

## CHAPTER V

### THE CREDIT SYSTEM IN THE FISHING ECONOMY

#### Credit Needs of the Fishermen

The fishermen are in need of short-term loans to meet various commitments, economic and social, for the following reasons:

a) Consumption expenditure: The return from fishing is dependent upon factors beyond the control of the fishermen. A change in the salinity of the sea-water and the presence of dolphins and jelly-fish drive away the fish to more favourable areas. Adverse climatic conditions and sickness prevent the fishermen<sup>1</sup> from going out to fish. But the fishermen and their families have to eat to survive<sup>+1</sup>.

b) Operating expenditure: The fishermen have to buy fuel for their engines, repair their boats and mend their nets damaged by submerged abandoned fishing stakes and corals irrespective of their catch. When the return from the catch is insufficient to cover the operating expenses for a certain length of time, they have to borrow short-term loans<sup>+2</sup>.

c) Unforeseen expenditure: Occasionally, the fishermen have to incur certain unexpected expenditure. This expenditure arises when a member of their family falls sick or passes away or they have to replace household utensils or repair their houses that have been accidentally damaged.

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<sup>+1</sup> Some of the fishermen whom I interviewed in Telok Bahang and Batu Ferrengghi appropriately referred to fishing as a sort of gamble. Everything is so uncertain.

<sup>+2</sup> For this reason, many of the fishermen in Telok Bahang, Batu Ferrengghi and Tanjong Bungah prefer to work with the capital equipments supplied by the Chinese towkays because they pay for the operating expenses as well. To the fishermen, this is advantageous because there is less risk.

In addition, they may require medium-term loans for two purposes:

a) Investment expenditure: They have to purchase boats, fishing gears and motor engines to work with or to replace them when they wear out. This requires a high capital outlay<sup>+1</sup>.

b) Social and religious expenditure: This type of expenditure is not connected with and in no way helps the fishing operation. But the fishermen are compelled to make such expenditure by customs and traditions which play an important part in the community life of the illiterate fishermen.

Dr. Tjoa Soei Hock<sup>+2</sup> gives a good account of these social and religious obligations of the East Coast fishermen. According to him, a feast or "kendury" is held on the occasion of birth, marriage, death and circumcision. Despite the low income of the fishermen, a large sum of money is spent on these feasts.

In the case of a wedding, feasts or "kendury kahwin" are held prior to and after the wedding because it is believed that wedding is the happiest part of life and the occasion has to be celebrated upon. The first feast or "kendury Menghantar belanjar" is held at the engagement where, at the feast, the representatives of the bridegroom-to-be hand over the engagement ring and the estimated wedding expenses to the representatives of the bride-to-be. A second feast or "kendury malam persandingan" is held on the wedding day. Two weeks later, a third feast or "kendury mengenal" is held to introduce the bride to the friends of the bridegroom from other kampongs. The total expenditure for the wedding is between \$200 and \$2,500 depending on the elaborateness but Dr. Tjoa

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<sup>+1</sup>For this reason, many of the fishermen of Telok Bahang, Batu Ferrengghi and Tanjong Bungah prefer to work with the capital equipments supplied by the Chinese towkays and in the East Coast, they prefer to work with the equipments of the juru selam. They avoid having to purchase these assets by doing so.

<sup>+2</sup>See Tjoa Soei Hock: Institutional Background to Modern Economic and Social Development in Malaya.

See also R. Firth: Malay Fishermen: Their Peasant Economy.

estimates the average expenditure to be \$500 or 10 to 12 months' income.

In the case of a birth, a feast or "kendury berchukor" is held when the hair of the infant is cut on its 44th day to safeguard the mother and child from trouble by ghosts and devils.

When a man passes away, prayers are held on the 3rd, 7th and 100th day after death to obtain the blessing of God for the dead man and ensure that his soul rests peacefully in heaven. A feast or "kendury arwah" follows each praying ceremony. If the ceremony is not held, it is believed that the dead man will not go to heaven and that his soul will haunt the relatives. The expenditure varies between \$100 and \$500.

### Sources of Credit<sup>+1</sup>

The fishermen require hard cash to meet the above expenditure. Part of their financial needs is met out of their savings which are likely to be small because of their low income. A 10% savings on a monthly income of \$60 is just \$6 which is just sufficient to cover for a single medical service. Therefore, they have to seek loans from external sources.

a) Friends and relatives: It is unlikely that friends and relatives have much to lend as they are just as poor as the fishermen. Nevertheless, this is a very popular source of obtaining small loans for a very short time.

b) Juru selam: In the East Coast, the juruselam is a very important source of finance to the fishermen but his loans are limited to the members of his fishing syndicate. Because of his exceptional ability in detecting fish physically by means of his hearing sense, the juru selam is an acknowledged leader of a fishing syndicate of fishermen who fish to-gether. The juru selam is often a well-to-do person in the fishing village. He owns the boats and nets of

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<sup>+1</sup> See Tjoa Soei Hock: Institutional Background to Modern Economic and Social Development in Malaya.  
See R. Firth: Malay Fishermen: Their Peasant Economy.

the syndicate and these get a lion's share of the catch as rent. The residue is then shared by the participants in the catch, each member getting a small income often sufficient to maintain themselves and their families. When the members of the syndicate are in need of loans, for example, during the North East Monsoon, the juru selam never fails to help them. The practice of the juru selam is very widespread in the East Coast<sup>+1</sup>.

In the West Coast, it is the Chinese Towkays who perform the function of the juru selam. They own the boats and the gears and lend these out to the fishermen<sup>+2</sup>. Sometimes they fish with them. In times of financial needs, they give loans to the fishermen<sup>+3</sup>.

c) Pawnshops<sup>+4</sup>: This is an important source of quick financing but loans must be secured by jewellery or gold ornaments usually, thereby limiting the loans to those with security. A high rate of interest is charged on these loans calculated on a monthly basis.

Alternatively, the valuables can be discounted at the pawnshops at a great loss in capital value. The fishermen normally prefer to get cash from this method as they do not have to worry about paying interest as in the first method. They do not bother about the loss in capital value very much as their need for cash is great and they are optimistic about the future when they can acquire new valuables out of savings from good catches.

In terms of dollars, this is a poor source of financing because it is unlikely for each fisherman to own much valuables to obtain large amount of money through discounting or to act as security. Otherwise, they will not be poor at all. But most of the fishermen have a certain amount of valuables acquired out of savings or given to them as presents by their parents or through inheritance. Many of the fishermen patronize the pawnshops for short-term loans.

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<sup>+1 & +2</sup> Che Samad acknowledges these facts.

<sup>+3</sup> In the fishing villages I visited in Penang, I found the practice of the Chinese <sup>towkays</sup> widespread. They lend out boats and gears and cash to the fishermen. I understand from Che Laitiff of the Fisheries Department, Penang, who has been involved with the marketing survey in Perak that there is a similar practice in Perak.

<sup>+4</sup> Che Samad acknowledges this fact.

Another important source of finance comes from the middlemen to whom the fishermen sell their catches and the shopkeeper who gives credit sales to the fishermen. The fishermen get their basic supplies of goods for their daily consumption from the shopkeeper. They get these on credit when they are short of cash. These two functions may be undertaken by one man.

d) The village middlemen<sup>+1</sup>: The village middlemen are always in close contact with the fishermen from whom they secure the fish for their business. The village middlemen always have ample hard cash and when the fishermen are in need of loans, they willingly supply them with the necessary amount because it is to their advantage to do so. The middlemen may also own boats and gears for lending out to the fishermen.

e) Village shopkeepers: Shopkeepers are always in close touch with the middlemen by selling them all kinds of basic household necessities like food, fuel, beverages, tobacco, cigarettes, etc. When the fishermen are short of cash, the retailers are willing to allow the fishermen and their families to take goods on credit for such operations as a means to their ends in their retailing business. The granting of credit is a powerful instrument of sales promotion. The shop that is able to grant generous credit builds up valuable goodwill in the fishing village, retains old customers and attracts new ones.

In Malaya, the supply of loans from institutional sources like the cooperative credit societies is insignificant because these societies have just been started and loans are only available to members. Less than 10% of the ~~total~~ total fishing population are members of these societies to date<sup>+2</sup>.

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<sup>+1</sup> Che Samad of the Cooperative Division, Kuala Lumpur and Che Laitiff of the Fisheries Department, Penang, agree that middlemen do advance loans to the fishermen and they also have gears and boats to lend out to the fishermen. In Penang in the fishing villages I visited namely, Telok Bahang, Batu Ferrengghi and Tanjong Bungah, I found such practices by the middlemen and the Chinese towkays existing. The Chinese towkays give weekly subsistence allowance to the fishermen using their capital equipments. These are deducted from the sales proceeds of the catch monthly.

<sup>+2</sup> See 1962 Annual Statement of the Cooperative Societies of the Federation of Malaya.

The FAO division of the United Nations reported that 70% to 90% of the credit needs of farmers in most Asian countries are met by non-institutional sources<sup>+1</sup>. In Malaya, this is not exceptional.

### Conditions of Loans:

Like other loans, rural loans bear certain conditions but loans to the fishermen are very simple. There is no written contract but mere verbal understanding<sup>+2</sup> because:

- a) a high level of illiteracy prevails among the fishermen;
- b) the highly suspicious and conservative fishermen dislike the formalities of having to fill up forms and put down their signature or thumb-print;
- c) the moneylenders are local people who know the fishermen well through regular business relationship with them.

The basic condition of loans from the middlemen-shopkeeper and the Chinese towkays is monopsony in fish purchase. Once indebted, the fishermen are obliged to deliver their daily catches to the middlemen-shopkeeper and Chinese towkays to whom they are indebted until the debt has been fully repaid. Part of the sales proceeds go to settle their outstanding debts<sup>+3</sup>.

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<sup>+1</sup>See FAO No. 1793: Report of the Centre on Institution for Agricultural Financing and Credit in Asia and the Far East.

<sup>+2</sup>From my fieldwork, I found the granting of loans rests on personal trust in Penang. Middlemen and Chinese towkays give loans only to those fishermen known to them through business relationship in the purchase of fish. In many cases, these people are local residents in the village.

<sup>+3</sup>Che Samad agree that this practice exists. From my fieldwork in Penang, I found that such practices are present. Fishermen using the capital equipments of the Chinese towkays and those indebted to the middlemen in Telok Bahang, Batu Ferrengghi and Tanjong Bungah have to sell their catches to their creditors until the debts are cleared. But those using borrowed equipments have to continue selling to the Chinese towkays.

Loans bear no interest because the taking of interest is considered sinful or haram according to the Koran<sup>+1</sup>. Though there is no specific interest stated, middlemen-shopkeeper, juru salam and Chinese towkays do take disguised interest. The standard practice is by paying the debtor-fishermen a lower than the prevailing price (that is, the price obtainable by the "free" fishermen from the middlemen) for the fish and by giving short-weight to the fishermen, that is, the basket of fish is weighed in such a way that its weight is less than what it actually is if weighed fairly or by another yardstick (Fish is sold by weight in the West Coast and the weighing is done by the middlemen, not the fishermen. In the East Coast, fish is sold in quantity and not by weight. Often, it is by a boatful of fish). Obviously, the difference in the price and in the weight accrues to the benefit of the middlemen, juru salam and Chinese towkays. In economic terminology, this is equivalent to disguised interest or the actual taking of interest in an indirect way<sup>+2</sup>.

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<sup>+1</sup>See Tjoa Soei Hock: Institutional Background to Modern Economic and Social Development in Malaya.

<sup>+2</sup>The taking of disguised interest in the form of a lower price offered for the fish and short-weight is acknowledged by Che Laidin and Che Samad of the Cooperative Division, Kuala Lumpur, and by Che Laitiff of the Fisheries Department in Penang. Recognition has been given to the fact that those fishermen who can sell freely are able to secure better price for their fish. In Penang, I found the taking of interest present in the fishing villages I visited. Short-weight can also be given to the fish of those fishermen who can sell freely. In Penang, at the Sungei Pinang market, I have seen the middlemen exploiting the fishermen of short-weight by a few methods. One of the commonest methods is by weighing with a yardstick (a Chinese weighing instrument for weighing things into katties and tahils) a basket (height and diameter about 2 feet) of fish with part of the base of the basket partially resting on the ground. The seller fisherman, standing close to the middleman with his attention fixed on the yardstick held by the middleman is unaware that the basket is not fully suspended in the air at the weighing.

According to Che Samad, the yardstick is a very unpredictable instrument. I agree with him because it works on a principle of a pivot and a block of weight. The heaviness of the block of weight can be manipulated by the middlemen concerned to his advantage.

Loans from the juruselam also bear disguised interest. The conditions of the loans<sup>+1</sup> to members of the fishing syndicate are:

- a) The juruselam should undertake the sale of the syndicate's catch<sup>+2</sup>.
- b) He arranges for the selling price of the fish which he shall not divulge.
- c) He determines the rate of depreciation of the capital equipments (boats and nets) used by the fishing syndicate. The rate of depreciation is constant from year to year. This rate is deducted from the gross sales proceeds of the fish.

According to Dr. Tjoa Soei Hock<sup>+3</sup>, the juruselam receives a 10% commission from the dealer to whom he sells the fish<sup>+4</sup> and makes a 200% profit on the cost of the capital equipments by charging a constant rate of depreciation. Both these make up the disguised interest. The crew members are bound to follow his decision because of the loans.

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<sup>+1</sup>See Tjoa Soei Hock: Institutional Background to Modern Economic and Social Development in Malaya.

<sup>+2</sup>Che Samad recognises the existence of this practice in the East Coast.

In my fieldwork in Penang, I found that this condition appears also in loans from the Chinese towkays. The towkays take the fish to town for sale and verbally tell the crew-members the proceeds derived without revealing the receipt although there is one. The towkays can take disguised interest by charging a commission on the sales proceeds and informing the crew-members a false weight for the fish. According to Che Ibrahim of the Cooperative Department, Penang, this is the reason why the Malay fishermen are dissatisfied in Telok Bahang and why they are so happy after the establishment of the fishermen's cooperative society because they can examine the receipt for the sale of the catches.

<sup>+3</sup>See Tjoa Soei Hock: Institutional Background to Modern Economic and Social Development in Malaya.

<sup>+4</sup>Che Samad recognises that this type of practice among the juruselam in the East Coast exists but he is not sure of the exact percentage as the commission.



Credit involves an advance pledge of the fish catches. The crucial source of monopsonistic power emanates from outstanding debts and the use of borrowed capital equipments. As long as the fishermen are not in debt and are operating with their own boats and nets, they are free to sell their catches to anyone but once they fall into debts and/or use borrowed equipments from the juru selam or the Chinese towkays they are obliged to sell their catches to the ones concerned. They are made to pay for disguised interest in the form of lower price for the sale of their catches in which they have no bargaining power and in the form of short-weight in which they are unaware.

The middlemen, Chinese towkays and the juruselam take advantage of the cash needs of the fishermen by lending them cash promptly. Because of their financial strength<sup>+1</sup>, they can easily provide the fishermen with the necessary amount of cash to meet their financial needs and with capital equipments to those poor fishermen to work with. In the case of the shopkeepers, they can afford to sell goods to the fishermen on credit.

By getting a number of fishermen into debts and/or by tying them down with the provision of capital equipments, these people are assured of a limited volume of business<sup>+2</sup>. Therefore, it is their policy and at their own interest to keep the fishermen perpetually in debt and/or perpetually tied down to using their equipments so that they can have a firm hold over the disposal of the fishermen's catches and business relationship shall be indefinitely maintained. They attempt to satisfy all the economic needs of the fishermen and their families to ensure a certain amount of debt. Sometimes the fishermen may clear off their debts after a few lucky catches but they will soon be back to their original position after they have used up their luck. Fishing is a very uncertain occupation.

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<sup>+1</sup>As stated earlier, juru selams are often well-to-do people. Many of the middlemen are prosperous fish-curers. Some of the Chinese towkays are prosperous wholesalers in Penang.

<sup>+2</sup>In Penang, this is the practice. If fishermen are free to sell to anyone, then competition with other middlemen, etc. will introduce an element of uncertainty into the business of fish marketing. Therefore, monopsony is preferred. I am not suggesting that all fishermen are tied down in one way or another. There are many fishermen who are free and are operating today on their own.

Those fishermen who have always been in debt and/or use borrowed equipments do not find their position unbearable because the middlemen, Chinese towkays and juru salam try to satisfy all their reasonable wishes and fancies. They get themselves adapted to such an environment.

### Security of Loans

Only loans from friends and relatives and pawnshops are secured usually by some form of valuable articles but loans from middlemen, juru salam and Chinese towkays and goods taken on credit from the shops are unsecured at all times. This unique feature makes it difficult for modern financial institutions to succeed in the granting of credit in the rural areas<sup>+1</sup>. For many reasons, there is no risk of default on unsecured loans.

Firstly, the financiers have a long-standing intimate knowledge of the fishermen's ability to repay and their reliability to do so. They will not lend more than the fishermen's ability to repay. They have direct and indirect ways of recovering their principal through their main economic activity in fish marketing.

Secondly, there are few middlemen in a fishing village and whatever their intentions are, the fishermen are forced to sell their catches to the middlemen. Monopolistic power in fish marketing enables the middlemen, etc to recover their loans from the proceeds of the sales. Many of the fishermen prefer to deal with their particular dealer because they get a fairer price for the fish<sup>+2</sup>

Thirdly, there are few retailing shops in the fishing village and only regular fishermen-clients are given credit. Whether they are in debt or not, the fishermen will still have to get their basic goods from their regular shops.

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<sup>+1</sup> See Tjoa Soei Hock: Institutional Background to Modern Economic and Social Development in Malaya.

This fact is recognised by Mr. Low Wan Kin of the Planning and Research Branch of the Fisheries Division, Ministry of Agriculture and Cooperatives, Kuala Lumpur.

<sup>+2</sup> This fact is considered as reasonable by Che Samad.

Lastly, the juru selam knows his debtors thoroughly. They fish to-gether in the same fishing syndicate. They meet in the mosque every Friday. The juru selam, as the leader of the fishing syndicate, sells the catch and distributes the sales proceeds personally to the members of his syndicate. Therefore, there is no risk in the recovery of the loans.

In conclusion, unsecured loans bear little risk because the debtor-fishermen will continue to deal with their financiers. Debtor-fishermen are aware of the fact that they have to honour their verbal obligations to the full because it is difficult for them to borrow again in the same village once they have defaulted or failed to honour their obligations in full or in part<sup>+1</sup>. Paradoxically, long-term relationship with a particular financier, whether middlemen, juru selam, Chinese towkay or shopkeeper, is to the best interest of the fishermen because it establishes goodwill, confidence and trustworthiness. Roving fishermen are looked upon with suspicions and distrust. They cannot secure loans easily and once indebted, they are charged a higher rate of disguised interest and an inflated price for the goods they get on credit.

#### Disadvantages of the Present Credit Situation

Firstly, the majority of the financiers are not interested in the supply of capital to develop the fishing industry. They are interested in trying to maximise profits. Most loans are small and for short-term to tide the fishermen over a financial crisis. The main intention is tie down the fishermen. Medium-term loans to allow the fishermen to purchase motor-engines to mechanise their crafts, new boats and better and more efficient gears are not common.

Secondly, there is exploitation of the fishermen in various ways. This is the result of the poor bargaining position of the fishermen because they are tied down by the loans and/or by the use of borrowed equipments. The price offered for the catch is lower than that prevailing in the free market. In addition, the fishermen are given short-weight for their catches, for example, by manipulating the weighing scale. Nevertheless, the remuneration from fishing is attractive enough to retain the fishermen in the

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<sup>+1</sup> See Tjoa Soei Hock: Institutional Background to Modern Economic and Social Development in Malaya.

industry but inadequate to provide for substantial savings for investment in better fishing equipments.

The shopkeepers charge a higher than normal price for the goods taken on credit. Sometimes, they cheat them of short-weight for the goods. Though the debtor-fishermen may be aware of these malpractices, they have no choice but to buy on credit at their regular shop that is willing to give them credit.

In the East Coast, the juru selam has the privilege of selling the catch secretly without revealing the price at which it is sold under the conditions of the loans. It is a common practice for the buyer to give him a 10% commission privately for the deal. In the West Coast, the fish is sold by the Chinese towkays who provide the fishermen with the capital equipments. Exploitation by not revealing the price exists. Secondly, the juru selam gives a significant share of the catches to the use of his boats and nets. Usually, it is one-half of the catches in the case of the pukat tangkol<sup>+1</sup>. In the case of other types of gears, the rent to the owner of these is between one-third and one-half<sup>+2</sup> of the catches. The exploitation lies in the fact that the amount charged is too excessive over what is considered fair and just to cover the depreciation of these capital assets and a fair rent for the use of these<sup>+3</sup>. This unfair rent reduces the size of the

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<sup>+1</sup>See notes on a meeting on 12th January, 1957 at Kuala Trengganu Rest House to determine the set up of the Fishermen's Cooperative Societies in the East Coast.

<sup>+2</sup>See R. Firth: Malay Fishermen: Their Peasant Economy.

Such practices have been verified by Che Samad of the Cooperative Division, Kuala Lumpur and Che Laitiff of the Fisheries Department, Penang.

<sup>+3</sup>My fieldwork in Penang found this to be true. In Telok Bahang, the Chinese towkays provide the fishermen with one big boat plus engine and one large pukat jerut net and pay for all the operating expenses like fuel and repairs to the nets and boats. At the end of each month, the realized value of the month's catch is distributed to the fishermen by the Chinese towkays. The amount available for distribution is the monthly gross sales proceeds minus all the expenses paid out in advance by the Chinese towkays minus 45% of this net amount. This 45% of the net amount goes to  
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amount from the sales proceeds of the catches for distribution to the members of the fishing syndicate.

Thirdly, the present credit system does not provide for a strong incentive to the fishermen to increase their output. Due to poor prices received for their catches and the exploitation elaborated in page 65, the returns from fishing do not provide an inducement to the fishermen to use more efficient techniques of fishing and better fishing equipments to increase their productivity. Their inability to extract themselves from debt and their attachment to the financiers have long been an obstacle to the development of the fishing industry.

Lastly, the present credit system keeps alive the present unfavourable marketing system. Credit involves an advance pledge of the catches. This ensures the supply of a certain amount of fish to the middlemen, etc. daily to justify their participation in fish marketing. But in Chapter 4, we found that the present fish marketing system is unfavourable because it is in the hands of the small middlemen. The present credit system tends to perpetuate their participation in fish marketing. The most serious and difficult

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the Chinese towkays as rent for the use of their capital equipments. The other 55% is shared by the fishermen.

The cost of the boat plus the engine and one pukat jerut net is about \$45,000 and they last for about 8 years. Therefore, the depreciation cost for these capital assets is about \$5,600 per annum. The monthly catch per boat is worth about \$20,000. Therefore, the value of the total annual catches is \$240,000. Assuming the operating expenses like fuel and repairs to be 30% of the gross value of the catches, therefore the net value of the annual catches is \$168,000. The rent received by the owner of the capital equipments is therefore \$75,600 (45% of net). The depreciation expense is just \$5,600 per annum but the owner takes \$75,600 as rent. Undoubtedly, this is exploitation of the fishermen. A large proportion of this amount belongs to them.

The Chinese towkays cannot lose. Should the sales proceeds be insufficient to cover the operating expenses, the balance will be carried forward to the following month and deducted from the gross sales proceeds of that month.

In the above type of fishing, 20-30 fishermen work together in the pukat jerut fishing.

Facts and figures for this footnote are taken from my conversation with many fishermen in Telok Bahang.

obstacle to improve the present fish marketing system is the pattern of credit. Unless and until the fishermen are no longer indebted and/or using borrowed capital equipments, they will still be tied down to the middlemen, Chinese towkays and juru selam and the unfavourable condition will continue to exist.

Though the financiers in the fishing economy are an evil, they nevertheless fulfil an important economic function. The fishermen have no other alternative source of finance to meet their credit requirements at appropriate conditions and the absence of such alternative facilities, middlemen, juru selam, Chinese towkays and shopkeepers continue to perform an essential service. Legislation prohibiting their operations in the rural areas will do no good. Their removal will not solve the fishermen's credit needs. They still need credit. They need Governmental assistance to be independent of the financiers. Therefore, there is an urgent need to set up rural credit institutions to take over the financing and credit function from the middlemen, juru selam and Chinese towkays and the best institution to do so will be the fishermen's cooperative credit society.

