

# Financial Assistance for Purchase of Large Fishing Vessels

By

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We are gathered here today to discuss a vital aspect for development of off-shore and deep-sea fishing in Sri Lanka, namely, the manner in which the state-owned banks can assist the fishing industry to finance the purchase of fishing vessels, fishing gear and other capital inputs. In other words, the manner in which the People's Bank and the Bank of Ceylon can help the private sector fishing industry to seek wider horizons by investing in larger fishing vessels to exploit more fully the recently enlarged 200 mile economic zone surrounding Sri Lanka.

As you are aware, traditional fishing craft like teppams, vallams, catamarans and the common 28' to 32' class mechanized fishing craft deployed round the shores of this Island, adequately exploit the fish resources of the sea within a distance of 15 to 20 miles from shore. The fish resources in, off-shore waters beyond this range and falling within our economic zone as well as the deep-sea beyond, are more or less left unexploited. This harvest from the sea is often reaped by vessels belonging to other nations.

In recent times, the fish resources in the economic zone have been identified as a national resource capable of being exploited substantially and quickly for national development by using existing or slightly expanded technology. Development of this resource would increase food production and help reduce protein deficiency in the people's diet.

It is in this context, that the present government seeks to improve off-shore and deep-sea fishing by introducing more sophisticated and larger fishing vessels to Sri Lanka waters, together with the offer of subsidies, tax holidays and other concessions to those who seek to operate such fishing vessels.

As a first step in this direction, the Department of Fisheries proposes to introduce with the assistance of the Asian Development Bank under the Sri Lanka Fisheries Development Project, thirty 38' class fishing vessels capable of exploiting the hitherto unexploited or under exploited fish resources in the sea within a distance of 20 to 60 miles from shore.

It will be seen that the Government now proposes to take a big step forward in the history of commercial fishing in this country by the introduction of these larger fishing vessels. Besides these 38' class fishing vessels, the project also envisages the introduction of 200 fibre-glass 28' class fishing vessels through 10 primary fishermen's co-operatives situated along the south-west coast of Sri Lanka, so that ultimately, fish production in this country will be increased by 8,000 to 10,000 tons per annum.

While the requisite variety and quantity of fishing gear is supplied with the fishing vessels under this Project, the operators of these vessels will be given further assistance to either export or market their catches locally by providing them with insulated fish transport vans, jeeps with trailers, crushed-ice plants, fish storage cabinets and adequate spares for at least the next few years.

A significant feature in the implementation of this project is that the two state-owned banks namely, the People's Bank and the Bank of Ceylon have agreed, and also financed the enterprises or individuals who are eligible to obtain project goods.

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With the current emphasis in these two banks to move away from security oriented lending to more purposive and productive development lending, they have between them financed approximately 105, 28' class fishing vessels to the co-operative sector with encouraging results.

Of the 30 38' class larger fishing vessels, 6 have already been financed for 3 firms by the People's Bank. You would have already gathered from our discussions this morning, the potential profitability of operating this type of fishing vessel. The People's Bank and the Bank of Ceylon have, therefore, agreed to provide liberal credit terms to those individuals and enterprises desirous of purchasing and operating 38' class larger fishing vessels on the basis of a special scheme.

**The credit terms offered are as follows :**

75% of the net cost of the fishing vessel (i. e. after applying subsidy received) as two separate loans repayable over periods of 3 and 10 years respectively. The short-term loan will cover the cost of fishing gear, spares and incidental expenses and the long-term one of 10 years will cover the cost of hull and engine. The rate of interest charged will be 10½% p. a.

For security, a mortgage over the fishing vessel will be obtained, in addition to guarantees or other securities acceptable to the bank, which the bank may seek at its own discretion. The fishing vessel should also be insured and the policy assigned to the bank.

The present cost of a boat is computed as follows :—

	Rs.
Hull and engine	596,000
Fishing gear	137,500
Spares and incidental expenses	23,100
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	756,600
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	Rs.
Less : FEECs refund	48,000
Subsidy (35% of the cost of hull and engine)	208,600
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	256,600
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	500,000
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<b>To be financed as follows—Bank Finance :</b>	
Short-term loan (3 years) (being the net cost of fishing gear, spares and incidental expenses)	112,600
Long-term loan (10 years)	262,400
Investment by purchaser	125,000
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	500,000
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The short-term loan would be repayable in 35 instalments of Rs. 3,127/- each and a final instalment of Rs. 3,155/-. Likewise a monthly instalment in respect of the long-term loan would amount to Rs. 2,191/- with a final instalment of Rs. 2,271/-.

This would mean that the banks expect a monthly repayment of Rs. 5,318/- in respect of both loans in addition to the interest. If an individual or enterprise proposes to invest in more than one 38' class fishing vessel, especially with the intention of exporting tuna fish which will form a substantial proportion of the catch from these vessels, then the banks will be prepared to negotiate with such investor, a lesser initial investment for the second and third vessels on a sliding scale.



There may be a few in this audience who are interested in purchasing fishing vessels that are still larger in size, mainly trawlers and tuna fishing boats. Due to the differences in the cost of these vessels, their operating costs, useful life of the vessel, etc., it is difficult to lay down a specific credit scheme to cover all these types of vessels. However, we can assure you that the two state owned banks are prepared to negotiate on each proposal separately on the basis of viability, capacity, etc., in order to assist such enterprise obtain the best credit terms possible under the circumstances. It is also possible for the Bank of Ceylon if satisfied with the potential viability of a project to participate in the equity of a company by purchasing redeemable preference shares specially where the capital commitment of a project is fairly large.

The banks are also prepared to assist any export-oriented enterprise by providing pre-shipment finance facilities, loans and hire purchase facilities as follows :

### **Pre-shipment Finance**

This type of financing is available to those engaged in exporting sea-food as well as other commodities.

Advances will be made in the form of packing credit loans and overdrafts against letters of credit or confirmed orders from buyers of standing acceptable to the bank. A percentage of the amount ultimately receivable on completion of the export transaction (generally between 50 to 90 percent) will be advanced for the purpose of building up of export stocks in the coldrooms of acceptable warehousing agents either under the control of the borrower or the bank. The rate of advance can be negotiated with the Bank on the basis of security provided.

The general form of security acceptable to the Banks for this type of facility is the relative letter of credit with the underlying goods under borrower/banks control, together with any guarantees or other forms of collateral security.

The rate of interest charged is generally 13½% p.a. for packing credit loans and 14% p.a. for packing credit overdrafts.

### **Loans and Hire Purchase Finance**

Loans are granted by the Bank for purchase of vehicles and other equipment such as ice making plant, fish-holding cabinets, etc.

The security obtained for such loans is generally a mortgage of the goods itself, together with guarantees and other forms of acceptable security.

The rate of interest usually charged is 14% p.a. but this levy as well as the percentage of the actual cost of goods advanced will depend on the value and nature of the security offered for the loan or overdraft.

Hire purchase finance is also made available by the Bank of Ceylon on the following basis :

In the case of new motor lorries, vans, tractors, movable agricultural and industrial machinery, the prospective hire will have to make an initial deposit of 25% of the value. The balance will be payable over a period of 3 years or 36 monthly instalments together with finance charges in the form of hires.



The finance charges payable will be as follows :—

**Motor Vehicles (New commercial vehicles)**

Finance charge	—	12% p.a. flat
Service charge	—	1% once and for all

**Other Agricultural/Industrial Machinery**

Finance charge	—	8% p.a. flat
Service charge	—	1% once and for all

It should be noted that a hire purchase transaction is not a money lending transaction, and is, therefore, different from the usual bank advances such as loans, overdrafts, etc. In a hire-purchase transaction, the Bank will purchase the motor vehicle or the item of machinery at the request of the bank's customer, or otherwise and will deliver the article to a person who agrees to make periodical payments by way of hire, with an option either to return the article and terminate the hiring, or to purchase the article after the stated hire instalments have been paid. The hirer is under no obligation to buy the article until he has exercised the option to buy. In the case of motor vehicles registered under the Motor Traffic Act the bank will be the "absolute owner" and the hirer, the "registered owner".

The bank will enter into hire purchase transactions only in the case of new motor vehicles and/or movable items of agricultural/industrial machinery.

If motor vehicles or agricultural/industrial machinery already owned by the bank's customers are offered as security for any advances, they will be taken as security for loans or overdrafts only against a mortgage over the article.

To enter into a hire purchase transaction with the bank a special proposal form has to be completed by the bank's customer, the guarantor, and the vendor and submitted to the bank. If an additional guarantor is offered by the proposer or required by the bank, a second proposal form should be completed by the second guarantor and the proposer.

It should be mentioned here that what we have narrated so far are general guidelines with regard to our loan policies procedures and methodology of lending. They are more suggestive than exhaustive, and it will be seen from the matters raised that the two state-owned Banks are always ready and willing to enter into a profitable partnership with the Private Sector to fall in line with Government policy for the progressive improvement of the off-shore and deep-sea fishing industry of Sri Lanka.

#### DISCUSSION

Mr. Livera

Asked how long the dialogue with the Insurance Corp. will last to bring down the cost of insurance of boats.

Chairman

Said some progress has been made in this aspect.

Mr. Kurukuladithya

Stated that so far they had had no facts of operation and actual figures of operation, etc., to furnish to the Insurance Corp. Now these figures for last years operation are available and he expects settlement soon.



- Mr. Livera Said that he had insured a yacht of his for 2% with Lloyds and inquired whether negotiations be stated out with the Lloyds in respect of insurance of these boats.
- Mr. Forbes Stated that in fairness to the Insurance Corp. that so far they had no guides-lines on which to act, but now it should be possible to negotiate as guide-lines can be given.
- Mr. Nandasiri Silva Asked whether financing could be extended to 28' vessels.
- Mr. Kurukuladithya Stated that up to now they had had no data but now that the data is available financing can be extended to the 28' vessels but for certain restraints. Payments have to be in instalments to the Department. With prices changing it is therefore not possible to decide on an exact amount of loan to be given. The finances can be arranged for the boat without fishing gear. 2 guarantors are required.
- Mr. Godwin Fernando Asked why the same terms cannot be extended to 38' vessels.
- Mr. Kurukuladithya Pointed out that the subject under discussion was financing of 38' vessels, they were digressing from the subject.
- Mr. Forbes Stated that the financing of the project 28' vessels and 38' vessels was under a special scheme. Hence it may not be possible to extend the same terms to financing of other vessels outside the project.
- Mr. Godwin Fernando Stated that it took 6 months at least to get finance for boats from the bank.
- Mr. Yasalal de Silva Explained that in the past financing of boats had failed and the banks had to take this into account and therefore loans cannot be had over the counter.
- Mr. Elvin Amarasinghe Pointed out that in Jaffna the People's Bank was financing up to Rs. 25,000 for 17' vessel.
- Mr. Kurukuladithya Stated that the banks are willing to grant loans on individual basis.