FISCAL REFORM IN FISHERIES

5: The Allocation of Revenues Derived from Fish Resource Rents

DFID Department for International Development

The purpose of these *Key Sheets* is to provide decision-makers with an easy and up-to-date point of reference on issues relating to the provision of support for sustainable livelihoods.

The sheets are designed for those who are managing change and who are concerned to make well-informed implementation decisions. They aim to distil theoretical debate and field experience so that it becomes easily accessible and useful across a range of situations. Their purpose is to assist in the process of decision-making rather than to provide definitive answers.

The sheets address three broad sets of issues:

- Service Delivery
- Resource Management
- Policy Planning and Implementation

A list of contact details for organisations is provided for each sub-series.

Support unit for International Fisheries and Aquatic Research - SIFAR

May 2004

Key Sheets for Sustainable Livelihoods

This Key Sheet is one of a series on fiscal reform in fisheries[(1)].

Overview of the debate

Assuming that fisheries can be managed in such a way as to generate their implicit wealth (resource rents), this Key Sheet discusses what might be done with such rents. Decisions on such usage must in practice emerge from the political process. It is not the intention of this paper to suggest that there is a right set of decisions that must be made, still less to tell countries what to do, but rather to raise issues to take into consideration.

A number of key policy decisions will be required. First, an objective will have to be established concerning the share of rents left with the fishing sector and the share extracted by the public sector. Second, in the case of the public sector share, decisions will have to be made concerning the level (for instance, national, regional or local) at which it is extracted and the level at which it is spent (the two not necessarily being the same). Finally, decisions will have to be made on appropriate spending – how much should be spent, for instance, on the fishery sector itself, how much on fishery-dependent communities and how much for the general good through the national Treasury.

Key issues in decision making

Defining the issue - Assuming that resource rents are being generated by a fishery, the question arises as to what to do with them. In part, the answer will depend on decisions taken on appropriate rent shares between the private and public sectors. In the case of the private sector share, investment decisions will be taken independently by different operators. Although the Government will have less control over what is done, it is sometimes argued that the private sector may be better able to identify profitable investment opportunities than the public sector.

In the case of the rents extracted by the public sector, decisions will have to be made on how best to use the rents to achieve a number of public policy objectives. Participants at the workshop raised for instance:

- Sustainable resource management;
- Economic growth (job creation, foreign exchange earnings);
- Poverty reduction (increased incomes, food security); and
- Community (population) stabilisation.

Within each of these (and other) categories, further decisions will be required on the precise details of the expenditure, for instance which communities should be supported with a view to stabilisation and in what way. Often these decisions will go well beyond the fisheries sector.

The ability to achieve the objectives related to the above points will also depend on the governance context[(2)].

Private-public partnership - The issue of rent-sharing between the private and public sectors arises in the choice of management instruments used in the fishery and in decisions on their mode of implementation. The debate has been most acute in the case of individual transferable quotas (ITQs), precisely because they do allow substantial rents to be generated, but the same issues will arise (in terms of rent distribution) whatever the management method. The ITQ debate may be used, therefore, to illustrate the general discussion.

The way in which ITQs are allocated will affect wealth distribution. Often ITQs have simply been given away so that large amounts of wealth have been transferred to fishers. These large transfers raise two issues.

First, the management system may be undermined by political challenges if it is perceived to be unfair. Giving away wealth is likely to be perceived as inequitable by:

- future fishers, because they will have to pay for their ITQs;
- non-fishers, especially those living in the same locality or community as the fishers;
- society in general if the view is taken that the government is custodian of natural resources on behalf of society.

DFID experience

- The DFID Workshop and Exchange of Views on Fiscal Reform in Fisheries took place in the context of a wider OECD-DAC ENVIRONET initiative examining issues related to environmental fiscal reform (EFR) for sustainable development and poverty reduction. Outcomes of this initiative will include a joint-agency paper on EFR - Environmental Fiscal Reform.
- DFID has also supported work on EFR in China, India and South Africa.

Centres of expertise

- Australian Bureau of Agricultural and Resource Economics - ABARE
- Department for Environment, Fisheries and Rural Affairs - DEFRA
- Department for International Development - DFID
- European Union - EU:
  • DG VIII Development
  • DG XI Environment
  • DG XIV Fisheries
- Food and Agriculture Organization of the United Nations - FAO UN, Fisheries Department
- German Technical Cooperation Agency - GTZ
- GOPA Consultants
- IDDRA
- Institut de Recherche pour le Développment - IRD
- Integrated Marine Management - IMM
- Marine Resources Assessment Group - MRAG
- National Oceanic and Atmospheric Administration - NOAA Fisheries
- Natural Resources Institute - NRI

Second, the investment decisions that follow the private accumulation of wealth are likely to be different to those if public accumulation is involved. The major risk associated with operating via the private sector is that the investments made may not improve the situation in the relevantly-defined economy or part of the economy. For instance, recipients of rents from fisheries in country A could decide that the best alternative for them would be to invest in private assets in country B. This kind of discussion may lead to the conclusion that resource rents should be extracted on behalf of all citizens by the State (see e.g. Macinko and Bromley, 2000). However, there is another side to the story.

First, there is a need to verify empirically what does in fact happen to rents extracted by the private sector. Little evidence seems to be available on this point. Anecdotal evidence suggests that, whatever the temptations to invest abroad, for obvious reasons fishers do tend to invest a substantial part of their gains in their own countries and regions. In Mauritania, for instance, the town of Nouadhibou has been largely constructed on the basis of fisheries incomes and their multiplier effects, and elsewhere in the country it appears that incomes are extracted from the fishery and re-invested in other economic sectors, notably in pastoral activities.

Second, from a practical point of view, it can be very difficult to extract all of the resource rent from the fishery, and attempts to do so are likely to encourage rent-seeking behaviour. As a result, compliance costs may become very great.

Third, resource rent is not a static amount. One argument in favour of leaving a share of the resource rents with the fishers is that it gives them an incentive to improve the fishery in terms of revenues and costs. In this way, the total return to the fishery may be increased, thereby raising both the public as well as the private share. This incentive will be lost if fishers know that increases in rent will be simply taxed away.

Finally, the use of a management instrument such as ITQs would allow the private sector share to be capitalised into the price of the rights. This price would then depend to a substantial degree on the health of the fish stock, giving fishers a clear stake in the future of the resource.

For these and other reasons, it appears more logical for the State to leave some part of the resource rent with the fishing industry. The precise shares between public and private sectors are something that will have to be determined in each case.

Public sector - The standard approach to the management of the public share of resource rents collected through fiscal instruments such as royalties or access agreements is for the rent to go directly to the Central Government Treasury, with allocations to fisheries then being made through normal government budgeting procedures.

The Government as a whole will then be in a position to make the investments it chooses with the funds raised. Two very broad choices are available: either the funds can be invested in the economy as a whole, or they can be invested specifically to enhance the welfare of those involved in the fishery.

Economy wide investments - At this level, the fisheries sector simply becomes one funding source, on a par with any other funding source available to the Government. The range of investments available will be the same, and the choice of what to do with the funds would presumably be made using the same principles as are applied to revenue coming from any other economic sector.

The important point, however, particularly for many developing countries is that fisheries would be considered within the development process of the economy as a whole. To date, the tendency has often been to restrict consideration of fisheries development to the enhancement of fisheries exploitation capability. Although this may be an aspect of the problem, it is important to consider how the fishery resource can contribute to the broader economic development process.

Within fishery investments - There may be a case to be made for using fishery resource rents (or at least some of these) for within-fishery investments.

One problem with the national Treasury approach is that it has tended to starve fisheries administrations of resources.

A first within-fishery investment that will be required for any successful management system is to ensure that there are sufficient funds available for the management function itself. Key areas that must be financed include research to monitor the health of the fish stocks and their environment and the health of the fishing industry, key administrative functions (such as licensing systems) and monitoring, control and surveillance. One reason why fisheries administrations have been starved of resources is perhaps because management systems in the past have frequently been unable to generate the funds to cover even these costs. As a result, far from the fish resource rents contributing to national economic development, there has tended to be a transfer of funds in the opposite direction from the Treasury towards the fishing industry.

Centres of expertise *cont.*

- Netherlands Institute for Fisheries Research - RIVO
- Organisation for Economic Cooperation and Development, OECD-DAC
- Overseas Development Institute - ODI
- Support unit for International Fisheries and Aquatic Research - SIFAR
- University of British Columbia - UBC, Fisheries Centre
- University of Portsmouth, Centre for the Economics and Management of Aquatic Resources - CEMARE
- World Bank
- WorldFish Center - WFC

As governments are gradually coming to realise the importance of better fisheries management and as management systems are being improved, more and more countries are attempting to ensure that at least the basic management costs are met by the fishing sector itself. A principle of cost recovery has been adopted by a number of countries. This principle can have unfortunate consequences, however, because it can give fishers the impression that the only requirement is to cover the costs of managing their fishery. Questions may then be asked of the Administration if resources are used for other purposes. It may be better simply to stick to a requirement for resource rent sharing.

Another possible reason why governments have shown relatively little interest in rent collection may be that responsibility for such rent collection may not be at the best level[(3)]. Devolving rent collection to a more appropriate level in the system may help.

Although in many countries, fisheries may be of little national significance, they are often important for particular regions. Many fisheries seem to be located in depressed regions and may therefore represent an important source of investment funding for these areas. One possible approach would be to devolve responsibility for the collection and use of fish resource rents to a regional organisation, which may already exist or can be created for the purpose. This organisation would be responsible for regional development, in line with agreed political goals, and could fund specific investment projects in the region. One possible use of resources generated from fishing activity would be to improve the physical infrastructure in fishing communities. Such improvements might include roads, electricity to enable cold storage and reduce waste, and the construction and management of landing sites. Activities more directly related to fishing would include the creation of appropriate credit facilities.

It is to be hoped that such a devolved approach to regional development may be more successful than national policy has tended to be in improving the situation of fishers and fishing communities. Where these communities are poor, it is often because they are isolated with a lack of investment providing alternative employment opportunities. The advantage that the fishery offers is a perennial source of funding based on regional wealth.

Investments can also be aimed specifically at fishers. In a reversal of its employer of last resort role, the fishery could be used to fund specific supply-side measures, such as training, to ensure that the value of fishers in the labour market is raised (Wright, 1990).

Key Sheets for Sustainable Livelihoods

Key literature

Bailey, C. and S. Jentoft (1990) Hard choices in fisheries development. *Marine Policy* July, 333-344.
Béné, C. and A.E. Neiland (2003) Fisheries development issues and their impacts on the livelihoods of fishing communities in West Africa: An overview. *Food, Agriculture and the Environment* 1(1):128-134.
Doulman, D. (2004) Fisheries management, poverty alleviation and the implementation of the Code of Conduct for Responsible Fisheries. In: Neiland, A. and C. Béné. *Poverty and small-scale fisheries in West Africa.* Dordrecht: Kluwer. pp. 209-229.
Lawson, R. (1984) *Economics of fisheries development.* London: Frances Pinter.
Macinko, S. and D.W. Bromley (2002) *Who owns America's fisheries?* Covello, California: Center for Resource Economics (Island Press).
Wright, C. (1990) Is poverty in fishing communities a matter of tragedy or choice? Paper presented at International Institute for Fisheries Economics and Trade (IIFET) Conference, 3-6 December 1990, Santiago, Chile. Santiago: Fundacion Chile.

[(1)] This special series of Key Sheets on Fiscal Reform in Fisheries disseminate the outputs of a 'Workshop and Exchange of Views on Fiscal Reform in Fisheries - To Promote Growth, Poverty Eradication and Sustainable Management' organised by SIFAR/FAO, Rome in October 2003 and sponsored by DFID. See Fiscal Reform in Fisheries Key Sheet 1: Workshop overview.

[(2)] See: Fiscal reform in fisheries, Key Sheet 3: Fiscal reform in fisheries and poverty reduction.

[(3)] See: Fiscal reform in fisheries, Key Sheet 3: Fiscal reform in fisheries and poverty reduction.

N.B. Text in blue indicates online links.

Authors:
Tim Bostock (SIFAR), Stephen Cunningham, Arthur Neiland, and Elizabeth Bennett (IDDRA)
Web / PDF production:
Joan Varley (SIFAR)

Key Sheets are available on the Internet at: www.keysheets.org
or through the websites of DFID and the Netherlands Ministry of Foreign Affairs

Department for International Development
Tel: +44 (0) 20 7023 0548
Fax: +44 (0) 20 7023 0470
Email: t-bostock@dfid.gov.uk
Website: http://www.dfid.gov.uk/

Netherlands Ministry of Foreign Affairs
Sustainable Economic Development Department
Tel.: +31 (0) 70 348 4229
Fax: +31 (0) 70 348 5956
Email: dde@minbuza.nl
Website: http://www.minbuza.nl/English