

Role of the State and Financial Institutions in Financing the Fishing Industry

By

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Until the late 1950s, the state played only a minor role in the development of the fishing industry. The banks and other lending institutions hardly played any role. From the late 1950s, however, the state came to play an increasingly important role with the financing of the newly introduced 28 foot mechanized boats and the construction of fisheries harbours for these boats as well as trawlers. Training facilities for fishermen as well as other technical personnel have been organized by the Government with the assistance of international agencies and foreign governments. When the 28-foot boat was first introduced, the Government gave a subsidy against the cost of the boat and provided the balance of the finance in the form of loans. The experience of the Government in the recovery of these loans was, however, highly unsatisfactory. The first attempt to induce the banking system to finance the fishing industry in any organized manner was with the A.D.B. financed fisheries project of 1972. In this project, the Bank of Ceylon and the Peoples Bank were brought in to finance the co-operatives that were allotted the 28 foot boats scheduled for construction under the programme. The 38-foot boats were to be issued largely to the private sector and the banks were expected to finance the purchase of these boats too, provided private investors were willing to take a substantial stake by contributing from their own funds towards the cost of the boats. So far, however, the response of the private sector has not been very good. Of the 18 boats that had been delivered from the foreign boat yards, only six have been purchased. It is therefore necessary to examine the reasons for this failure in the financial arrangements for the sale of these boats to the private sector.

To begin with, it is necessary to examine the various facilities available for the financing of 38 foot boats under the A.D.B. fisheries project :

- (1) The Government has provided a subsidy of 35% of the cost of the hull and engine of the boat ;
- (2) The Central Bank has agreed to provide refinance against medium and long-term loans given by the banks at a preferential rate of interest ;
- (3) The banks have agreed to reduce to a minimum, the contribution required from prospective boat owners towards the cost of a boat ;
- (4) The Government has in the budget for 1978, agreed to grant a tax holiday of 5 years on the profits earned from the 38-foot boats.

The arrangements for financing are very much related to the risks associated with the use of the boats. It is therefore useful to identify the main elements of risk associated with the financing of the boats. They are two—

- (1) Risk of loss of boats at sea ;
- (2) Failure to catch adequate quantities of fish to service the loan and to give an adequate return on capital.

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The first risk can be looked after by insuring the boats. In fact, special arrangements were made with the Insurance Corporation in this regard. It is the second risk that has inhibited the purchase of boats. It is therefore useful to examine in more detail, aspects of the problem of securing an adequate catch. What are the relevant considerations that should be taken into account in assessing the potential to catch fish by the use of these boats. The following three considerations seem to be of primary importance :

- (1) The knowledge that there are shoals of fish in the sea within the range of these boats ;
- (2) The availability of suitable skills for sailing the boats, for maintenance, for identification of fishing areas for the actual conduct of fishing operations, etc.;
- (3) The availability of adequate markets for the fish.

(1) Before the A.D.B. agreed to finance this project, it commissioned a comprehensive report on all aspects of the fishing industry in Sri Lanka. (The Report of the Technical Assistance Mission of the A.D.B. to the Ceylon Fisheries Corporation 1971). As part of the basis of this report, the West German firm of Gopa-Gesellschaft fur organisation, planning and building MBH, was engaged to carry out a survey of the fish potential around the south west coast that was within the range of the 38-foot boats. There can be a little doubt that adequate quantities of fish are available because foreign fishermen often encroach on the territorial waters of Sri Lanka on the south-west coast precisely because of the profusion of fish.

(2) The A.D.B. thought that the available skills of fishermen, mechanics and other personnel were adequate to man and service the 38-foot boats. They were also satisfied with the skills of the fishermen who were engaged in the actual operations of catching fish with nets and even with pole and line. It was recognised, however, that they did not have adequate training in navigation to venture further away from the shore than they were used to. To meet this need, provision had been made to train these fishermen in navigation by securing the services of experienced seamen from the Sri Lanka Navy. The Department of Fisheries has undertaken to organise the required training for the crew of every 38 foot boat taken delivery from the Galle fisheries harbour.

(3) As far as markets are concerned, the project report envisages that 65% of the catch is likely to consist of Balaya (skipjack) which is a readily exportable variety of fish. Thus, there is a considerable export market potential. The domestic market for fish of the varieties that can be landed with 38-foot boats is also considerable, though perhaps prices may not be as high as for exports. The current domestic prices for fish is an indication of the inadequacy of the supply in relation to the increase in domestic demand.

Conclusion

Thus, it is seen that the risks associated with the investment in 38-foot boats are not unduly high. It would seem, therefore, that the reluctance of private investors to make the required contribution from personal funds to purchase boats is a result of fear of the unknown. These 38-foot boats have not been tried out to give a sufficient degree of confidence that they can be operated profitably. The six boats that have been sold, however, seems to indicate that the expectation of the formulators of this project were justified. In any event, to overcome this anxiety and hesitancy of private investors to commit themselves to these 38 foot boats, the Government has now extended a five-year tax holiday on the profits from the operation of these boats. It would therefore seem that the financial incentives provided by the Government to the private sector for the purchase of 38 foot boats are more than adequate.

DISCUSSION

Mr. Ommar

Asked whether a fixed equity of about 10% can be decided upon by the banks.

Mr. Wickramasinghe

This will not be possible. The banks will have to take each individual on his merit and make an assessment.

Mr. H. Mendis

Asked whether colateral will be insisted upon.

Mr. Wickremasinghe

This too will depend on the assessment of the each case individually.

Chairman

Mentioned that the banks will be presenting their paper and this question can be cleared at that time.

Mr. Laus Rodrigo

Said that the promised refund on the fishing gear of about Rs. 48,000 has not been made, on his first purchase which is almost a year ago and expressed his regret.

Mr. Wickremasinghe

Said that the delay was not in the Central Bank but in the treasury in calculating the exact amount to be refunded.

Mr. Godwin Fernando

Suggested that the banks should treat financing the fishing industry as development banking and not commercial banking. The banks now insisted on so much security when their risk is only about 10%. The banks should finance on the basis of the viability of the project.

The same incentives that are given to the hotel industry should be extended to the fishing industry.

Chairman

The banks have extended the financing to the fishing industry to a great extent. No bank in the world will finance without security purely on project viability. The quantity of security is always negotiable. The incentives as stated will be taken up later as Mr. Mather from the Inland Revenue Department was present at the symposium.

Mr. Laus Rodrigo

Stated that he paid about Rs. 18,000 on insurance premium on his first boat. This year the banks have asked for Rs. 30,000 for the insurance premium. This will mean that in 10 years he will have paid 3 lakhs and this too only for total loss. He said he was willing to give land as security to cover the total cost of the boat without having to pay such high rates for insurance.

Chairman

Said that this will be taken up later.