

CHAPTER - V

CREDIT AND INDEBTEDNESS

The main objective of this chapter is to estimate the nature and magnitude of indebtedness of the fishing groups under study and to discuss how the problem of indebtedness among the fishermen has remained very largely neglected. This chapter is devoted to highlight the problem of shortage of loanable funds for fishing operations.

5.1 Financing pattern of fishing equipments :

The information concerning the contribution of various sources to the financing of fishing equipments such as craft and gear has been analysed in this section and the results are presented in Table 5.1. In Table 5.1 the relative contributions of various sources of financing to the acquisition of crafts and gears owned by all sample households are shown. The sources of finance have been broadly divided into two categories: internal sources and external sources. While the internal sources include cash money or past savings, sale of old fishing assets and current incomes, external sources include both institutional and non-institutional sources of borrowing.

Table 5.1 shows relative contributions of various sources of finance to the acquisition of the crafts and gears owned presently by the sample owner households. It is evident that the external sources of money clearly outrun the internal sources used for financing productive investments. The share of external sources in aggregate purchase price of boats is higher than that of nets and hooks. This is because the nets and hooks require constant replacement and at the time of collection of data most of the owners had

invested a part of their past savings as well as current incomes in the purchase of these assets.

TABLE 5.1
Financing pattern of fishing equipments

(In percentages)

| Sources of Finance | | Fishing Equipments | | | | | | |
|--------------------|--|--------------------|-----------|-------------|--------|-----------------------------|----------------|------------------|
| | | Crafts | | | | Nets & with hooks and lines | | |
| | Internal Financing | Mechanised | Motorised | Traditional | All | Mechanised Boat | Motorised Boat | Traditional Boat |
| i. | Cash money or past savings | 8.2 | 40.6 | 3.4 | 52.2 | 15.4 | 21.4 | 13.3 |
| ii. | Sale of fishing assets | 3.3 | 1.2 | 0.8 | 5.3 | 2.3 | 0.8 | -- |
| iii. | Current incomes | -- | -- | -- | -- | 18.4 | 19.6 | -- |
| A. | Sub totals (i+ii+iii) | 11.5 | 41.8 | 4.2 | 97.5 | 36.1 | 19.6 | -- |
| External financing | | | | | | | | |
| iv. | Borrowals from institutional sources | 12.9 | 7.9 | -- | -- | -- | -- | -- |
| v. | Borrowals from non-institutional sources | 75.2 | 48.6 | 93.0 | -- | 63.9 | 57.5 | 86.1 |
| vi. | Dowry or gifts | 0.4 | 1.7 | 2.8 | -- | -- | 0.7 | 0.6 |
| B. | Sub totals (iv+v+vi) | 88.5 | 58.2 | 95.8 | -- | 63.9 | 58.2 | 86.7 |
| | Grand total (A+B) | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Sources : Sample Survey, 1996-97

Among the external sources loans from institutional sources are available only for mechanised crafts. But more than 65 per cent of investment in mechanised craft is financed by non-institutional loans. The owners of motorised and traditional boats have also no or limited access to institutional loans. The proportion of investment on motorised boat covered by institutional loan is only 7.9 per cent. In case of traditional loans it is found to be nil. Therefore, the traditional and modern sectors of fishing are deprived of institutional finances. The share of non-institutional credit is relatively low in case of mechanised boats and motorised boats. This shows that only the traditional sector solely depends on non-institutional credit.

One interesting finding of the study is that in case of motorised boats the share of internal finance is relatively larger in comparison with mechanised and traditional boats. The motorised boat owners belong to the traditional fisherman community. In the past most of them had owned traditional boats. They have purchased motorised boats with their past savings. The surplus incomes of traditional boat owners are mostly used for purchase of motorised boats. Therefore, the share of internal finance is relatively more in case of motorised boats.

Among the other sources sale of fishing assets accounts for a negligible proportion of total investment in case of all crafts. Investment from current incomes is found only in case of gears. Proceeds from current productive activities do not contribute at all towards financing purchase of fishing crafts.

Even though gifts and dowry account for less than three per cent in financing of the aggregate purchase price of crafts, their contribution is found to be significantly high in two out of thirty sample cases of traditional crafts.

The discussion with the respondents about the historical trends in the financing pattern of fishing craft revealed that the relative contribution of institutional credit to financing of fishing crafts has no tendency to increase. Rather the contribution of non-institutional sources is on the rise. The fish processing industries have made significant contribution to the purchase of crafts and gears over the last ten year. The new crafts purchased in the mechanised sector during the last twenty years have been financed by these industries.

Another important finding of the analysis of sources of credit is that not a single craft was found which has been entirely self-financed by the owner. Even in case of low cost traditional crafts, not a single owner was found to have acquired the craft entirely with his own capital.

One important conclusion, which emerges from the foregoing discussion, is that fishing activities can not be sustained without financial assistance from outside the fishing sector. But the apathy of the institutional lenders to provide finance to this sector is a major bottleneck for the development of fishing technologies.

5.1.1 Mechanisation and Institutional Finance :

In the middle of the fifties, when mechanised boats were introduced, the effects of modern fishing technology on productivity were exposed. The process of mechanisation being sponsored and supported by the government from its early days for exploiting the untapped marine resources of the state, it had drawn a considerable amount of institutional finance. The State Financial Corporation (OSFC) was the main institution for financing mechanised fishing in the state. The OSFC came to the field of financing fishing trawler in the year 1971-72. Besides the OSFC some trawlers were also initially financed by the Agricultural Refinance and Development Corporation Ltd., and Co-operative Societies and Commercial Banks. As against the feasibility report of the Directorate of Fisheries for 1217 mechanised trawlers (Paradeep : 286, Dhamara : 434, Chandipur : 33, Rusikulya : 48, Astaranga : 416, Total = 1217) the OSFC had sanctioned term loan for 364 trawlers amounting to Rs.6,61,58,400 by the end of 1979-80 financial year¹. Taking into consideration the economic viability of each case, the loans were sanctioned by the OSFC.

1. Position paper on Trawlers, OSFC, Cuttack

From the experience the OSFC has estimated the catch to be 22 tons per trawler as per the estimates Directorate of Fisheries.

The rising demand for prawns in Japan and above all in the U.S.A. opened up entirely new vistas for the fishery economy of Orissa. Large profit opportunities emerged and all the signs of a prawn rush were soon noticed. Trawler boats sprang up, freezing plants were set up, peeling sheds developed, trade contracts were established in foreign markets and export companies got involved in the field. The commercial banks came forward along with the OSFC to provide term loan for construction and acquisition of processing plants, cold storage units, refrigerated vans etc. Under the RBI Interest Subsidy Scheme of 1968, commercial banks provided credit at concessional rate of interest for procurement of raw materials, processing and packing of finished goods. They also financed procurement of deep sea fishing vessels on a consortium basis with the Shipping Credit and Investment Company of India (SCICI). The State Bank of India had financed 96 fishing trawlers between 1977 and 1982. The Industrial Promotion and Investment Corporation of Orissa Ltd., (IPICOL) a Govt. of Orissa undertaking, came into existence by a State Legislation during the year 1971 to assist medium and large industries. It has financed three sea food processing units, two based at Bhubaneswar and one at Paradeep.

In the seventies a considerable amount of investment was made in mechanised fishing and it could not have been possible without institutional help. However, the growth of mechanised fishing was unplanned and quite anarchic. Gradually the rate of profit declined due to increased competition. Over exploitation (over fishing) of marine resources resulted in a quick

depletion of the stock of fish in the sea and endangered the future of the industry. Teething problems were faced by the OSFC and other financial institutions in the collection of loan amount and in a very short period there was mounting default of a very sizeable amount. The total default position of trawlers financed by the OSFC by the end of 1979-80 was estimated to be Rs.4.74 crores as on 31.10.1981. Attempts to seize the vessels in the event of default were not successful and at last the OSFC decided to discontinue financing trawlers from the year 1980. The commercial banks have also stopped financing trawlers. Recently, the export houses and big processing units have become the principal sources of finance for mechanised fishing.

5.2 The purpose of Credit :

The first section is devoted to the financing pattern of fishing crafts and gears and highlights the productive uses of credit. But like any other sector loans are utilised in fishing sector for production as well as consumption purposes. Therefore any discussion on credit requirements of fishermen must identify the purposes for which the fishermen need credit. Therefore, this section is devoted to the analysis of purposes of credit.

In the marine sector productive loans are utilised to meet the expenditure on purchase and repair of boats and nets and to meet the recurring expenses for operation of boats. The important non-productive purposes for which loans are utilised include basic consumption needs, medical expenditure, social expenditure, construction and repair of houses and repayment of old loan. Table 5.2 depicts a break up of loans according to the purposes towards which they are taken. Looking at the break up of the loans we observe a pattern that is far from being uniform among the three fishing

groups under study. A number of points worth highlighting are mentioned below:

- (a) The relative importance of productive loan is much higher for owners of mechanised and motorised crafts.
- (b) In relative terms, borrowings intended for productive purposes assumes higher importance among the owners of mechanised crafts i.e. 76.6 per cent of the total credit here is for productive purposes only.
- (c) A positive correlation exists between the percentage of loan utilised for productive purposes and the level of technology. Lower the level of technology lower is the percentage of loan utilised for productive purposes. While the owners of mechanised crafts utilise 76.6% of total credit for productive purposes, those of motorised and traditional crafts utilise 71.8 % and 49.82% respectively of total credit for productive purposes.
- (d) Among the non-productive uses of credit expenditure on social ceremonies and house construction etc., claim relatively higher percentage of loan among the owners of mechanised and motorised crafts. But the utilisation pattern of loan by the traditional fishermen shows that more than 1/4th of the total amount borrowed is spent for household consumption expenditure. In relative terms, social expenditure accounts for the highest percentage of loans among the traditional fishermen.
- (e) Among the traditional fishermen expenditure on liquor claims a higher proportion of loan utilised for household consumption expenditure.
- (f) The proportion of unproductive loan spent for other purposes is highest

among the owners of motorised boats. This is because they spend a substantial amount on travelling to their native places every year.

TABLE 5.2
Break-up of loans according to purpose

| Credit | | Percentage of total amount of loan utilised by | | |
|--------|---------------------------------|--|----------------------------|------------------------------|
| | | Owners of mechanised crafts | Owners of motorised crafts | Owners of traditional crafts |
| 1 | | 2 | 3 | 4 |
| 1. | Productive purposes | 76.6 | 71.8 | 49.8 |
| 2. | Non-productive purposes | 20.2 | 25.5 | 46.2 |
| | (a) Household consumption expd. | 1.5 | 1.7 | 26.4 |
| | (b) Medical expenses | 2.8 | 1.8 | 1.3 |
| | (c) Social expenses | 6.6 | 8.6 | 13.9 |
| | (d) Other purposes | 3.1 | 6.6 | 4.0 |
| 3. | Debt Repayment | 3.2 | 2.7 | 4.0 |

Source : Sample survey 1996-97

- (g) The percentage of loan utilised for medical expenses is lower among the motorised and traditional fishermen. This shows their lack of awareness of health and sanitation.
- (h) In case of debt repayment the mechanised fishermen lag behind the traditional fishermen. This is because, the traditional fishermen largely borrow from unorganised credit markets where the rate of interest is high and repayment is guided by conventional rules governing the system of credit among the fishermen communities. Therefore, the traditional fishermen incur fresh loans to pay off old loans. In case the borrower is an obstinate defaulter and the conflict between the borrower and the lender is unsettled, it so happens that the latter seizes the former's craft and keeps it till debt is eventually cleared.

Although the owners of motorised and traditional boats belong to the same community, a glaring disparity is observed with respect to the proportion

of loans spent by them for unproductive uses. Difference in the levels of incomes of the two groups accounts for the above phenomenon. The motorised boat owners enjoy a higher rate of return and are capable of managing their consumption expenditure out of their own savings during the lean season. But the low rate of earning on traditional boats hardly generates any surplus income for savings. Therefore, the traditional fishermen are forced to incur loans for consumption purposes particularly, in the lean season during which they do not go for fishing.

Thus, the high percentage of unproductive loans is a compelling necessity for the traditional fishermen. About 46.2% of total loans are incurred for non-productive purposes. A considerable share of loan is intended for consumption expenditures. Foremost among the consumption purposes the purchase of food items and other basic consumption goods occupies the most important place. Social expenditures (mainly marriage expenses) is also found to be a main cause for which the traditional fishermen are indebted.

5.3 The Magnitude of Loan :

Table 5.3 depicts the comparison of loan magnitudes. It shows the percentage distribution of loan amount according to magnitude of loans. A comparison of magnitude of loans for the three owner groups bring to limelight the following tendencies.

- i. The average size of the loan is much larger for the owners of the mechanised crafts. It is estimated at Rs.1,27,000/- on an average. For the owners of motorised and traditional boats the average sizes are estimated to be Rs.66,900/- and Rs.33,800/- respectively. This difference arises due to the high price of mechanised boats and also due to high

- operational expenditure and high maintenance cost of mechanised crafts.
- ii. The owners of mechanised as well as motorised boats enjoy greater credit worthiness.
 - iii. The ownership position of the above owners enables them to have better access to the available liquidities on the local credit market.
 - iv. The loans taken by the owners of traditional boats are of a very small size. The average size of loans is estimated to be Rs.33,800/-. The maximum amount of loan does not exceed Rs.50,000/-. Most of the loans have been incurred in an unplanned manner. Such loans are incurred as and when consumption need arises.
 - v. Borrowers in the category of owners of traditional boats borrow from several lenders when they need a given amount of external finance. Local lenders never advance larger loans.

TABLE 5.3

Comparison of Loan Magnitudes

| Amount in Range in Rs.'000 | Percentage of loans incurred by | | |
|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Owners of Mechanised Crafts | Owners of Motorised Crafts | Owners of Traditional Crafts |
| 20-30 | — | — | 20.00 |
| 30-40 | — | — | 66.7 |
| 40-50 | — | — | 13.3 |
| 50-60 | — | 20.00 | — |
| 60-70 | — | 26.7 | — |
| 70-80 | — | 40.0 | — |
| 80-90 | 13.3 | 6.7 | — |
| 90-100 | 16.6 | 6.7 | — |
| 100-150 | 36.6 | — | — |
| 150-200 | 26.7 | — | — |
| Above 200 | 6.7 | — | — |
| Average Amount Borrowed | 127.0 | 66.9 | 33.8 |

Source : Sample Survey 1996-97

5.4 Determination of Interest Rates :

A glance at Table 5.1 reveals that the owners of motorised and traditional boats mostly meet their credit requirements by borrowing from unorganised credit market. The loanable funds supplied by the fish-processing industries are mostly interest-free. They never charge (explicit) interest rates on the loans advanced to the owners of fishing crafts. Therefore, the problem of the determination of interest rate on the unorganised credit market relates to the loans advanced by the shop-keeper, friends and relatives. The loans advanced by these lenders are found to carry a variety of interest rate ranging from ten per cent to sixty per cent. The reasons behind the variation in interest rate are many. An attempt has been made to identify the factors which appear to bear upon the interest rate. One interesting finding of the study is that the factors which ordinarily determine the price of credit in unorganised credit market do not appear to have influenced the interest rate charged on loans advanced to the boat owners. Factors such as the duration of the loan, ownership position of the borrowers and the securities offered have absolutely no bearing upon interest rate. Among the factors relevant for determination of interest the purpose of credit appeared to be very much significant. Productive loans related to fishing are comparatively cheap while those related to consumption purposes are comparatively dearer. Another significant determinant of interest, appears to be the actual or potential incomes from fishing. There seems to be a positive correlation between the prospective incomes of boat owners and rate of interest. The actual or potential incomes of the boat owners are considered by money lenders as an implicit security which bring down the risk attendant to credit transactions. Apart from the above mentioned factors social

contact of the borrowers plays no less important role in determining the rate of interest. The rate of interest varies according to the degree of closeness of the relation between the lender and the borrower.

In terms of the above mentioned credit variables, the owners of mechanised crafts have a definite advantage over the owners of the other crafts in the matter of rate of interest. The higher social status of the mechanised fishermen enables them to have a greater access to free loan than their counter-parts in the non-mechanised sector. Moreover, the large-scale output is also an important factor which has not only enhanced the credit worthiness but also attracted the processing industries to extend free loans.

5.5 Interlocking of credit and marketing :

It is generally alleged that marketing of fish is monopolised by a number of middlemen who provide the bulk of the working capital to fishermen against prior mortgage of the catch. Private creditors who engage in marketing insist on the sale of catch to or through them. Although obviously no interest is charged on loans, it is covered by the commission of 2 to 5 per cent recovered on the sale of proceeds. The same situation is observed in traditional agriculture. But the study of the working of credit system at Paradeep coast gives altogether a different picture. The marketing tied credit is common among the owners of mechanised crafts. The bulk of the working capital as well as a substantial proportion of fixed capital is supplied by the fish processing industries. These credit-givers meet about seventy five per cent of the total cost of fishing (fixed and operational costs). The debtors are obliged to supply exportable varieties of fish at a price which is approximately seven per cent less than the prevailing

market price. For marketing of non-exportable fish the mechanised boat owners never enter into any contract with the merchants/ middlemen. These fishes are disposed of through auction.

The owners of motorised and also traditional boats do not avail market tied loans. The agents of fish merchants/export houses buy their catches right on the landing centre through auction. However, in a few cases such owners were found to have borrowed from hotel owners on the condition of selling their catches to the creditors. The incidence of such loan is very low and the debtors are not required to sell their catches at a price less than the market price. The working of the credit system described in the preceding paragraphs is absolutely smooth and frictionless. Both the parties to a credit transaction discharge their obligations honestly without resorting to any fraudulent practices which may prove to be exploitative for any party.

5.6 Interlocking of credit and labour relations :

One of the interesting findings of the present study is that the boat owners not only borrow but also lend money to the crew members. In order to minimise the risk of under utilisation of their productive assets consequent upon the non-availability of labour, the owners of crafts are obliged to lend lump sum amount to their crew members. This practice not only ensures continuous supply of labour but also prevents the crew members from running away from their present owner-employer. It is needless to mention that the loans advanced by the owners to their employees are interest free.

Under the prevailing practice, the advance paid by the boat owners to the crew members varies from Rs.5,000 to Rs.7,000. The loan is taken at the

time a member of the crew joins the owner on the understanding that he will not return it as long as he will stay with him. The loan may also be taken after the crew member has joined the owner but again on the condition that the loan is not to be repaid except if he leaves the owner. Therefore, the interlocking of credit and labour relations takes the form of financial ties between crew labourers and boat owners.

The incidence of crew labourers returning the wage advance and terminating their contract is very rare. During the field study the researcher could detect only five such cases where the termination of contract was due to the conflict between the employer and the employee. Not a single case was detected where the shifting of labour was motivated by a higher wage advance. In fact, in one case the wage-advance offered by the new employer was less than what the crew member had to return to his previous employer. The interlocking of labour and credit relations works to the great advantage of the employer, because such a system provides the basis for a dependable and readily available source of labour supply. On the other hand there is no evidence to suggest that financial ties between the boat owners and the crew do necessarily impede and slow down the movements of labour. Most crew members who want to run away from a given employer are eventually in a position to do so. Conditional loans do not give rise to permanent labour attachment.

Although a labour-borrower has the freedom to change his employer, very often he finds it difficult because of the co-operation and cordial relationship among the boat owners. Ordinarily the employers do not compete among themselves in hiring labour. Therefore, the interlocking of labour and

credit relations works to the great advantage of the owner-employers. Another factor which helps the owner-employers is the ever increasing supply of labour in Paradeep coast. The labourers from the fisherman communities do not prefer to take up any other occupation except fishing. They have reportedly not availed the employment opportunities provided by the Paradeep port and the industries established at Paradeep. Immobility of labour strengthens the financial ties between the owner and the labour.

5.7 Indebtedness among the Fishing Households :

This section is intended to deal with the levels of indebtedness among the six fishing groups under study. The incidence of indebtedness is considerable in all the groups. All the sample households reported debts outstanding at the time of survey. But the households belonging to the owners group are found to be simultaneously borrowers and lenders because they are often driven to advance loan to labourers not only to ensure ready availability of labour but also meet their financial requirement for loan, which arises in times of emergencies. But these loans are usually adjusted from the daily incomes of the labourers during the peak season.

The problem of indebtedness is not same for all the groups. In fact, for the labourers (operators of the crafts) debt is not a burden. Only that part of loan, which is incurred for meeting expenditure on social function etc., are required to be repaid. But in most of the cases repayment of such loans are automatic as the loan is adjusted by way of regular deduction from their daily income during the peak season. Therefore, as in case of agriculture, the debt never accumulates and even if it does, the crew members have nothing to loose except remaining tied to particular owners. Therefore, the problem of

indebtedness among the operators manifests itself in the form of interlocking of credit and labour but it never leads to deprivation of the loanees of their assets as we find in case of agriculture.

In case of the owners, indebtedness is a direct function of their ownership position. Their financial position is comparatively sound. Most of them are wilful defaulters of institutional loans. Since the institutional source of credit for fishing has become insignificant in the recent year, the problem of indebtedness practically does not exist among the owners who have acquired the fishing assets during the last ten years. The indebtedness among the borrowers from institutional sources is found to be related to a specific feature of production condition of marine fishing. Incomes from marine fishing being dependent on the vagaries of nature are subject to violent and frequent fluctuations. Owing to the large instability of their income, borrowers always prefer to hold some amount of ready cash to meet the working capital needs. This is the specific reason for which they do not repay the principal loans in spite of substantial earning in the years of good harvest.

Summary :

The fishing industry is primarily dependent on external sources of credit. Among the external sources the share of institutional loan is rapidly decreasing due to the fraudulent practices adopted by the craft owners to get rid of the institutional debt. A positive correlation was found to exist between the percentage of productive loan and level of technology. High incidence of unproductive loan is found among the traditional fisherman. Therefore, it is the low level of income that accounts for utilisation of loans for unproductive

purpose. The size of loan varies with the level of technology. The owners of productive assets have a better access to the credit market than the operators. The loanable funds are mostly obtained from unorganised credit markets and a greater part of such loan is interest free. The owners of the ~~other~~ ^{mechanised} crafts have a definite advantage over the owners of the other crafts in the matter of rate of interest. Although interlocking of credit and marketing is very common, the system does not operate to the disadvantage of the parties to the transaction. Interlocking of credit and labour relations is also advantageous for both the parties. Indebtedness is not a big problem. The people belonging to the lower income group are indebted but they are not subject to exploitation at the hands of their creditors.
