

# Fisheries Economy

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# Financing an Aquaculture Business

- Financing has been difficult for many aquaculture businesses. This is primarily because aquaculture has been considered a risky enterprise by many lenders. As a consequence, interest rates on aquaculture loans have tended to be higher and terms of lending more stringent than for other types of loans. Conventional loans may not be available at all for aquaculture businesses in some areas because lenders are too uncomfortable with the business.

- A lender who does not understand the production system, expected patterns of cash flow and price fluctuations will tend to be unwilling to extend credit without a substantial level of financial security to back up the loan.

# Lending From the Bankers' Perspective

- A bank is a private, commercial business with the goal of making a profit, just as an aquaculture business is developed to make a profit. Banks approve loans to earn money from the interest charged. Interest is the “cost” of money to the borrower, but to the banker, the interest rate is the “price” charged for the resource and service provided by making capital available to other businesses.

# A Bank's Business

- Banks, like aquaculture farms, are businesses. They operate for the purpose of generating profits to distribute to their stockholders. Just as aquaculture farm businesses must account for risk, a bank business must also manage its business with respect to risk and liquidity.

# EQUITY VERSUS DEBT

- Not all capital for aquaculture businesses is obtained from traditional lenders. Some agricultural operations also obtain capital in the form of outside equity. Equity capital in agriculture has been obtained mostly from retained earnings from the business, inheritances, and gifts.

- However, equity capital can be obtained in other ways. Partnerships, joint ventures, and family corporations can be used to pool capital and provide a source of equity capital. Some equity capital can be available from outside investors seeking to shelter high nonfarm income from taxes.