

Expanding opportunities for working capital in the fisheries sector: Lessons learnt from formal and informal credit programmes operated for Tangalle fishing community in Sri Lanka

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Abstract: Working capital is one of the most significant credit needs in the fisheries sector. Fisher-folks mostly use informal credit sources to fulfill their credit needs. Nevertheless, there is an urgent need and desire of the government to make reasonably priced credit available at local level for all fisher-folk communities. Therefore, prime objectives of this paper was to examine the types of credit sources available for fisher-folk in *Tangalle* while identifying the barriers for formal credit sources and to suggest mitigation measures to overcome the barriers. A questionnaire survey was conducted for fisher-folk in *Tangalle*. A convince sample of fifty members was selected. Data were analyzed using SPSS 13.0.

Working capital requirements for capital investment, covering fishing operations and fish processing activities were 56 %, 26 % and 18 % respectively. Chi-square test did not result a statistically significant relationship between demographic factors (i.e. age, gender, income and education level) and access to credits. Nevertheless, there was a statistically significant relationship between income level and amount of credit taken as working capital ($\chi^2 = 9.475$, $df = 1$, $p = 0.002$). Friedman test results indicated that there was a statistically significant difference in access to credit for working capital depending on which type of credit source was used ($\chi^2 = 101.10$, $df = 6$, $p = 0.000$) was used.

Because of the easy access to informal credits in terms of not having collateral requirements, no guarantors are required, no formal rules and regulations and documentation process; fisher-folk has a tendency to obtain informal loans from money lenders although the interest rate is very much high. However, they prefer formal credit from government banks under '*Diwineguma* project'. Formal credit institutions currently encourage micro financing models to provide credit for working capital to avoid bad experience which they faced in the past.

Index Terms: working capital, formal credit, informal credit, fishery

1.0 Introduction

Demand for financial services in the fisheries sector is growing. Different financial products and services are required to cater the demand (Ataquba and Olowosegun, 2013). The most significant credit needs in the fisheries sector are those relating to working capital and fixed assets (*ibid*). According to Ataquba and Olowosegun (2013), there are four types of working capital in artisanal fisheries i.e. ‘working capital for the purchase fishing gear/ nets and small fishing equipment, ‘working capital to cover fishing operations’ (ex: ice, fuel, labor for crew, repair and maintenance), ‘working capital to cover marketing costs such as ice, package, storage and ‘working capital to cover fish processing activities’ including fish trading advances.

Most financial services available to fisher-folks are mostly provided by informal credit sources (*ibid*). Nevertheless, there is an urgent need and desire of the government to make reasonably priced credit available at local level for all fisher-folk communities and linking financial arrangements to community based management of fishery resources, exploitation and marketing (De Silva, De Seram and Fernando, 1990). Prime objectives of this paper was to examine the types of credit sources available for fisher-folk in *Tangalle* while identifying the barriers for formal credit sources and to suggest mitigation measures to overcome the barriers.

2.0 Methodology

A survey was conducted in *Tangalle* for two weeks in June, 2013 to collect data from fisher-folk. A convenience sample of fifty respondents was selected. The sample purposively included different strata of fishing community i.e. fishermen, fisher women, boat owners (multiday or single day) considering their different credit needs. A questionnaire was used to collect primary data during the survey. A Likert-scale was used to measure the items which were ranging from ‘Strongly agree’ (1) to ‘Strongly disagree’ (5). Research papers, journals and internet were used to collect secondary data. Data analyze was done using SPSS 13.0 by performing descriptive statistics and some non-parametric statistics such as Friedman test, Wilcoxon test and Chi-square test.

3.0 Results and discussion

Fisher-folk in *Tangalle* fishing community have obtained credits from different sources to acquire different types of working capital. Composition of the working capital has illustrated by figure 1. Working capital for the purchase fishing gear, equipment, boats and repairing those items was 56 %. Working capital to cover fishing operations (for ice and labor) was 26 %. Working capital to cover fish processing activities was 18 %.

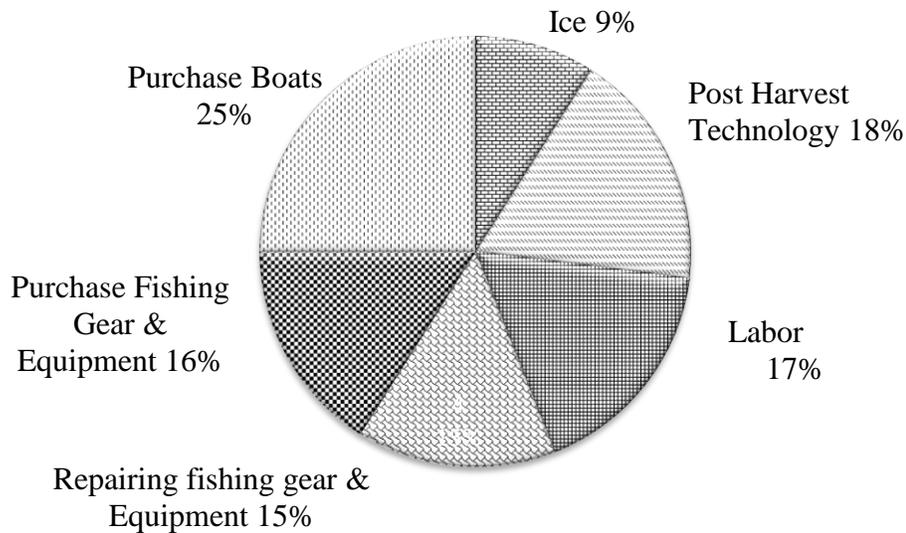


Figure 1: Composition of working capital in *Tangalle* fishing community
Source: Field survey, 2013

1: Composition

According to the chi-square test, demographic factors (i.e. age, gender, income and education level) and access to credits did not show a statistically significant relationship. Nevertheless, there was a statistically significant relationship between fisher-folk income level and amount of credit taken as working capital ($\chi^2 = 9.475$, $df = 1$, $p = 0.002$).

Friedman test results indicated that there was a statistically significant difference in access to credit for working capital depending on which type of credit source was used ($\chi^2 = 101.10$, $df = 6$, $p = 0.000$) was used. When consider the easy access to the credit sources, informal money lenders plays an important role in the fisheries community. However, fisher-folk believed that it was extremely difficult to obtain credits from their relatives (Table 1). Respondents did not have an idea about fisheries societies as a mean of access to credit. Findings of this study revealed that fisher-folk did not consider micro finance institutes as an easy approach for working capital. The reason for this may be the policy implemented in some micro finance institutes i.e. providing loans

only for women. Composition of the sample which included 66 % males may influence this negative perception regarding the micro finance institutes.

Table 1: Results of the Wilcoxon signed rank test for fisher-folk perceptions' towards the access to credit

Credit source	Mean	Z value	Remarks
Government banks	2.4	-2.459*	Agree
Private banks	3	-0.303	Not significant
Micro finance Institutions	4.16	-4.145*	Disagree
Fisheries Societies	2.88	-0.339*	Neither agree or disagree
Friends	4.1	-4.290*	Disagree
Relatives	4.56	-5.699*	Strongly disagree
Informal money lenders	1.72	-4.796*	Agree

* Significant at 0.05

Source: Field survey, 2013

As a formal credit source, fisher-folk believed that it is somewhat easy to take loans from government banks. Further, half of the respondents (50 %) showed their interest towards “*Diwineguma Project*” (a recent project launched by the Ministry of Economic Development to improve the living standards and social well-being of the people) as a proper channel of obtaining credits from formal sources to acquire the working capital.

A series of indicators were used to measure the perceptions of fisher-folk towards formal credit access (Table 2). When compared to informal credits, it is essential to have collaterals and guarantees in order to access the formal credit for working capital. Further, access to formal credit has a long documentation process which consumes time. Also, there are strict rules and regulations adhered to formal credit and it has a stipulated time period to recover the loan. The loan recovery period will not be extended based on personal relationship. Findings of this study regarding formal credit in lined with the previous research findings. Ruddle (2011) also reported that “lacking collateral that includes land deeds/ titles, other immovable property, and third party guarantees, as required by banks, almost everywhere in poor countries small-scale fishers find it either difficult or, more likely, impossible to obtain institutional credit for working capital. For that reason, financial institutions have been essentially uninvolved in financing the small-scale fisheries sector.”

Table 2: Results of the Wilcoxon signed rank test for fisher-folk perceptions' towards the access to formal credit

Perception	Mean	Z value	Remarks
There is a problems of keeping collaterals	1.8	-4.33	Agree

It is difficult to find guarantors	1.78	-4.365	Agree
It is a time consuming process	1.04	-6.944	Strongly Agree
Low interest rate	2.42	-3.587	Agree
There is a long documentation process	1.22	-6.545	Strongly Agree
Strict rules and regulations	1.36	-6.329	Strongly Agree
It is not based on relationships	2.04	-5.892	Strongly Agree
It is required to pay loans within a fixed time period	1.12	-6.737	Strongly Agree
Literacy is required	2.24	-4.428	Agree

* Significant at 0.05

Source: Field survey, 2013

Because of the easy access to informal credits in terms of not having collateral requirements, no guarantors are required, no formal rules and regulations and documentation process; fisher-folk has a tendency to obtain informal loans from money lenders although the interest rate is very much high.

However, not like earlier days now formal credit institutions are ready to provide credits for working capital. Bank of Ceylon in *Tangalle* is willing to provide formal credits for working capital under ‘*Diwineguma* project’. Considering the lessons learnt from the past, formal credit institutions now encourage micro finance models to provide credits for working capital. Small groups having five to eight members can apply for a small and medium scale loans for fisheries activities (i.e. fishing gear and equipment purchase, fish processing activities). Once group recommend and guaranteed, credit will be released.

4.0 Conclusion

There is a higher demand for working capital from the fisher-folk in *Tangalle* for purchasing fishing gear, equipment and boat, repairing fishing gear and equipment, covering fishing operations and covering fish processing activities. They prefer to obtain informal credit from money lenders and formal credit from government banks under ‘*Diwineguma* project’. Formal credit institutes currently encourage micro finance models to provide credits for working capital to avoid bad experience which they faced in the past.

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