4. Institutional arrangements

A revolving loan fund can be operated in two ways: either in cooperation with a national financial institution or by a multi-objective fisheries project. It cannot be stressed too strongly that revolving loan fund programmes can be best run in cooperation with an appropriate financial institution. These include: agricultural development banks, development banks, cooperative banks, credit unions, rural banks, savings and credit cooperatives, commercial banks, and savings banks. The only reason to justify the establishment of a revolving fund entirely managed by a fishery project is the impossibility of finding a local financial institution willing or able to manage the programme. In general, projects designed by national governments with help from international technical assistance organizations and donor agencies will attempt to enlist the participation of local financial institutions and operate loan programmes through them using the type of organizational structure described in the following section.

REVOLVING LOAN FUNDS SET UP IN COOPERATION WITH A NATIONAL FINANCIAL INSTITUTION

Once a financial institution is identified, it should be represented in discussions involving project design and its concerns incorporated in the project document. The basic elements of the obligations of the government, the international organization providing technical assistance and the financial organization should be spelled out in the project document itself or in formal annexes to that document. The document should specify that the financial institution is to be represented on the project coordination committee. Annex 2.1 shows a sample agreement for the establishment of a revolving fund.

An agreement should be reached between the government, the international organization and the financial institution on how the funds are to be provided to the financial institution, on the structure and level of interest rates, commissions and other charges necessary for the financial institution to recover its costs of operation, and what resources each of the cooperating institutions are to commit to the project. In many cases, financial institutions otherwise disposed to cooperate in a fisheries lending programme will not have a branch system in the project area or will have a system designed to serve clients other than fisherfolk. The financial institution should be assisted in setting up an appropriate branch system or modifying an existing system and equipping it as required to meet the borrowing needs of the fisherfolk target population. Such assistance should be in the form of grants provided by the international organization and its donors.

The lending procedures normally used by the cooperating financial institution should be adhered to as closely as possible. Modifications may be required to meet the needs of the fisheries project the lending programme is to support. Project management, for example, has a right to insist that the lending programme be focused on the target population it has identified; many agricultural development banks and other financial institutions operating in rural areas have a history of providing most of their services to wealthier elements of the rural population. Services to the target population can be guaranteed by appropriate selection criteria in the loan appraisal process and periodic audits to check that they are respected. In most cases, training and technical assistance should be provided by the project for the participating financial institution.

Charges and interest rates for the lending programme should be at levels which allow the financial institution to cover its operational costs; for many such institutions, this level of charges will imply rates higher than the subsidized rates usually charged. If appropriate adjustment to interest rates and charges is not possible, the project and government should be willing to pay the difference to the financial institution. Similarly, the cooperating financial institution will have its own monitoring and evaluation procedures and record-keeping requirements. Project requirements in this area should be modified to follow the bank's procedures as closely as possible to minimize additional special record-keeping by the financial institution.

There are a number of ways in which resources supplied by a revolving fund can be made available to a financial institution in a fisheries lending programme. The simplest arrangement is to deposit the amount of the fund in an account set up for the purpose at the financial institution. The institution can then make disbursements against the fund until all funds in the account are loaned; additional loans can then be made as loans are repaid. In many countries, devaluation and inflation of the local currency will erode the purchasing power of funds unless special arrangements discussed in other sections are made.

Another possible arrangement is to credit a specified amount of hard currency to an account with the Central Bank. The Central Bank can then reimburse the cooperating financial institution for loans it makes with an equivalent amount of local currency. In the case of multiple exchange rates, the project should negotiate the use of the most advantageous rate for its programme. This procedure would protect the purchasing power of the revolving fund against losses from devaluation. In some cases, it may be possible for the Central Bank to provide equal contributions for loans authorized under the terms of the revolving fund.

Another procedure would be to use the value of the revolving fund as a guarantee for a proportion of loans made by the cooperating institution from its own funds or from lines of credit made available to it by the Central Bank. Funds for this purpose would normally be deposited in the Central Bank and reimbursed to the bank when the Central Bank is satisfied that, after exhausting legal remedies, the financial institution has not recovered a guaranteed loan. If the guarantee is for less than 100 percent of the loan, there is a multiplier effect which increases the amount available for loans. This multiplier is inversely proportional to the percentage guaranteed (i.e. the lower the percentage of the loan guaranteed, the higher the multiplier). Loan guarantee funds allow banks to insure part of their investment in loans of the type proposed by the lending programme and should encourage them to make loans for amounts substantially larger than the amount of funds deposited with the Central Bank (since a 100 percent default rate is unlikely). As with all insurance, the incentive for careful appraisal and loan recovery efforts is reduced. To increase incentives, a percentage of the loan principal, but not interest, payments should be guaranteed.

Responsibility for the day-to-day operation of the lending programme should be left to the financial institution. Regular meetings of representatives of the Fisheries Department and other government ministries involved, the international agencies and the cooperating financial institution should be held to monitor the achievement of project objectives for the lending programme. These meetings should also address problems which surface during the implementation of the lending programme. The financial institution may require additional advice on special cases, particularly during the first months of operations.

PROJECT-MANAGED REVOLVING LOAN FUNDS

General considerations

If no local financial institution can be found to participate in the revolving fund, the project will have to take charge of its operation. A number of problems arise if a project operates its own lending programme. Additional responsibility is placed on project staff and management. There is a limited time horizon for most projects compared with the proposed duration of the lending programme. Loans must be granted by a body which can recover them through the courts, if necessary. It should be noted that the first problem is minimized and the others do not arise if a revolving fund is operated through a financial institution.

Projects do not usually have substantial unused resources; additional responsibilities require additional staff and financial resources. Furthermore, the resources required are different from those usually needed by fisheries projects. Project staff are unlikely to have any experience of credit operations and will therefore require training; additional staff will have to be hired.

Many projects have an initial planning horizon of only three to five years. If loans extend beyond the lifespan of the project, an institutional structure for collecting them has to be designed. Furthermore, the borrowers have to understand that even if the project itself ends, whichever institution inherits its assets and liabilities still has the right to payment of the loan. Getting this point across may be difficult, given the borrowers' limited experience of dealing with institutions rather than individuals. To ensure the continuity of the lending programme, whichever institution is going to take over responsibility for operating the revolving fund lending programme after the end of the project should be brought into its operations as early as possible. Loans which fall due after the project ends should be made in the name of the organization which will be responsible for them.

The project must have the legal standing necessary to take court action to recover money it is owed. If debts cannot be recovered in the courts, the entire lending programme will be undermined.

Project Coordination Committee. This Committee is established to handle overall coordination of project activities. Where revolving funds are added to on-going fisheries projects, such a committee may already exist and should take responsibility for the revolving fund. If it does not exist, it should be set up. The Committee's central task is to determine policy matters related to the implementation of the project. The Committee will normally be chaired by the Principal Secretary of the ministry responsible for the project or by the person representing the ministry. Other government-appointed members normally include the senior government counterpart for the project, a representative of fisherfolk in the project area, and a representative from the regional administration. Technical staff responsible to committee members may also attend some meetings. The FAO project manager should be a non-voting, *ex-officio* member of the Committee.

The Committee will:

(1) define the target group and ensure the selection criteria allow the target group access to loans;

(2) review technical recommendations and determine prices for major inputs supplied in kind by the revolving fund;

(3) set interest rates and other charges at a level which makes the lending programme self-supporting;

(4) review technical recommendations and decide procedures to be followed by the lending programme;

(5) monitor project implementation and make appropriate adjustments in procedures and charges to ensure: financial viability of the lending programme, prompt delivery of inputs supplied in kind by the project, rapid and fair decisions on loan requests, acceptable repayment performance, and speedy and appropriate action on problems or overdue loans repayments.

Administration Committee. Membership of the Administration Committee should include nominees from all the institutions represented in the Project Coordination Committee. Its members should be employees of the agencies represented on the Committee and should be based in the project area. It oversees the day to day running of the project and its responsibilities are:

(1) to review problem loans and to determine if appropriate action has already been taken by project staff or if further action is warranted. This should be the administration's first business at each monthly meeting.

(2) to settle disputes between local branch managers and borrowers or potential borrowers dissatisfied with their treatment;

(3) to ensure that rules governing approval, disbursement, rescheduling, recovery and legal action are followed;

(4) to ensure that accounts and records needed for the operation, monitoring and evaluation of the programme are kept up-to-date;

(5) to bring major problems to the attention of the Project Coordination Committee with a recommendation for appropriate action;

(6) to replace any members of the Committee absent for two consecutive meetings;

(7) to review the findings of periodic audits and ensure that the auditors' recommendations are followed. If the Administration Committee cannot endorse any of the auditors' recommendations, they should refer the matter to the Coordination Committee.

(8) to review and settle any disputes arising from the actions of project staff;

(9) to provide the Coordination Committee with estimates of the lending programme's need for funds in future months.

Minutes of Administration Committee meetings should be circulated to all cooperating institutions and organizations. Any comments or proposals they wish to make should be considered by the Committee at its next meeting. If the Committee meets at intervals longer than a month, decisions on loans will be unduly delayed and problems for which it is responsible remain unresolved.

LOCAL CREDIT AND SAVINGS ASSOCIATIONS

Whether a fisheries credit programme is operated by a project with or without the cooperation of national financial institutions, it should be linked to local credit and savings associations. Five types of associations, of which fisherfolk are members, can be distinguished:

Type I: Rotating savings association. Each member pays a fixed amount at regular intervals. In a rotating order, one member receives the total at a time. A cycle is terminated when all members have received the total at least once.

Type II: Rotating savings and credit association. Each member pays a fixed amount at regular intervals. Part of the contribution is allocated to one member at a time in a rotating order. Another part is put into a general fund for loans or social services.

Type III: Non-rotating savings association. Each member pays a fixed or variable amount at regular intervals. The contributions are safeguarded or deposited and paid back to the individual member at the end of a stipulated period.

Type IV: Non-rotating savings and credit association. The income of the association from sources such as contributions, fees, fines, joint labour or joint enterprises is put into a fund, which may be utilized for loans, insurance and social services. The fund may be established for a specified or unspecified period. The funds of the association may or may not be redistributed among the members at the end of a stipulated period.

Type V: Investment association. If the funds in type IV associations are not redistributed, they may be used for investments, either by the association or by its members in a rotating order, for instance by allocating the funds to one member at a time at the end of each year.

Depending on type, size and experience of the local credit, savings or investment association, the following links with the programme could be established:

- involvement of local savings and credit associations in preparing appropriate lending policy, programmes, norms, and procedures;
- provision of funds for lending, refinance of loan disbursements, provision of credit guarantee fund;
- provision of technical assistance and training in support of credit financed fisheries activities;
- inviting members of associations to apply for loans;
- participation of association in Coordination Committee and Administration Committee.

CHECKLIST

Have all efforts been made to involve local banks in the operation of the revolving fund?

1. Fisheries credit programme with local bank involvement

- Has the financial institution to be involved in operating the revolving fund/fisheries credit programme been consulted regarding project design, work plan, budget, etc.?
- Is there a need to provide assistance to the financial institution, such as equipment, technical assistance and training, thereby facilitating its participation in the fisheries credit programme?
- To what extent can the normal lending procedures of the financial institution be adhered to and what modifications will have to be made?
- Will the financial institution use its own funds for lending or will the project provide funds in the form of a guarantee fund, direct funds for lending, or other forms of funding? What will be the respective shares of project and financial institution regarding above forms of funding?
- Are there any national credit guarantee schemes in operation to which the fisheries revolving fund could be linked?

2. Project-managed revolving funds

- Does the project avail of staff qualified for operating a revolving fund? What are the training requirements, and is there a need for additional staff?
- What additional resources and staff are needed to operate the revolving fund?
- Have arrangements been made to prepare for a transfer of the credit function of the project to a national financial institution once the project comes to an end?

- Have arrangements been made to recover loans through legal process, by setting up an institution with legal standing necessary for filing suit in court to obtain repayment for monies owed it by right of loans it has made from the revolving fund?
- Is a Project Coordination Committee on national and/or on regional basis envisaged in the project design? Who are the members and what are the functions of the Project Coordination Committee?
- Is there an Administrative Committee envisaged in the project design? Who are the members and what are the functions of the Administrative Committee?