



**ZENGYOREN REGIONAL CONFERENCE
ON
INSURANCE AND CREDIT FOR SUSTAINABLE
FISHERIES DEVELOPMENT IN ASIA**

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**INSURANCE AND CREDIT FOR SUSTAINABLE FISHERIES
DEVELOPMENT - SRI LANKA'S EXPERIENCE**

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1.0 FISHERIES SECTOR - An overview

- 1.1 The Fisheries sector in Sri Lanka has been considered as one of the major potential fields for expansion in the economy. In Asia and Pacific region in particular, the fisheries sector plays a very important role with regard to provision of employment opportunities, generation of income, foreign exchange earnings, provision of reasonably priced protein for rural and urban population and environmental conservation. At present, the fisheries sector contributes 2.8% to the Gross Domestic Product (GDP) of the country. Though this is very modest, the sector is still important to the economy of the country for the aforesaid reasons. It has a coast line of around 1700 km including that of small islands with an Exclusive Economic Zone (EEZ) extending 200 miles from the coast. According to a survey of fishing households conducted in 1989, there were 120,000 persons engaged in fishing or fishery related activities. This is around 2% of the total employed population of Sri Lanka. According to the food balance sheet, fish contributed 54% of the animal based protein consumed by the people of Sri Lanka and the per capita consumption is approximately 15.42 kgs.
- 1.2 Fishing as an economic activity in pursuit of food production, was promoted and assisted by the State only after Sri Lanka became an independent State. Since then, successive Governments have made it an integral part of their overall economic development

programmes and have implemented a series of schemes for its furtherance. In 1971, a separate Ministry was set-up to direct and develop fishing industry in the country. At present, the development management of the fishing industry in Sri Lanka is the Ministry of Fisheries and Aquatic Resources. In terms of the recent Fisheries and Aquatic Resources Act no. 2 of 1996, there is provision for the establishment of a Fisheries and Aquatic Resources Advisory Council to assist the Minister in making policy decisions in this sector. The Secretary to the Ministry of Fisheries will in consultation with the Council prepares plans for management, regulation, conservation and development of fisheries and aquatic resources in Sri Lanka.

- 1.3 Sri Lanka being an open economy consequent on the major economic adjustments which took place in late 1970's does not have centralised planning and consequently the Fisheries Development Plan like the other sectoral 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 production, employment, foreign exchange earnings expected to result from the implementation of the Plan and estimates on a very "indicative" and a broad basis the types of investments which ought to take place for the achievement of the objectives.
- 1.4 In relation to investments for fisheries development the most important principle underlying the Plan is that the state sector will not undertake any new commercial 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 on boats, engines and gear and other supporting investments such as ice plants, cold storages, boat and engine repair workshops, fish processing, marketing and transport, and activities such as culture/farming of fish, shrimp and other aquatic organisms will be undertaken exclusively by the private sector.
- 1.5 The Ministry of Fisheries & Aquatic Resources has prepared the National Fisheries Development Plan for 1995 - 2000 the objective of which are as follows :
 - To bring about a rational and optimum exploitation of Sri Lanka's fisheries and aquatic resources.
 - To facilitate improved efficiency of the fishing industry.
 - To provide better infrastructure to support the fishing industry.

- To ensure the maximum utilisation of fish harvest and reduce post harvest losses.
- To increase foreign exchange earnings by exporting value added and high quality products.
- To facilitate the improvement of the living standards of the fisherfolk.
- To rehabilitate the fishing industry in the Northern and the Eastern areas of the country.
- To conserve and manage the coastal environment.
- To conserve and manage the non-living resources of the sea.

2.0 CREDIT TO FISHERIES SECTOR

- 2.1 In spite of its beneficial role and greater potential to provide food and employment for future generations, the institutional credit is available only to a small section of the fisheries sector. Most of the poor rural fisherfolk have no access to institutional credit and they depend on informal sources of credit which invariably involve high costs. Whilst fortunate industries and traders could meet their investment needs with their own resources and commercial loans from Banks, the less fortunate micro scale fisheries sector entrepreneurs face many problems in obtaining credit.
- 2.2 National level financial institutions are, in many cases, reluctant to provide credit for fisheries because of lack of familiarity with the sector and negative experiences in the past such as poor recovery of loans, failure of projects and high transaction cost. Donor agencies providing funding support are equally disturbed by often unsatisfactory results of fisheries investment projects. In view of this reluctance of the lending institutions, most of the lending to fisheries sector has been through subsidised credit schemes guaranteed by Central Bank of Sri Lanka (CBSL).
- 2.3 Institutional credit for fisheries activities in Sri Lanka started in late 1940s with the grant of fish marketing credit to Co-operative Societies. Subsequently, with the mechanisation scheme, the Department of Fisheries provided credit to individual fishermen to acquire fishing crafts and equipment. However, by 1977, the Government financing to fisheries sector faced severe problems since the loans granted for mechanised craft had been defaulted burdening the Department of Fisheries with financial losses.

Considering the heavy defaults, the Government decided to write-off all fisheries credit and suspend the disbursement of credit to the fisheries sector. Thereafter, lending to fisheries sector was undertaken by the State owned commercial banks, viz Bank of Ceylon and 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 fishery sector through various credit schemes formulated by the Ministry of Fisheries from 1978 onwards. Term loans for large projects which included forward integration were offered under the Small and Medium Loan Scheme (SML) operated by the National Development Bank through various commercial banks. The present on-going programmes for capture and culture of aquatic products in Sri Lanka are given in Annex I.

2.4 It is evident from the above that successive Governments in Sri Lanka have provided formal credit to the fisheries sector through the Department of Fisheries, commercial banks, Regional Rural Development Banks (RRDBS), Co-operative Banking system and Development Finance Institutions (DFIs). The Central Bank was charged with some of these programmes on behalf of the Government and it also made available the required funds through a mechanism of refinance which enabled lending at low or concessionary interest rates. A substantial part of the risk by default to be borne by the credit disbursing Banks was cushioned through "default reimbursement guarantee schemes" and strict guidelines/directives imposed as criteria for 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 reaching the target groups, small number of borrowers, high default rates, large amounts of subsidies given both by the Ministry of Fisheries and under refinancing schemes, and above all the reluctance of the banks to engage in fishery financing.

2.5 Issues relating to Fisheries Credit Schemes in Sri Lanka:

2.51 The Fisheries credit schemes in Sri Lanka both ongoing and those implemented in the past have had an impact on fishery management related issues and given valuable experience to bankers and policy makers to formulate and implement more effective fisheries credit schemes in the future. Some of the notable experiences of the past credit schemes are summarised below -

a) Improper selection of borrowers :

There was not proper selection of bona-fide fishermen under many credit schemes. Since Committees comprising local Bankers as well as Fishery Extension Officers were

responsible to select borrowers, the final selection of borrowers and sanction of loans did not solely rest with the lending bank itself. Many influential fishermen obtained credit under the schemes irrespective of eligibility criteria required to be met under the respective credit schemes. 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 Bankers 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, mainly due to the low priority given by the Banks to the portfolio and problems connected with employment of field staff for supervision. Some branches did not employ field officers due to administrative difficulties.

- c) Delay in the supply of project goods :

Supply of project goods was the sole responsibility of the boat manufacturer. He supplies the vessel to the borrower, provided he receives a request from the lending bank to hand over the boat to the customer. There was a considerable time gap between receipt of payment and delivery due 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 according to the standards required under the credit schemes. Poor quality of such vessels affected operations and in certain cases has led to a complete breakdown in fishing activity.

- e) Obligation of borrowers towards informal suppliers of credit

Informal credit still being a major source of credit for consumption and working capital requirements, the fishermen are under obligation to village retail trader (Mudalali) or fish trader to repay their loans obtained for various purposes. Although the rates of interest are higher than the rates for formal borrowing, fishermen tend to obtain informal credit since such credit is available at short notice without formalities and also due to the symbiotic relationship

between traders and fishermen themselves. In view of the priority given to repay informal credit, formal credit to fishery sector has suffered in terms of recovery performance.

f) Poor co-ordination between Banks and Fisheries Officials :

After disbursement of loans to the fishermen, their recovery had become the sole responsibility of the lending Banks. The fisheries officials were not interested in supporting the Banks to recover credit disbursed to borrowers mainly because of the lack of co-ordination between bank and fisheries officials.

g) Lack of commitment of borrowers to repay loans :

Recovery performance of fisheries credit schemes in the past have been unsatisfactory. The overall recovery rate of all fisheries credit schemes implemented in the past is less than 70% on the amount of loans granted. The borrowers, in many cases have purposely defaulted their loans since they had no proper understanding of the difference between "subsidy" and "credit". The lending banks had no arrangements to link recovery of loans to sale of produce.

h) No link between credit and marketing :

Although the Banks were involved in fisheries credit, the marketing arrangements for fish industry were poor. However, the RRDBs established on a district basis, were able to recover loans successfully since their field staff were on the spot at the time the fish catches were sold to traders. In the case of the two State Banks, the unsatisfactory repayment performance was mainly due to 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 and People's Bank are given in Annex II & III respectively.

i) Obligations and Monopoly of fishing traders :

The fisherfolk compelled to sell their catch to middlemen at prices quoted by them as they are obliged to middlemen for various reasons both financial and otherwise. Thus the income of fishermen is lowered.

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

2.5.2 The recently terminated pilot credit scheme for fisherfolk under the Food And Agriculture Organisation /Bay of Bengal Project (FAO/BOBP) fisheries credit project has also thrown up important issues pertaining to fishery management measures. The relevant issues are as follows:

- a) Many would be borrowers seem to think that 25% equity participation by them in a venture, as stipulated by the credit scheme, is unfair. It is difficult to convince them fully of the justification for such a provision.
- b) Many insist on the relaxation of security requirements for larger loans (for instance, Rs. 1.5 mln. for a multiday boat and equipment), as for smaller loans, where the guarantee of two family members normally would suffice.
- c) The absence in this credit scheme of subsidies, with which this sector has been accustomed over the years, seems to discourage borrowing.
- d) The demand which existed for credit at the time the project was inaugurated is being easily met nowadays with the launching of several other 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, on promotion, or at their own request, or for administrative reasons. As a result, the smooth functioning of the credit scheme in some branches was disrupted.

3.0 RECENT CHANGES IN THE RURAL CREDIT SCENARIO IN SRI LANKA AND IMPACT ON FISHERIES CREDIT PROGRAMMES

- 3.1 The problems in rural credit to a large extent also apply to the fisheries sub-sector, specially its small scale element. The high level of credit losses in rural agricultural lending in Sri Lanka is caused by structural problems rather than the credit process problems in the Banks. The two State owned Commercial Banks have financed nearly 87% of this high risk business.
- 3.2 The State Banks have had to play a dual role in the implementation of the government policy on the economic development whilst