

## **Will Lower Interest Rates Trap Households as Unskilled Labor in Small-scale Fisheries?**

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### **Abstract**

Economic growth is accompanied with a shift of labor away from the natural resource sector. In developing countries some people have to leave fisheries as a way of making it possible for those who remain in fisheries to share in the productivity gains of the entire economy. Increased investment in education is needed to enable fishermen to leave the sector and find a better paid job. This educational investment is typically linked to income. To enhance income, loans for fishing equipment are common; either by informal credit arrangements or by micro-credits. Interest rate lowering policies increase income and could therefore aid in achieving skilled exit from fishery. However, as fishing becomes more productive through the investment, it might trap households in low income fisheries. To examine the counteracting effects of lower interest rates on education we contribute with a model that (a) captures the informal credit arrangements based on a fishery investment and (b) elucidates the effect of interest rate lowering policies on education and thus skilled exit. The model generalizes our fieldwork on Chilika Lagoon, India. The effect of a marginal decrease of the interest rate for a fishery loan on education is ambiguous. The lower rates lead to an income effect, which increases education, and a substitution effect, which decreases education, because fishing becomes more productive. The overall effect can depend on initial wealth, preferences and production possibilities. Thus, improving borrowing conditions for fishery loans can trap households and makes a case-by-case analysis necessary.