. However, as the recovery rate in its production is only around 20 percent it is difficult to compete with imports from the Maldives.

### **3.3 Export marketing and processing**

From small beginnings, exports of fish and fishery products have grown considerably over the past two decades to reach a value of Rs.2,112 million. Shrimp continues to dominate both in volume and value (Table 5). Japan is the principal destination followed by the United States, the Netherlands and Singapore. It is estimated that the burgeoning aquaculture industry provides 75 percent of supplies with the balance coming from the capture fishery. Other important exports include lobsters to Japan and dried products such as beche de mer, shark fins and fish maws to Singapore and Hong Kong. There is a growing export of frozen fish including fillets to the United States and Europe and a considerable trade in live crabs to Southeast Asia. Exports of ornamental fish have grown steadily over the past decade, principally to Europe and more recently to the United States.

Except for relatively small quantities of packeted frozen fish distributed in the local market, frozen products such as shrimp, lobster and cuttle fish are exported in block form. Shrimp are processed into headless, shell-on form while lobster is cooked whole and frozen or tail frozen. Cuttlefish are frozen whole or as fillets. Lagoon crab meat is also frozen for export. There are currently 11 major processors of shrimp, lobster and cuttlefish, using air blast freezers and contact plate freezers.

### **3.4 Ongoing and planned credit programmes for fish marketing and processing**

In respect of post-harvest activities the informal sector continues to play a significant role as supplier of credit, with the beach assembler providing credit to the fishermen and the wholesaler doing the same for the assembler. Meanwhile there are a multitude of past and present credit programmes for the fisheries sector. These are described and assessed in the preceding chapters. For more complex post-harvest activities, finance is usually available from a variety of institutional sources, most commonly in the form of term loans for large projects, mainly shrimp farming, which include forward integration projects for processing and facilities offered under the Small and Medium Industry Loan Scheme (SMI) operated by the NDB through various commercial banks. The overall objectives of the SMI scheme are to strengthen the private sector by assisting small and medium scale industrial and service firms and new entrepreneurs to expand output,

Table 5.  
The value of fisheries exports from Sri Lanka (Rs. million)

Product	1992	1993	1994 (Jan - June)
Shrimp	613	802	687
Lobster	125	209	115
Crab	66	82	80
Fish (fresh or chilled)	10	69	19
Fish (frozen)	125	526	377
Fish (diced or salted)	167	148	66
Ornamental fish	159	204	118
Others	53	69	71
Total	1321	2112	1536

generate employment and increase exports through access to institutional sources of finance as well as technical assistance. An important purpose was to steer commercial banks, which had been geared mainly to security-oriented lending, in the direction of long term, project-based lending. The SMI scheme commenced in 1979 with a \$US 16 million line of credit from the World Bank. This was followed by a second credit line of \$US 30 million, which was fully committed by 1988 by the participating banks. The third credit line was jointly funded by the World Bank and the Asian Development Bank and amounted to \$US 35 million. At this time the maximum loan obtainable was also increased from Rs. 4 million to 8 million while the loan component could be as high as 75 percent of the cost of the proposed project. The current credit line (SMI IV) amounting to \$US 75 million is again jointly funded by the World Bank and the Asian Development Bank. Enterprises in the fishery sector are among those eligible for financing under the present line of credit.

A summary of refinance approvals for fishery sector projects under SMI III & IV (Table 6) indicates that a very high proportion are devoted to fishing activities (66 percent), with a value totalling Rs. 172 million. These loans mainly complement and augment subsidies available under the Ministry Scheme for multi-day boats operating offshore. Loans for shrimp culture (21 percent) amount to Rs. 114 million. Such projects also include post-harvest components such as vehicles for transport of the product. The setting up of ice plants predominates in the post-harvest area with 21 projects accounting for Rs. 36 million. A mere four projects, with a total loan component of Rs. 10.6 million, specifically deal with processing frozen fish for the local market, in consumer packs. Also refinanced under these lines of credit are 27 projects relating to aquarium fish.

Institutional credit programmes including provision of term loans have been geared to official policy encouraging offshore and deep sea fishing, with a view to increasing production while easing pressure on the coastal fishery, and shrimp farming and processing activities for export, which are aimed at increasing foreign exchange earnings.

Table 6.  
Refinance approvals to fisheries sector projects under SMI III & SMI IV as at 30.7.94.

Sub-sector	SMI III		SMI IV	
	No.	Amount	No.	Amount
Construction of boats	3	1 893 750	2	350 000
Manufacture of fishing gear	-	-	3	1 095 500
Prawn culture	23	12283 500	76	102031 300
Inland fisheries	3	816 245	-	-
Fishing	84	38605475	234	133285634
Ice	9	7087500	12	28531 300
Fisheries - other	2	1 003 500	2	2 800 000
Aquarium fish	17	3 110 250	10	4900000
<b>Total</b>	<b>141</b>	<b>64800220</b>	<b>339</b>	<b>272993734</b>

#### **4. ADAPTATION OF INSTITUTIONAL CREDIT PROGRAMMES AND FISH MARKETING/PROCESSING TO THE NEEDS OF COMMUNITY BASED FISHERIES MANAGEMENT**

##### **4.1 Measures outside the field of institutional credit**

Encouragement of the private sector would help increase production from the inland fisheries, improve distribution systems and reduce post-harvest loss so that the protein needs, especially of the rural population, are better met. Incentives for fish processing and freezing activities would help serve the growing niche markets among the urban population for packeted convenience foods.

While exporters of fish products have shown much enterprise, particularly in developing exports of shrimp, this sub-sector has still to realise its full potential. The industry is well equipped in terms of farming and processing technology and availability of finance and other incentives, and has grown impressively over the past decade. However, there has been little diversification of market or products. Japan and the United States remain the principal markets while the product is invariably exported in bulk frozen form. Meanwhile the insistence on proper environmental impact assessments as a prerequisite for approval of farming projects is helping to reduce the environmental and social consequences of this growth. In view of supply limitations from the capture fishery, exporters need to be encouraged to add value to producing individual quick frozen shrimp, for instance, as well as supermarket packs for which both technical and marketing assistance is required.

With the development of deep sea fishing, the growth of a high value sashimi tuna industry becomes a possibility. At present there is no industrial tuna fishery and much of the catch is landed by small fishing boats. Hence the interests of the artisanal sector must necessarily be taken into account in launching commercial tuna fishing operations.

Meanwhile opportunities exist to diversify fishery based exports through, for instance, increased exploitation of cephalopod products. Squid and cuttle fish are currently harvested as by-catches in shrimp trawling, purse seining and beach seining. Despite proven resources, there is no targeted fishery for these species, hence the need for the development of appropriate fishing methods for optimum exploitation. Another interesting possibility is the processing of value added cephalopod products. Apart from expanding exports of more traditional products such as beche de mer, shark fin, lobster and crab, there are possibilities to diversify into new products such as seaweed and, in the inland fishery, cultured eel. Such profitable but relatively unknown areas for the local exporter community would require special assistance in terms of technical know-how from overseas as well as market intelligence.

As the demand for marine varieties of ornamental fish lessens as a result of environmental considerations, exporters would benefit from technical assistance in breeding freshwater varieties

#### **4.2 Adaptation of credit programmes for marketing and processing of aquatic products**

Marketing and processing activities, being one step removed from harvesting operations, are less likely to impact on community-based fisheries management issues. The absence of integrated fishing/processing industries or large scale fish marketing/processing operations means that the post-harvest sector is not in a position to exert undue pressure on resources. While credit programmes for fishing activities are being adapted to encourage offshore and deep sea fishing, such adjustments are unnecessary at present for the post-harvest sector. Indeed institutional credit has been freely available to this sector under SMI and through term loans but has had few takers. Those involved in processing/marketing operations have been content to make do with local supplies. However, at least one enterprising company has resorted to importing raw material from southeast India for processing into fillets for export. Tax incentives would further encourage the development of such a re-export trade. The export processing sector for shrimp, comprising 11 companies at present, will continue to depend on increased supplies from aquaculture in the foreseeable future to expand its business. The trend is likely to be towards value addition with a consequent interest in credit as well as grants for technology transfer, including equipment, and for market penetration.

#### **4.3 The need for special credit programmes in support of community-based fisheries management**

There has been a growing acceptance of the need for more effective fisheries management as a result of the increasingly severe depletion of coastal fisheries resources and the conflicts which have arisen among different groups of fishermen competing for the limited resources. The conventional approach to fisheries management, based on central control, national statutes and regulations, has had limited success; it calls for considerable resources for enforcement and, as with all forms of control, is often beset with corruption. Thus, it is an undisputed fact that without the participation and cooperation of the users of a natural resource such as fisheries, management has very little chance of success. Hence, alternative approaches and techniques are needed. Community-based management systems provide an approach which is capable of improving the benefits that can be derived by the fisherfolk from the coastal fishery resources.

Community-based management is not yet a reality in Sri Lanka since the prerequisite for such management is that the community should have the exclusive right to use certain stocks within a certain area, i.e. a kind of territorial use rights in fisheries (TURF). However, proceeding on the basis that community-based fishery management needs to be actively promoted and supported for the betterment of the fisherfolk and the industry in general, the measures suggested in regard to institutional credit are discussed below.

#### ***4.3.1 Credit programmes for strengthening the financial status of fisheries cooperative societies***

In Sri Lanka, the most appropriate organisation to provide leadership to the fishing community is the fisheries cooperative society. However, economic viability is imperative for a cooperative society if it is to acquire the confidence of fishermen. To become economically self-reliant and self-sustaining the society must engage in income-generating activities.

Thus special credit schemes targeted at the fisheries cooperatives should provide the following:

- i. Seed funds to enable cooperative societies to initiate activities such as supplying fishermen's basic needs (eg. fuel, fishing nets, gear, salt, ice etc.) and the basic amenities and services such as storage rooms and fish and ice holding rooms;
- ii. Initial working capital and fixed capital for marketing and distribution of fish;
- iii. Credit to enable the societies to relend funds to their members for non-fisheries as well as fisheries activities.

#### ***4.3.2 Credit Programmes for income-generating non-fishing activities***

Fisherfolk are bound to consider any management measures which control or limit their access to a fishery or the expansion of existing activities as being inimical to their well-being. This is a major problem to overcome and if community-based management of fisheries is to have even a semblance of success, it will be necessary to identify and provide alternative employment opportunities for surplus manpower. Thus special credit schemes for the promotion of micro-credit enterprises targeted at the fishermen and their families, particularly the women, are considered imperative. In Sri Lanka the commercial banks have implemented many schemes for this purpose in the past. The Fisheries Sector Project funded by the ADB has earmarked an initial amount of Rs. 250 million for lending in support of such activities. This scheme will be implemented through a wide network of participating credit institutions in the project area and will be supported by training, promotion of group action and a programme of social mobilisation.

#### ***4.3.3 Selective programmes of credit linked with subsidies***

In regard to certain selected credit programmes of a pioneering nature, at the initial stage linking with a well managed subsidy programme is a powerful tool in directing fisheries development. However, it should not be continued as a matter of policy. Within the fisheries sector, the planners need to identify which sub-sectors, or types of fishing, need to be encouraged

and which need to be reduced, on the basis of the state of the resources and management considerations. Particular methods, types of gear or specific species-targeted fisheries which are resource friendly or which provide opportunities for exploitation of certain highly fished species can be supported and promoted through special credit schemes. Demersal fishing methods other than trawling need to be promoted in Sri Lanka. A well designed scheme could encourage bottom long lining through the provision of credit at concessionary rates for lines and line hauling devices, the modification of boats for this purpose, etc. Another example is the use of traps to catch certain species of fish, In Sri Lanka the best example of such selective development through credit is the provision of credit to convert day boats to multi-day boats by installing insulated fish/ice holds. Where general fisheries credit schemes are already available certain types of gear or particular methods can be specifically excluded from financing in order to achieve selective development.

#### *4.2.4 Special credit schemes to promote enhancement undertaken by communities*

In recent years technologies such as artificial reefs and Fish Aggregating Devices (FADs) have been used with success in certain countries. Construction of artificial reefs is a method of increasing fish resources by providing habitats for certain species. There is still much controversy over whether increase the total resources or merely increase the resources spatially. FADs designed by NARA and deployed off Panadura have had some success with species such as Dolphin fish and Rainbow Runners caught around them in large numbers. The FADs have become quite popular with the fishermen who regularly fish around them and there are requests for more. The cost of making and deploying FADs and their productivity appear to make them good candidates for special credit schemes. However, fisherfolk community organisations that deploy them should be given the right to exploit and manage them without which there will not be much incentive for them to **take** the initiative and install FADs on their own.

#### *4.3.5 Credit schemes based on revolving funds*

The integration of credit and savings facilities is fundamental, particularly in community-based lending schemes. Revolving loan funds have been used in various countries with much success, with a few isolated success stories in Sri Lanka. The involvement of national-level financial institutions and multi-objective fisheries projects would certainly give the concept a strong boost. It would be desirable to obtain assistance from international technical assistance organisations and donor agencies at the initial stages of implementation.

#### *4.3.6 Credit for marketing*

There are hardly any well designed credit schemes to cater for the fish marketing system in Sri Lanka, which is controlled mainly by the private traders or Mudalalis. The attempt by the Government to centralise fish marketing through the state-owned Ceylon Fisheries Corporation failed miserably since the latter did not succeed in procuring fish from the fishermen. The banks could assist in the provision of credit for the development of marketing infrastructure through the private sector, as envisaged in the National Fishery Development Plan, preferably under the SMI credit line. This could also storage, processing and transport of fish. Banks should also endeavour to get the fish Mudalalis to agree a 'code of conduct', with a package of short term facilities on liberal terms to increase their liquidity and enable them to offer better prices to the

fishermen. A well defined programme of this nature could be evolved and should be monitored closely both by the banks and the Government.

#### ***4.3.6 Allocation in Lending Portfolios***

The bankers are increasingly aware that the development of the fisheries sector cannot be achieved solely by financing the production of capture fisheries. Bank assistance in ensuring an efficient distribution system and the quality of the fish that reaches the table have become equally important issues. The banking sector is also alive to the need to orient the fisheries sector towards exports, particularly in non-traditional areas such as shrimp aquaculture and ornamental fish breeding.

In this context, the banks should be called upon to make specific allocations to the fisheries sector in their loan portfolios. According to the National Fisheries Development Plan (1993—1999), the total investment needs of 22 identified private sector activities, ranging from boats to boat yards and ice plants to shrimp culture and ornamental fisheries amount to Rs. 2.44 billion (see Annex VI for a detailed break-down of activities). If 20 percent of this investment is borne by the private sector as its equity participation, the bank financing required would amount to a staggering Rs. 1.952 billion. Thus there is an ostensible need for external funding in the form of a soft credit line. Such external funding would no doubt provide an adequate interest spread 7—10 percent to attract commercial banks to participate.

#### ***4.3.7 Incentives for banks***

In addition, the commercial banks would require fiscal incentives in the form of concessions on reserve requirements, the payment of interest on reserves, lower statutory liquidity ratios and flexibility in loan loss-provisioning requirements in view of the hazards associated with fishery operations and their seasonality.



## APPENDIX I

### **A BRIEF DESCRIPTION OF THE CREDIT SCHEMES IMPLEMENTED BY THE STATE BANKS IN THE PAST**

#### A. SelfEmployment Bank Financing Scheme

Under this scheme implemented in 1979, credit facilities were provided by the two state banks for purchase of fishing craft engines and fishing gear. The Central Bank of Sri Lanka provided refinance support to the lending banks and the banks granted credit at concessionary rates of interest to the fishermen. The credit component was combined with a government subsidy of 35 percent of the cost of craft, engines and fishing gear.

#### B. Cyclone Rehabilitation Credit Scheme

This scheme was operated in cyclone affected areas, for cyclone affected victims on the eastern coast of the country for purchase of boats, engines and fishing gear with refinance support from the Central Bank of Sri Lanka. Since cyclone victims could not provide equity contributions, these were met from a special assistance fund.

#### C. Fisheries Sector Bank Financing Scheme

This scheme was introduced by the Central Bank of Sri Lanka consolidating the self-employment and cyclone rehabilitation scheme with refinance assistance for financing the purchase of fishing craft, engines and fishing gear. The executing agency under this scheme was the Ministry of Fisheries, which provided a subsidy of 35 percent out of the total cost of the craft, engine and fishing gear financed under the scheme. The balance (65%) consisted of credit and borrowers' equity. By the end of 1991 a total of approximately Rs 140 million in Central Bank refinance in respect of about 3,400 boats had been provided to participating credit institutions (PCI).

#### D. Credit Scheme for Fishermen's Cooperative Societies

The Central Bank of Sri Lanka introduced this scheme in 1981 to provide refinance to state banks for financing the purchase of mechanised craft by the cooperative societies. This scheme was combined with the Government subsidy scheme.

#### E. Asian Development Bank/Sri Lanka West Coast Fisheries Development Project

Loans were made available for any type of craft outside the original package to provide 28 and 38 ft boats. A 35 percent subsidy was available from the Ministry of Fisheries and refinance of up to 80 percent of the cost was provided by the ADB.

#### F. Asian Development Bank funded Southwest Coast Project

The two state banks implemented this scheme to finance the purchase of boats over 38 ft long by the cooperatives and individuals. Loan recovery performance of the co-operatives was

relatively successful.

#### G. Bay of Bengal Programme (BOBP) Fisheries Development Project

In comparison with the earlier schemes, this had different objectives and credit facilities were provided for a comprehensive package of need-based activities with emphasis on the improvement of the savings habit among the fisherfolk. The scheme was characterised by simplicity, timeliness and flexibility with a view to ensuring easy accessibility of credit to fisherfolk. Unlike the earlier schemes, credit to the fisherfolk was provided at market rates of interest and without government subsidies since these facilities were not available at the time of implementation of the scheme. The operation of the scheme was on a pilot basis for a period of two years commencing in December 1991. Accordingly, loan disbursements under this scheme were terminated in December 1993.

## APPENDIX 2

**BANK OF CEYLON - PAST FISHERIES LENDING SCHEMES  
TO THE END OF JUNE 1994 (Rs.million; Source: Bank of Ceylon)**

	No. of loans granted	Amount granted	Amount due	Amount received	Amount out- standing	Recovery %
IstADB West Coast Fisheries Development Project	105	15.766	15.766	11.146	4.620	71
Self-employment Scheme I	660	30.376	30.376	8.548	21.828	28
Cyclone Rehabilitation Scheme	512	6.949	6.949	2.068	4.881	30
Self-employment Scheme II	154	24.483	22.469	21.168	3.315	94
Cooperative Fisheries Lending Scheme	45	1.695	1.467	1.379	0.316	94
Madei Fisheries Lending Scheme	30	2.477	2.339	1.742	0.735	74
2nd ADB West Coast Fisheries Development Project	73	25.638	19.594	20.890	4.748	100
Pilot Fisheries Lending Scheme	273	1.920	1.540	1.003	0.917	65
Lending Scheme for Ice Holds	28	0.560	0.560	0.531	0.029	95
Additional Loans- Replacement of Fishing Gear	13	0.461	0.438	0.434	0.027	99
Bay of Bengal Programme	216	6.475	1.884	1.724	4.751	92
New Enterprises Credit Scheme for Self-employment	1022	14.424	9.5558	6.922	7.502	72
Poverty Alleviation Scheme	197	0.554	0.506	0.310	0.244	61
Janasaviya Credit Scheme	1088	13.897	3.958	2.928	10.969	74
NYSCOCreditScheme	85	0.821	0.631	0.511	0.310	81
General Loan Scheme	125	11.808	6.421	4.914	6.894	77
SMI Loan Scheme	60	34.472	9.010	7.995	26.477	89
<b>TOTAL</b>	<b>4686</b>	<b>192.776</b>	<b>133.466</b>	<b>94.213</b>	<b>98.563</b>	<b>71</b>

## APPENDIX 3

**PEOPLE'S BANK – PAST FISHERIES LENDING SCHEMES  
TO THE END OF JUNE 1994 (Rs.million; Source: Bank of Ceylon)**

	No. of loans granted	Amount granted	Amount due	Amount received	Amount out- standing	Recovery %
1st ADB West Coast Fisheries Development Project	125	11.218	10.989	9.316	1.902	85
Self-employment Scheme I & ii	1565	76.058	70.168	40.870	35.188	58
Cyclone Rehabilitation Scheme	587	9.220	9.220	3.094	6.126	34
Cooperative Fisheries Lending Scheme	29	4.359	4.359	3.687	0.672	85
2nd ADB West Coast Fisheries Development Project	50	11.410	1.826	1.925	9.485	100
Special Projects	151	15.074	5.345	6.278	8.796	100
Bay of Bengal Programme	25	4.016	1.112	0.987	3.029	89
TOTAL	2532	131.355	103.019	66.157	65.198	64

## APPENDIX 5

**DISBURSEMENT STATISTICS AND LOAN RECOVERY RATE OF ON-GOING  
FISHERY CREDIT PROGRAMMES AS AT 30 JUNE 1994  
(Rs.million; Sources: BoC, PB, HNB, DFCC & NDB)**

	No. of loans granted	Amount granted	Amount recovered	Amount out- standing	Recovery rate %
Without subsidy fisheries credit scheme*	113	35.574	14.089	21.485	100
Credit scheme for Grama Niladhari Div level fisheries cooperative societies**	242	130.386	40.792	89.594	78
Credit scheme for purchase of insulated trucks for fish transport*	3	2 1.500	3.200	18.300	93
Sethsarana Canoe Project*	24	0.680	0.046	0.634	85
Prawn culture project loans and boat loans under SMI IV loan scheme* * *	451	530.700	110.600	420.100	95
Agriculture Rehabilitation Project****	1142	232.000	Large number of loans still under grace period.		

\* Bank of Ceylon; \*\* BoC and People's Bank; \*\*\* All banks; \*\*\*\* BoC, P/B, Hatton National Bank & RRDBs

**APPENDIX 4**

**ON-GOING CREDIT PROGRAMME FOR CAPTURE AND CULTURE  
OF AQUATIC PRODUCTS IN SRI LANKA**

Scheme	Purpose	Eligibility	Security	Rate of Interest and Repayment
1.Credit scheme to assist fisheries sector to generate self-employment opportunities for fishermen without Government producer subsidy support	To purchase as a package or otherwise 1. Traditional hull 2. Day boat hull 3. Multi-day boat hull 4. Marine engine new outboard new inboard reconditioned inboard 5. Fishing gear 6. Sails 7.Net hauler 8. Modem electronic communication and safety equipment used in fishing industry	1. Should be a permanent resident of the area 2. Should have adequate experience and/or capacity to invest in this sector 3. Should have the capacity to provide 25-50% of the total cost of items to be purchased as borrowers equity 4. Should satisfy the Bank with regard to the capacity to repay the loan out of the income generated from fishing operations 5. In the case of cooperative societies the proceeds of all shares (share capital) purchased by the members should be deposited in a Savings / fixed Deposit Account with the Bank of Ceylon in the name of the society	Cooperative societies, other societies and Groups of Borrowers. 1. Mortgage over the project goods 2. Assignment of comprehensive insurance policy obtained over the hull, engine and fishing gear etc. 3. Interse guarantee of 5 persons comprising the skipper and crew of the fishing craft financed by the bank 4. Deposit of title deeds together with a title report on immovable property (if any) owned by the members with an undertaking to mortgage 5. Deposit of Certificate of Registration of the boat with the Bank 6. Deposit of the Savings A/C, Pass book/ fixed deposit on account of share capital 7. Any other security acceptable to the Bank  Individual borrowers: a. Personal guarantee of 2 persons acceptable to the bank b. The securities listed above under items 1,2,4,5 & 7	21.5% p.a.  Repayment period maximum 6 years
Maximum loan 50 - 75% of the cost of items to be financed				
15.12.88				
All coastal districts				

Scheme	Purpose	Eligibility	Security	Rate of Interest and Repayment
<p>2. Credit scheme to assist Grama Niladhari level fisheries cooperative societies to enable their members to engage in self-employment activities</p> <p>Maximum loan amount 50% of the cost of two multi-day boats Limited also to 10 times the capital + savings/ grant</p> <p>30.4.90 - all coastal districts</p>	<p>a. To purchase day/ multi-day boats, engine and gear</p> <p>b. Other self-employment activities of members</p>	<p>1. Registration with the Ministry of Fisheries and Aquatic Resources</p> <p>2. Ability to provide a minimum of 50% of the cost of items to be financed as equity</p> <p>3. Minimum capital of Rs. 10,000 and savings of Rs. 10,000</p>	<p>Mortgage of boats, engine and gear and assignment of comprehensive insurance policy</p>	<p>As in Bank of Ceylon SMI scheme</p> <p>21.5% p.a.</p> <p>4-6years</p>
<p>3. Agricultural rehabilitation project</p> <p>Northern &amp; Eastern Provinces and other bordering districts</p> <p>Financial support extended by ADB</p> <p>a. up to Rs200,000</p> <p>b. Rs. 200,000 to 600,000</p> <p>c. above Rs. 600,000</p>	<p>1. To finance the rehabilitation and replacement of assets in agriculture, livestock, fisheries and agricultural business sectors and related support services in project areas</p> <p>2. Improvement of existing assets in fisheries sector</p> <p>3. For initial working capital requirement in respect of these projects</p>	<p>1. Bona fide farmer, fisherman, agri-business entrepreneur or enterprise operating within the jurisdiction of a selected bank branch in the project area or an entrepreneur or enterprise providing support services to the agriculture sector in the area</p> <p>2. Be able to produce a registration card issued by the Government Agent or his nominee to establish that he/she is an affected party or be able to satisfy the bank branch that he/she is an affected Party</p> <p><i>continued on next page</i></p>	<p>Below Rs. 200,000</p> <p>Inter se guarantee of two other borrowers under the scheme or any other security acceptable to the bank</p> <p>Above Rs. 200,000</p> <p>Normal securities acceptable to the bank, immovable properties, 70% of the valuation only to be advanced.</p>	<p>a. 9% p.a. *</p> <p>b. 12.5% p.a.*</p> <p>c. 12.5% p.a.*</p>

Scheme	Purpose	Eligibility	Security	Rate of Interest and Repayment
		<p><i>Eligibility: continued from preview page</i></p> <p>3. Not to be a defaulter on any previous loans from the bank. In case of defaults, a moratorium on loan repayments should be granted as provided in Para 2.11 of the CBSL.</p> <p>4. Be able to provide required equity contribution</p> <p>5. Be able to produce a viable enterprise development plan</p> <p>6. Be able to satisfy the bank that the proposed project has a good repayment capacity which would provide at least 125% of the required amortisation</p> <p>7. Be able to satisfy the bank that the projects involving investment of more than Rs. 600,000 have a financial internal rate of return (FIRR) on equity of not less than 15% p.a.</p> <p>8. Be able to satisfy the bank that he/she could repay the loan and the overdue loan/s if any after the period of moratorium from his/ her family income and from the increased income from the proposed investment</p> <p>9. Be able to produce collateral as required</p>		
<p>4. Credit scheme to assist the fish wholesale traders to purchase insulated trucks for transportation of fish</p> <p>Maximum loan 60-75% of the cost of items to be purchased</p> <p>1.6.89</p>	<p>To purchase 2.5-3.5 ton capacity vehicles suitable for transport of fish as described below:</p> <p>Category</p> <p>a. New truck chassis for construction of insulated bodywork</p> <p>b. New trucks with built-in insulated bodywork</p> <p>c. Reconditioned trucks with built-in insulated bodywork</p>	<p>1. Should have the capacity to invest in this sector. Preference will be given to individuals presently engaged in transportation of fish</p> <p>2. Should have the capacity to provide the required equity contribution, 25 - 40%</p> <p>3. Should satisfy the bank with regard to the capacity to repay the loan together with interest primarily from income generated from the fish transport operation</p>	<p>1. Guarantee of 2 persons acceptable to the bank</p> <p>2. Mortgage of the insulated truck to be purchased</p> <p>3. Comprehensive insurance policy of the insulated truck assigned in favour of the bank</p> <p>4. Any other security acceptable to the bank</p>	<p>Rate of interest applicable for loans granted under BOC SMI loan scheme</p> <p>Presently 2 1.5%</p> <p>Categories a &amp; b 5 years inclusive of a grace period of 3 months</p> <p>Category c 3 years inclusive of a grace period of 3 months</p>
<p>5. Pilot project "Sethsarana Canoe Project"</p> <p>Scheme started Sept 1993</p>	<p>To purchase traditional fishing craft and ancillary equipment</p>	<p>1. Should be a permanent resident in the coastal belt within the Archdiocese of Colombo.</p> <p>2. Recommendation of the Director Sethsarana</p>	<p>A fixed deposit made by the Director, Sethsarana for Rs. 1 million</p>	<p>1. A series of loans not exceeding Rs. 850,000</p> <p>2. Interest 2% above the fixed deposit interest rate</p> <p>3. Repayment - 3 years</p>

Scheme	Purpose	Eligibility	Security	Rate of Interest and Repayment
6. SMI IV loan scheme	To purchase the following as a package or otherwise: 1. Traditional boats 2. Day boats 3. Multi-day boats 4. Other electronic communication and safety equipment at present used in the fishing industry	1. Should have the capacity to invest in this sector 2. Should satisfy the bank with regard to capacity to repay the loan 3. Should have the capacity to provide 25 - 33 % of the total cost as borrowers equity	1. Mortgage over the project goods 2. Assignment of comprehensive insurance policy 3. Deposit of Certificate of Registration of boat 4. Any other security acceptable to the bank	21.5% p.a.  Repayment period - maximum 5 years



**APPENDIX 6**  
**PROJECTED INVESTMENT BY THE PRIVATE SECTOR 1993 -99**  
 (Source: Ministry of Fisheries and Aquatic Resources)

	1993		1994		1995		1996		1997		1998		1999		Total	
	units	Rs. 000	units	Rs.000	units	Rs. 000	units	Rs. 000	units	Rs. 000	units	lts. 000	units	Rs. 000	units	Rs. 000
Traditionalboats	240	6000	240	6300	75	2067	75	2171	75	2279	75	2393	75	2513	855	23723
<b>FRP17-23ftboats</b>	<b>188</b>	<b>33912</b>	204	38556	12	2381	120	25005	150	3281	150	3446	180	43420	1004	210553
Multi-day 34 ft boats	48	56640	48	59472	48	62446	48	65579	48	68846	48	72289	48	75903	336	461 175
Largerthan34ftboats	12	24960	12	26208	12	27518	12	28894	12	30339	12	31856	12	33449	84	203224
Beach seine units	5	2000	5	2 100	-	-	-	-	-	-	-	-	-	-	10	4 100
Deepseavessels	-	-	-	-	5	2000	5	21004	5	22050	5	23152	5	24310	25	110512
Boat yard (incl. expansion)	-	50	-	2000	-	1 00	-	1 000	-	1 00	-	1 000	-	1 004	-	7 500
Repair workshops	2	1000	2	1050	2	1102	2	1158	2	1215	2	1276	2	1340	14	8141
Slipways	2	6000	2	6301	2	6615	2	3473	2	3647	2	3 828	2	4 020	14	33883
Gear factories (incl expansion).																
Ice plants		33000		13 000		250 000										296000
Freezing plants	5	50 000	5	52 6000	5	55 125	3	34 728	3	36465	3	38 288	3	40 202	27	307 308
Fish/ ice transport vehicles	10	30000	10	31 500	10	33075	10	34728	10	36465	10	38288	10	40202	70	244258
Fish/ice holding rooms	3	750	3	787	3	827	3	868	3	912	3	957	3	1005	21	6 106
Fish processing factories	4	19800	1	48 000	-	-	-	10 000	-	10 000	-	10000	-	10000	5	107 800
Shrimp hatchery	-	2000	-	5000	-	5000	-	3000	-	2000	-	2000	-	2000	-	21 000
Shrimpculture	50ha	20000	50ha	20000	50ha	2000	100ha	20000	100ha	4000	100ha	40001	100ha	40000	500ha	200000
Shrimpfeed	1	10000	-	-	1	10000	-	-	-	-	-	-	-	-	2	20000
Other culture (Artemia, crab, mollusc, sea weed)																10000
Fish seed production & fish farming	-	35000	-	35001	-	3500	-	5 00	-	500	-	5000	-	500	-	125000
Ornamental fisheries		3000		3000		3000		5 000		3000		3 000		5000		125 000
Rehabilitation of current assets (harbours when leased)		13000														13000
<b>TOTAL.</b>		<b>347562</b>		<b>350773</b>		<b>535156</b>		<b>261604</b>		<b>296037</b>		<b>307787</b>		<b>329364</b>		<b>2438 283</b>