

ITEM FOR FINANCE COMMITTEE

HEAD 22 – AGRICULTURE, FISHERIES AND CONSERVATION DEPARTMENT

Subhead 700 – General non-recurrent

New Item “Sustainable Fisheries Development Fund”

Members are invited to approve the creation of a new commitment of \$500 million for setting up the Sustainable Fisheries Development Fund.

PROBLEM

At a time when the local fisheries industry is grappling with the short-to-medium term challenges arising from the implementation of the trawl ban and seeking out areas with potential for growth in the medium-to-long term, we see a need to support relevant programmes, projects and research that would help enhance the overall competitiveness of the industry, for the purpose of assisting local fishermen to put further development of the industry on a sustainable path.

PROPOSAL

2. The Director of Agriculture, Fisheries and Conservation, with the support of the Secretary for Food and Health, proposes to create a new commitment of \$500 million for setting up the Sustainable Fisheries Development Fund (“the Fund”).

JUSTIFICATION

Policy backdrop

3. The fisheries industry has a long history in Hong Kong and can be categorised as capture fisheries and aquaculture fisheries. For capture fisheries,

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there are currently about 4 000 fishing vessels in Hong Kong, of which about 40% normally operate outside Hong Kong waters. The remaining are sampans and small fishing boats engaged in fishing near Hong Kong coastal waters. In 2012, the Hong Kong fishing fleet had a production of about 155 000 tonnes valued at \$2.3 billion. For aquaculture fisheries, fish ponds and marine fish culture zones in Hong Kong had a production of 3 700 tonnes valued at \$181 million. There are about 12 000 fishermen/fish farmers in Hong Kong directly engaged in capture and aquaculture fisheries.

4. In accordance with the policy blueprint proposed by the Committee on Sustainable Fisheries (CSF)¹, we have banned trawling activities in Hong Kong waters since December 2012. We are pursuing the registration of local fishing vessels to control fishing effort and to prohibit non-local fishing vessels from engaging in fishing activities in Hong Kong waters. Looking ahead, we are making preparation for designating fisheries protection areas to protect important fish nursery and spawning grounds in Hong Kong waters.

5. Having reviewed the changes in circumstances since we imposed a moratorium on fish culture licences in 1990, the Government has decided to issue new licences in a number of fish culture zones with surplus carrying capacity. We are also assisting local fishermen to upgrade their knowledge and skills by arranging various training courses, workshops and seminars, including assistance to help them venture into ecotourism. This will assist fishermen to switch to other sea-based sustainable operations.

6. How best to drive the modernisation of the local fisheries industry is another essential element in the overall strategy flowing from the recommendations of the CSF. In this connection, the CSF recommended the establishment of a “Sustainable Fisheries Funding Scheme” in due course to provide financial assistance to fishermen, fisheries organisations, academic institutions or non-profit-making organisations for carrying out research and development programmes that will help improve the operating environment and competitiveness of the industry.

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¹ The Committee was established in 2006 to study the long-term goals, the direction, and feasible options for the sustainable development of the local fisheries industry. Its recommendations, put to and accepted by the Government in 2010, form the basis of the various fisheries management measures that are currently being rolled out. These include the trawl ban, the registration of local fishing vessels and eventual designation of fisheries protection areas in Hong Kong waters to protect important fish nursery and spawning grounds etc.

7. The Chief Executive announced, in his 2013 Policy Address, setting up a “Sustainable Fisheries Development Fund” to help fishermen adopt a sustainable and high value-added operation mode, and provide financial support to programmes and research so as to enhance the overall competitiveness of the industry. A committee consisting of both government officials and trade representatives will be set up to advise on the use of the Fund.

Current challenges facing the industry

8. Due to depletion in fisheries resources, the catches of the local fishing fleets have decreased from 224 000 tonnes in 1990 to 155 000 tonnes in 2012. Apart from declining fisheries resources, local fishermen also face other challenges including the rise in operating costs, in particular soaring fuel prices; increasing competition from non-local fishing vessels; and the implementation of the annual fishing moratorium in the South China Sea.

9. Implementation of the trawl ban and other complementary fisheries management measures would effectively restructure the local fisheries industry into a more sustainable one, comprising large fishing vessels operating further afield in the South China Sea and smaller vessels fishing with selective methods in Hong Kong waters.

10. Slow-growing fish and species of high value will be allowed to grow and reproduce in Hong Kong waters. Availability of sustainable stocks of high-value species would in turn improve cost efficiency and the operating environment for the fisheries industry, thereby enhancing the vibrancy of the trade and the livelihood of practitioners.

11. Despite the opportunities available as a result of the restructuring of the fisheries industry, many local fishermen remain cautious about the prospects of growth. Others are held back by the risks and/or technical challenges involved. Some owners of large fishing vessels, for instance, hesitate to venture into exploration of new/under-explored fisheries resources outside traditional fishing grounds, partly because of the lack of support for pursuing operations in new fishing grounds.

12. Local mariculturists are facing similar difficult choices. The traditional wooden rafts currently used by mariculturists are only suitable for small-scale family-based operation. New investment and adoption of new

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technologies would modernise the local aquaculture industry. Should there be more robust support in terms of, say, stable supply of quality feed and fish hatchery facilities, some mariculturists may be less hesitant to make the necessary investment.

13. For those who wish to pursue alternative modes of making a living, fisheries-related ecotourism would be a feasible option in which the artisan skills and knowledge of fishermen would be useful. However, due to the lack of related experience and financial support, many fishermen have difficulties in seizing the opportunities.

14. The scope and terms of the Fisheries Development Loan Fund (FDLF)² and the Fish Marketing Organization Loan Fund (FMOLF)³ were reviewed in 2012. Both funds are considered inadequate to provide grants for the sustainable development of the fisheries industry as a whole.

Projects that may benefit from the Fund

15. Against the above backdrop, we have identified the following as possible areas for the fishermen community and related stakeholders to put the Fund to good use, in furtherance of the objectives of placing the further development of the industry on a sustainable track. These areas are for indicative purpose only. Whether there will in future be applications for the Fund falling within these areas, and if so, whether such applications will be approved will depend on whether the applications meet the criteria to be set for the Fund, and the relative merits of the applications in relation to other competing applications.

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² The FDLF provides –

- (i) loans to capture fishermen and owners of fish collectors for switching to more sustainable fisheries operations and other fisheries-related operations, and for carrying out projects that will reduce fuel consumption or carbon footprint of their operations (without increasing fishing effort);
- (ii) one-off loans to owners of trawlers and fish collectors affected by the trawl ban for upgrading their vessels to operate outside Hong Kong waters in addition to the purposes mentioned in (i) above; and
- (iii) loans to fish farmers to help them develop aquaculture or improve their aquaculture businesses leading to more environmentally friendly operations or an improvement of the quality and food safety standards of the aquaculture products.

³ The FMOLF provides loans on a revolving basis to fishermen for general operation purposes and to fishermen affected by the annual fishing moratorium to assist them to tide over the moratorium and to make preparation for resumption of fishing operation after the moratorium.

(a) *Exploring new opportunities in the South China Sea*

16. Fisheries resources in traditional fishing grounds in the South China Sea frequented by Hong Kong's fishing fleet have been beset with problems, leading to a reduction in the quality and quantity of fish catch. The relevant Mainland authorities have introduced a number of fisheries management measures to tackle these problems, including strictly controlling the growth of fishing effort and introduction of the fishing moratorium in the South China Sea.

17. Local fishermen may apply for grants under the Fund for exploring the feasibility of fishing operations using new type of vessels or in new fishing grounds. These would include the development of sustainable technology (e.g. purse seine operation) that help tap unexplored or under-explored pelagic fisheries (such as tuna) in mid-level waters in Nansha (南沙) and Zhongsha (中沙). Grants under the Fund may be used to finance up to 50% (should the applicant fund the other 50%) of the construction costs of one or two new catcher vessels teamed up with support vessels (carrying food, water and other supplies for the former) that enable applicants to test out different catching methods in areas outside the traditional fishing grounds.

18. This is in line with existing Mainland fisheries policy that places emphasis on promoting migration from bottom trawling to more sustainable modes of fishing operations and exploring new fisheries resources and fishing grounds in the South China Sea. Since commercial elements are involved, successful applicants are required to comply with the rules and requirements set out in paragraphs 37 to 38 below.

(b) *Developing sustainable practices for fishing operations in Hong Kong waters*

19. For trawler fishermen who wish to switch to small-scale inshore fishing operations in Hong Kong waters (that would place them well in tapping the prospective replenished fishing stock referred to in paragraph 10 above), the Fund can provide support in the form of grants that finance the provision of technical assistance and training in non-trawling fishing operations⁴. These include capacity building projects such as vocational training courses, study tours and seminars for fishermen and new entrants to the industry, alternative livelihood projects for fishermen such as demonstration sessions, pilot projects of fishermen organisations and/or individual fishermen highlighting vocational/business opportunities in other fisheries or sea related areas that they might switch to.

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⁴ Examples include purse seining, cage trapping, long-lining, hand-lining and other cost-efficient fishing methods.

20. Experience on the Mainland and in some overseas countries such as Indonesia have amply demonstrated that the productivity and financial performance of the fishermen who have successfully switched from trawling to selective fishing methods would improve as a result of the replenished fisheries resources after a ban on trawling. Public awareness projects such as those designed to showcase the local fishery culture and promote protection of fisheries resources could be considered.

21. Since 2010, we have been helping fishermen in switching to recreational fishing through implementation of a trial scheme in fisheries related eco-tourism. Through teaming up with other stakeholders, fishermen gain first-hand experience of eco-tourism business and equip themselves with knowledge in conducting guided tours and basic business management skills. Interested parties including fishermen organisations may apply for grants under the Fund to hire passenger vessels or modify fishing vessels for the purpose of trying out the viability of new business related to eco-tourism. The Fund can also support projects for weaving added elements of fishermen's culture into the tours, developing new fisheries-related eco-tourism tour routes in different parts of Hong Kong and marketing programmes for these tours.

(c) Aquaculture development

22. Consistent with the objectives that the Fund is intended to serve, we have identified the following categories of projects that may help local aquaculturists to modernise their operations –

- (a) projects that would improve the infrastructure, such as the introduction of high-density polyethylene cage system (to replace the traditional wooden cages), support in the provision of electricity and fresh water, and the establishment of communal rafts in fish culture zones;
- (b) projects that would enhance technical support, such as development of local fish hatchery and nursery, research on new aquaculture species, improvement in fish health management and more robust support in the feed supply (including say studies of opportunities for turning kitchen waste into fish feed); and
- (c) projects that would help the incubation of advanced aquaculture systems that are viable in business terms such as recirculating aquaculture system, offshore mariculture and aquaponics.

We believe that these projects may benefit different niche groups (from small-scale family-based fish farmers to commercial farm operators) of both the mariculture and pond fish culture sectors.

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(d) Accreditation and marketing of local fisheries products

23. As the aquaculture industry is migrating to organic and sustainable practices, fishermen's organisations may partner with relevant certification bodies to apply for grants to develop local standards and guidelines, showcase the advantages of organic fish farming practices to local fish farmers, and enhance public awareness of the quality of organic farmed fish available to local consumers.

24. Local products harvested from sustainable fisheries practices will help meet demands at the upper end of the market for safe, fresh and good quality fish. Fishermen associations, cooperative societies, non-governmental organisations and academic institutions may apply for grants to promote local fisheries products through certification and accreditation, and building up the brand name of local fishermen's products amongst consumers.

(e) Resources monitoring and enhancement

25. With the implementation of the fisheries management measures outlined in paragraph 4 above, specific studies and monitoring programmes that provide the scientific basis for assessing the effectiveness of such measures are necessary. We need to ascertain say whether the local fishing effort is operating at the optimal level in terms of sustainable yield. The Fund may provide grants to research institutions for conducting such studies and monitoring projects, such as studies on local fisheries resources, development of new sustainable fishing technology, socio-economic studies of the local fisheries industry and fishermen.

26. Research institutions and professional bodies may also apply for grants to conduct research on measures that are conducive to the enhancement of fisheries resources (such as artificial reefs and restocking programmes of local species).

Expected benefits

27. The sustainable development of the fisheries industry will allow fishermen to be self-reliant, improve their livelihood and their ability to cope with the changing operating environment. Not only would this provide job opportunities for the fisheries community, it would also enable the continued supply of fresh and good quality fisheries products to the people of Hong Kong⁵.

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⁵ A simulation study by the University of British Columbia in Canada estimated that if measures including controlling the growth of the fishing fleet, banning trawling in Hong Kong waters and other fisheries management measures are implemented, Hong Kong's fisheries resources and the catch value per unit fishing effort would be 50% and 70% higher respectively in 25 years' time than if no such measures are taken.

28. The local capture fisheries sector contributes about 30% of marine products to local consumption. A stable local supply of fisheries products would help cushion possible impact caused by fluctuation in imports.

29. Good marine resources management could also promote the restoration of the habitats for marine animals, the diversity of marine life and safeguard the ecological integrity of our marine environment. It would allow the public at large and our future generations to enjoy a better marine environment. A diversified and healthy marine environment would attract local and overseas tourists to engage in activities such as recreational fishing, scuba diving and ecotourism in Hong Kong which has a deep root in fishermen heritage.

Eligibility and Assessment Criteria

30. We propose that the Fund should fund programmes, projects and research that would contribute to fostering the sustainable development and enhancing the overall competitiveness of the fisheries industry, with such initiatives bringing benefits to the operations of the local fisheries community as a whole.

Encl. 1 31. An application fulfilling the assessment criteria at Enclosure 1 may be considered, vetted and awarded on its individual merits (including the efficacy of the project and the capacity and capability of the applicant), and its relative priority as compared with other applications. The following may be eligible to apply –

- (a) where applications are made by legal entities, the entity concerned should be a company incorporated in Hong Kong under the Companies Ordinance (Cap. 32) and has substantial connection to Hong Kong or a body corporate incorporated in Hong Kong under other Ordinances of the Hong Kong Special Administrative Region, and having demonstrated a close connection with the fisheries industry in Hong Kong. These include local registered fisheries co-operatives, non-profit-making fisheries organisations, non-governmental organisations or social enterprises; and
- (b) academic and research institutions in Hong Kong.

Joint applications with overseas organisations and institutions are permissible, provided that the projects are led by a local group satisfying the criteria in (a) or (b) above.

Governance and Administration

Encl. 2 32. The governance of the Fund will be overseen by the Agriculture, Fisheries and Conservation Department (AFCD). The authority for awarding grants under the Fund would rest with the Director of Agriculture, Fisheries and Conservation (DAFC) as the Controlling Officer for grants not exceeding \$15 million on the advice of the Advisory Committee. DAFC would decide on the disbursement of funds on the advice of the Advisory Committee. Grants exceeding \$15 million recommended by the Advisory Committee will be subject to the approval of the Finance Committee. The terms of reference of the Advisory Committee are at Enclosure 2. It will be chaired by a non-official and comprise members including representatives of the trade, professionals, businessmen, academics and government officials. The Advisory Committee will make recommendations to DAFC in respect of the overall strategy, the allocation of funds and the approval of projects. A vetting committee (with support from subcommittees if necessary), overseen by the Advisory Committee, will be formed to consider and vet funding applications against assessment criteria. The day-to-day administration of the Fund (ranging from administrative, logistics to secretariat support) will be provided through an executive arm within AFCD.

33. To ensure proper governance of the Fund, AFCD will seek the advice of the Independent Commission Against Corruption (ICAC) on the assessment criteria and procedures to be adopted, as well as other matters related to the operation of the Fund as appropriate. AFCD will also seek ICAC's advice in drawing up a code for declaration of interest for compliance by members of the Advisory Committee.

Monitoring and Evaluation

34. Applicants of funded projects are accountable for the proper and prudent use of public funds. They will be required to go into contractual agreement with the Government which will lay down detailed conditions for the grants. They will be required to keep an audit trail of budget spent and submit periodic progress reports as well as a final report (with audited accounts if applicable) on their projects. The vetting committee/subcommittees will monitor progress and review the quality of each funded project. To complement the monitoring efforts above, grants will only be disbursed if the vetting committee/subcommittees are satisfied with the progress of the project.

35. In order to explore technical and commercial feasibility of new fishing operations, and to develop new, sustainable fisheries operations, procurement of capital assets may be required in some projects. To ensure value

for money, the procurement of any capital assets, the supporting facilities and associated installation services must comply with procurement requirements stipulated by AFCD and the Advisory Committee, who may additionally impose suitable conditions in addition to the general procurement procedures. Failure to fulfill these conditions may lead to withdrawal of the grant and recovery of the fund.

36. To enhance monitoring of the approved projects, AFCD and the Advisory Committee, when necessary, may conduct on-site checking of selected projects, apart from reviewing the progress and final reports submitted by the applicants. To facilitate the assessment of the benefits brought about by the approved projects to the fisheries industry, the applicants would be required to provide, in the report upon completion of the project, relevant information such as additional job opportunities created.

Projects with commercial elements

37. There are initiatives that aim to demonstrate the technical feasibility and commercial viability of new fisheries practices and can subsequently be transferred to other stakeholders within the fisheries and aquaculture industry (technology demonstration and transfer). Such initiatives may involve a commercial element.

38. We propose that projects with commercial elements can be supported by the Fund subject to the general rules and monitoring and control measures described at paragraphs 15 to 26 of Enclosure 1 that are designed to safeguard the use of public funds. Major rules and measures include –

- (a) The applicant will be required to draw up detailed business plan and budget of the proposed project which will be subject to the scrutiny of the Advisory Committee and AFCD. The applicant must disclose to the Government all relevant financial and related information of the project.
- (b) Upon approval of a project, the Government will enter into an agreement with the successful applicant and other relevant parties such as third-party financier(s) (the Agreement) as appropriate. The Agreement will prescribe in detail each party's rights, obligations and involvement in the project, including the Government's entitlement to the intellectual property rights underlying the

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technology, if applicable⁶. DAFC may decide and impose any additional conditions in the Agreement as DAFC deems appropriate.

- (c) A project involving commercial elements will be funded on a dollar-for-dollar matching basis, with the Government's total contribution capped at the applicant's total contribution, at the time of entering into the Agreement. In other words, the Government's contribution will be limited to no more than 50% of the total project costs (where there is no funding from any third party financier(s)). The applicant must demonstrate that he is capable of securing the non-Government financing required.
- (d) Subject to detailed conditions to be imposed by DAFC, as a general rule, the Government may recoup the cost in a manner commensurate with the Government's share of funding contribution in relation to the applicant and third party financier(s), if any, towards the project on a pro rata basis. The Government's maximum contribution and commitment will be up to the funding approved by DAFC (i.e. capped at 50%, or a lesser percentage as the case may be, of the total costs of the approved project where there is no funding from any third party financier(s) as stated in (c) above). The Government's contribution and commitment as well as the details of cost recouping will be prescribed upfront in the Agreement. The Government contribution is to be recouped from (a) net revenue⁷ generated from the project when the deliverable under the project begins to take on its economic useful life; and/or (b) investment⁸ made by a third party⁹ subsequent to the Agreement, after the investment is made, with the pace of recoupment depending on the actual circumstances of the case. Recoupment will be made until the Government's contribution is repaid in full

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⁶ To enable transfer of new technology and practices within the industry, depending on the level of contribution to the cost of the project by the applicant and third party financier(s), if any, the Government would require that an appropriate level of shared use of the technology or practice covered in the relevant project by other interested members of the fisheries industry in an open, transparent and non-exclusive manner be allowed.

⁷ "Net revenue" means the excess of revenues over approved expenses. Approved expenses are those proposed in the business plan and budget of the project as approved by AFCD and specified in the Agreement in relation to the project. Prior approval from AFCD is required for any change to the approved expenses.

⁸ "Investment" means any monetary value injected in exchange for shares of the applicant's project. Prior approval from AFCD is required for any change to the ownership of shares of the applicant's project during the project period.

⁹ "Third party" means any individual, corporation and unincorporated body other than holders of shares of the applicant's project.

or the end of the economic useful life of the project deliverable, whichever is the earlier. The payment received shall be credited to the General Revenue of the Government.

- (e) The successful applicant is required to provide capital goods of the project (e.g. fishing vessels financed by the Fund) as collateral for the grant and any related monies owed to the Government. In case the successful applicant does not repay the Fund even if the project is commercially successful and makes profits or is commercially unsuccessful and liquidated, the Government may exercise its rights against the collateral.
- (f) The successful applicant is required to submit a report together with audited accounts to AFCD annually, or at an interval proposed in the application and agreed by AFCD. The first report should be submitted on the date one year after commencement of the project. A project completion report and audited accounts should be submitted upon project completion. They will be made available for public inspection and uploaded onto the AFCD website.

Mechanism to Prevent Duplicate Funding

39. The Fund would not consider any proposed project that has been funded or should be funded by other government sources, or if there is/will be any duplication in terms of the work carried out by other institutions/applicants of Government funds. In addition, all grant applicants are required to declare whether their proposals are also being considered by other funding agencies including public, private and overseas funds. The aim is to ensure that no single project will be double-funded through different sources. Suitable measures will be put in place to guard against possible abuse (e.g. funding provided must not be used to fund the normal operating expenses of the group, and certain expenditure items, like external audit fees, may be subject to caps imposed).

Relationship with the Fisheries Development Loan Fund

40. As detailed in paragraph 14 above, fishermen may apply to the FDLF and FMOLF for sustainable projects with proven track records to further their operations commercially for their own benefit. However, the existing loan funds could not avail opportunities for non-commercial projects with no or little income to support loan repayment or commercial projects at the incubation stage with highly uncertain prospects in terms of financial return which risk-averse applicants would otherwise not venture into, without grants from the Fund. The scope of this Fund fills gaps currently not met by the loan funds described. As a general principle, the proposed Fund will not consider projects falling under the objectives of the loan funds.

/Implementation

Implementation Timetable

41. Subject to Members' approval of the Fund, we will appoint the Advisory Committee in the first quarter of 2014 and formulate the detailed arrangements, with a view to inviting applications in the first half of 2014. We plan to disburse the first batch of funding within 2014-15.

PUBLIC CONSULTATION

42. We consulted and gathered views of the trade when meeting the fisheries community, their representatives and other stakeholders on various occasions, including the liaison meetings held at various fishing homeports. We also consulted relevant advisory committees, including the Advisory Committee on Agriculture and Fisheries and its subcommittees. The trade in general supported the establishment of the Fund. Their feedback is summarised in Encl. 3 Enclosure 3. We also briefed the Legislative Council Panel on Food Safety and Environmental Hygiene about the Fund on 11 June and 12 November 2013. Members generally supported the proposals. Their views have been taken into account in devising the current proposals.

FINANCIAL IMPLICATIONS

43. We propose to create a new commitment of \$500 million for the proposed Fund. We do not propose to restrict the number of applications to be processed each year. Actual cash flow will depend on the number of applications received and approved. For planning and budgetary purpose, the estimated cash flow is as follows –

Year	(\$ million)
2014-15	50
2015-16	50
2016-17	50
2017-18	50
2018-19	50
2019-20	50
2020-21	50
2021-22	50
2022-23	50
2023-24	50
Total	500

44. AFCD will redeploy existing manpower resources and create additional time-limited civil service posts to administer the proposed Fund, serve the Advisory Committee, liaise with the fisheries industry to encourage their participation, process the applications, etc. The additional manpower resources involved will be included in the Estimates of the relevant years.

Food and Health Bureau
Agriculture, Fisheries, and Conservation Department
January 2014

Proposed Assessment Criteria for Applications to the Sustainable Fisheries Development Fund (the Fund)

Nature of Projects to be Supported

Projects approved for funding support will be expected to assist the local fisheries community to rise to the challenges on the horizon with a view to enabling the fisheries industry to develop or switch to a sustainable or high value-added mode of operations as well as enhancing the overall competitiveness of the fisheries industry. Projects that meet these criteria would be eligible for grants from the Fund.

2. The Fund aims to support sustainable development and to improve competitiveness of the local fisheries industry. Projects that fail to demonstrate the relevance of local sustainable fisheries would not be supported.

3. Projects should contribute in a direct and practical way towards the sustainable development of the local fisheries industry. Research or theoretical studies without a demonstrated relevance to the local fisheries industry will not be considered.

4. The benefits of projects must accrue to the local fisheries community as a whole, and not just an individual, a single organisation, a consortium of fisheries companies or a narrow sector.

5. Projects in general should be non-profit making in nature. Commercial projects may be considered, subject to the criteria described in paragraphs 15 to 26 below. Cost recouped from the project would be channelled back to the Government.

6. Applications for one-off events with limited potential of long-term impact, such as carnivals and exhibitions of short duration would be accorded a lower priority.

Assessment Criteria

7. In considering an application, due consideration will be given to –

/Project

Project Needs

- whether there is a demonstrated need for the proposed project (e.g. for the sustainable development of the local fisheries industry, improvement of competitiveness of the industry or enhancement of Hong Kong marine resources and environment);
- whether the project scope, objectives and long-term impacts are realistic and clearly expressed in concrete terms, where appropriate, in the application;
- whether the project is innovative, i.e. unique and pilot in nature including new ideas and implementation method suitable for the target beneficiaries, or new or further developed ideas that are building on projects with successful experiences and good practices with justifications;
- whether the project is compatible with the Government policy priorities in facilitating sustainable development of fisheries;
- whether there is any likely duplication of work already or currently carried out by other groups;
- whether the proposed project has the potential to become a project model;

Project Feasibility

- whether project design is comprehensive and supported by a detailed implementation/business plan and methodology;
- whether the project has an attainable target;
- whether the applicant has proven track record in operating projects, the technical and project management capability, professional knowledge as well as readiness to implement the project;
- whether there are sufficient implementation details with a realistic timeline for implementation;
- whether the applicant could collaborate with other parties such as locally registered fisheries co-operative societies, non-profit making fisheries organisations, academic and research institutions, and non-governmental organisations in the development and production of project deliverables;
- whether the project budget is detailed, prudent, cost-effective, commensurate with the goals, project scope, activities, number of direct beneficiaries and end products to be delivered and is supported with full justification for every expenditure item;

/whether

- whether the proposed project has alternative sources of funding support or would be more appropriately funded by other sources¹;

Expected Project Outcomes

- whether there are clearly stated outcome with specified and quantifiable performance indicators for assessing the attainment of project objectives;
- whether major milestones are set in the project to facilitate future monitoring of progress and achievement of performance targets;
- whether the project outcome/impact can be sustained and the equipment and resources acquired be properly deployed/reused after completion of the project;
- whether the project would benefit the local fisheries community and fisheries industry as a whole, not merely an individual, a single organisation, a consortium of fisheries companies or a narrow sector;
- whether the outcome, e.g. experiences and deliverables have good value and potential for wide dissemination in the fisheries industry and its deliverables can help improve the competitiveness of the industry; and
- whether the project has the potential to become a self-sufficient ongoing initiative after support from the Fund ends.

Eligibility

8. The following are eligible to apply –
- (a) where applications are made by legal entities, the entity concerned should be a company incorporated in Hong Kong under the Companies Ordinance (Cap. 32) and has substantial connection to Hong Kong or a body corporate incorporated in Hong Kong under other Ordinances of the Hong Kong Special Administrative Region, and having demonstrated a close connection with the fisheries industry in Hong Kong. These include local registered fisheries co-operatives, non-profit-making fisheries organisations, non-governmental organisations or social enterprises; and
 - (b) academic and research institutions in Hong Kong.

Joint applications with overseas organisations and institutions are permissible, provided that the projects are led by a local group satisfying the criteria in (a) or (b) above.

/Administrative

¹ The same project should not be funded through another Fund, or the subject of a loan issued under the Fisheries Development Loan Fund.

Administrative Matters and Monitoring Mechanism

9. Applicants will be required to provide a full, itemised budget for their proposed projects.

10. The successful applicant will be required to provide regular progress reports and schedules on planned activities on the implementation of projects, and to complete a final report which shall include an end-of-project evaluation that measures the success of the project against its stated aims. Advisory Committee members may carry out inspections or require the applicant to attend meetings to examine the progress of the projects.

11. To ensure that the grants have been fully and properly applied to the projects for which they were expended and received, the vetting committee/subcommittees will require each funded project to provide, if appropriate, a separate bank account specifically for the project and audited financial statement of accounts for the project. To enhance transparency and to allow fishermen to share the experience and information arising from the funded projects, the final reports (and audited accounts if applicable) of all projects (excluding commercially sensitive information) would also be made available for public inspection. These will also be uploaded onto the Agriculture, Fisheries and Conservation Department (AFCD) website to allow ease of access by members of the public.

12. The vetting committee/subcommittee may determine the manner in which payments are made, and withhold or terminate payment according to the progress of the project.

13. To ensure proper governance of the Fund, AFCD will seek the advice of the Independent Commission Against Corruption (ICAC) on the assessment criteria, procedures to be adopted and other matters related to the operation of the Fund as appropriate. AFCD will also seek ICAC's advice in drawing up a code for declaration of interest for compliance by members of the Advisory Committee.

14. The Director of Agriculture, Fisheries and Conservation (DAFC) will approve, on the advice of the Advisory Committee, grants not exceeding \$15 million. Grants exceeding \$15 million recommended by the Advisory Committee will be subject to the approval of the Finance Committee.

/Arrangements

Arrangements for Projects with Commercial Elements

15. There are initiatives that aim to demonstrate the technical feasibility and commercial viability of new fisheries practices and can subsequently be transferred to other stakeholders within the fisheries and aquaculture industry. Such initiatives may involve a commercial element. They will be considered on individual merits and in accordance with the criteria in paragraph 7 above, as well as the general rules and monitoring and control measures as set out in the ensuing paragraphs.

16. The applicant will be required to draw up detailed business plan and budget of the proposed project which will be subject to the scrutiny of the Advisory Committee and AFCD. In vetting applications, they may consult independent experts of the relevant fields as appropriate. The applicant must disclose to the Government all relevant financial and related information of the project.

17. Upon approval of a project, the Government will enter into an agreement with the successful applicant and other relevant parties such as third-party financier(s) (the Agreement) as appropriate. The Agreement will prescribe in detail each party's rights, obligations and involvement in the project, including the Government's entitlement to the intellectual property rights underlying the technology, if applicable². DAFC may decide and impose any additional conditions in the Agreement as DAFC deems appropriate.

18. A project involving commercial elements will be funded on a dollar-for-dollar matching basis, with the Government's total contribution capped at the applicant's total contribution, at the time of entering into the Agreement. In other words, the Government's contribution will be limited to no more than 50% of the total project costs (where there is no funding from any third party financier(s)). The applicant must demonstrate that he is capable of securing the non-Government financing required.

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² To enable transfer of new technology and practices within the industry, depending on the level of contribution to the cost of the project by the applicant, and third party financier(s), if any, the Government would require that an appropriate level of shared use of the technology or practice covered in the relevant project by other interested members of the fisheries industry in an open, transparent and non-exclusive manner be allowed.

19. The successful applicant is required to provide capital goods of the project (e.g. fishing vessels financed by the Fund) as collateral for the grant and any related monies owed to the Government. In case the successful applicant does not repay the Fund even if the project is commercially successful and makes profits or is commercially unsuccessful and liquidated, the Government may exercise its rights against the collateral.

20. The successful applicant must open a separate Hong Kong Dollar bank account with one of the licensed banks in Hong Kong to handle grants from the Fund, the matching contribution and income generated from the project, if any, interest income and all other financial operations to the project.

21. Grants to commercial projects will be disbursed by instalments after confirmation of the availability of the matching fund. The first instalment will only be effected upon receipt of the necessary proof of project expenditure using the matching fund. Subsequent instalments will be disbursed only if the project is able to meet the prescribed milestones and AFCD is satisfied with its progress, and that there is evidence showing due contribution of the matching fund by the successful applicant and other relevant parties such as third-party financier(s), if any, to the project. To enhance monitoring, the last instalment of the grant will be disbursed to settle any outstanding Government's contribution after AFCD has accepted the audited accounts and final report of the project.

22. Subject to detailed conditions to be imposed by DAFC, as a general rule, the Government may recoup the cost in a manner commensurate with the Government's share of funding contribution in relation to the applicant and third party financier(s), if any, towards the project on a pro rata basis. The Government's maximum contribution and commitment will be up to the funding approved by DAFC (i.e. capped at 50%, or a lesser percentage as the case may be, of the total costs of the approved project where there is no funding from any third party financier(s) as stated in paragraph 18 above). The Government's contribution and commitment as well as the details of cost recouping will be prescribed upfront in the Agreement. The Government contribution is to be recouped from (a) net revenue³ generated from the project when the deliverable

/under

³ "Net revenue" means the excess of revenues over approved expenses. Approved expenses are those proposed in the business plan and budget of the project as approved by AFCD and specified in the Agreement in relation to the project. Prior approval from AFCD is required for any change to the approved expenses.

under the project begins to take on its economic useful life; and/or (b) investment⁴ made by a third party⁵ subsequent to the Agreement, after the investment is made, with the pace of recoupment depending on the actual circumstances of the case. Recoupment will be made until the Government contribution is repaid in full or the end of the economic useful life of the project deliverable. The payment received shall be credited to the General Revenue of the Government.

23. In the event that the project could attract investment from a third party, the applicant is required to discuss with AFCD how such a scenario is to be addressed. The successful applicant is required to report to AFCD in writing within one month upon receipt of any third parties' investments after project commencement.

24. The successful applicant is required to submit a report together with audited accounts to AFCD annually, or at an interval proposed in the application and agreed by AFCD. The first report should be submitted on the date one year after commencement of the project. In the reports, the successful applicant is required to provide information such as implementation progress, problems encountered, remedial measures taken to tackle the problems, profits made in the year, and interim results and evaluation of the programme, etc. A project completion report and audited accounts should be submitted upon project completion. They will be made available for public inspection and uploaded onto the AFCD website.

25. To facilitate AFCD in ascertaining the amount of recoupment and associated information (such as revenue generated), the successful applicant upon request by AFCD has to submit, together with the reports, relevant documents as considered necessary by AFCD, which include, among other things, financial statements, audited accounts, capital and shareholding information.

26. AFCD reserves the right to withhold or terminate any further payment to the commercial project if the successful applicant fails to produce evidence of the company's contributions. The successful applicant shall return to the Fund capital all residual grants.

⁴ "Investment" means any monetary value injected in exchange for shares of the applicant's project. Prior approval from AFCD is required for any change to the ownership of shares of the applicant's project during the project period.

⁵ "Third party" means any individual, corporation and unincorporated body other than holders of shares of the applicant's project.

Proposed Terms of Reference of the Advisory Committee of the Sustainable Fisheries Development Fund (the Committee)

TERMS OF REFERENCE

The terms of reference of the Committee are as follows –

- (a) to advise the Director of Agriculture, Fisheries and Conservation (DAFC) on the overall strategy for funding projects and the relative priorities of applications for funding support under the Sustainable Fisheries Development Fund;
- (b) to make recommendations to DAFC on the following matters relating to the applications for funding support –
 - (i) the procedures, guidelines and criteria for assessing applications;
 - (ii) the merits of individual applications, and upon selection of successful applicants, the terms, amount and forms of funding support;
 - (iii) any subsequent need to change the terms, amount and forms of support to a project in view of any material variation of or modification to the project.
 - (iv) compliance of funded projects with the terms of support and their effectiveness in achieving stated objectives; and
 - (v) follow-up actions in respect of any non-compliance, non-performance or default in meeting pre-determined performance indicators in relation to a funded project.
- (c) to establish vetting committee/subcommittees for vetting applications, or for other purposes related to the Fund, as it deems fit.
- (d) to advise on any other matters related to the Fund as referred to it by DAFC.

COMPOSITION

2. The Committee shall consist of –

/(a)

- (a) a Chairman, who shall be appointed by the Secretary for Food and Health for a term of three years, and who shall be eligible for reappointment;
- (b) not less than eight other members who shall be appointed by the Secretary for Food and Health for a term of three years, and who shall be eligible for reappointment;
- (c) Secretary for Food and Health or his representative as ex officio member; and
- (d) Director of Agriculture, Fisheries and Conservation or his representative as ex officio member.

Summary of the Consultations with the Fisheries Trade

Consultations have been conducted to seek views on the Fund from the representatives of the following fisheries organisations –

- (a) The Advisory Committee on Agriculture and Fisheries;
- (b) The Advisory Committee on Agriculture and Fisheries – Aquaculture Subcommittee;
- (c) The Advisory Committee on Agriculture and Fisheries – Capture Fisheries Subcommittee;
- (d) The Castle Peak Fishermen’s Credit Co-operative Society, Unlimited;
- (e) The Castle Peak Mechanized Trawler Fishermen’s Credit Co-operative Society, Unlimited;
- (f) Cheung Chau Fishermen’s Welfare Promotion Association;
- (g) The Federation of Fishermen’s Co-operative Societies of Sai Kung District, Limited;
- (h) The Federation of Fishermen’s Co-operative Societies of Shau Kei Wan District, Limited;
- (i) The Federation of Fishermen’s Co-operative Societies of Southern District, Limited;
- (j) Federation of Hong Kong Aquaculture Associations;
- (k) Hong Kong and Kowloon Fishermen Association Limited;
- (l) Hong Kong and Kowloon Floating Fishermen Welfare Promotion Association;
- (m) Hong Kong Fishermen Consortium;
- (n) Hong Kong Fishermen’s Association;
- (o) Hong Kong Fishermen’s Association (Cheung Chau);
- (p) Hong Kong Fishermen’s Association (Shau Kei Wan);
- (q) Hong Kong Fishery Alliance;
- (r) Hong Kong Fishing Vessel Owners Association, Limited;
- (s) Hong Kong N.T. Fish Culture Association;
- (t) Hong Kong Off-shore Fishermen’s Association;
- (u) International Fisheries Alliance;
- (v) Ma Wan Fisheries Rights Association Limited;
- (w) The New Territories Fishermen Fraternity Association Limited;
- (x) The Tuen Mun Mechanized Fishing Boat Fishermen’s Credit Co-operative Society, Unlimited; and
- (y) Yeungs Marine Products Limited.

Their views are summarised below –

(a) Eligibility

2. Stakeholders consulted agree in general that the following applicants could be considered, given that the project is beneficial to the industry in terms of sustainable development of fisheries –

- (i) those coming from fisherman groups, academic and research institutions (including those from overseas with renowned capability in undertaking research concerning fisheries or aquaculture development), conservation groups, social enterprises and non-governmental organisations should be eligible;
- (ii) those making joint applications that would facilitate cross-sector cooperation in promoting sustainable development of the fisheries industry in Hong Kong could also be considered. Examples may include an academic institution working with fishermen to study the effectiveness of a new sustainable fishing method in the local environment, and a non-governmental organisation joining hands with a fishermen organisation to promote sea-related operations as an alternative livelihood option for fishermen and at the same time reducing local fishing effort;
- (iii) apart from those pursuing non-commercial, non-profit making projects, those pursuing commercial projects may also be supported on individual merits; and
- (iv) individuals who are Hong Kong residents should also be considered, taking into consideration the merits of the proposed projects and the applicants' capacity to implement the proposed projects.

(b) Scope

3. Stakeholders consulted suggest that the following categories of projects should be supported under the Fund –

- (i) Sustainable Fisheries
 - studies that would help put fishing operations on a more sustainable and environmentally friendly footing;
 - capacity building projects such as vocational training courses, study tours and seminars for fishermen and those who are interested to join the industry;

- public awareness projects such as those designed to showcase the culture of local fishermen and to promote protection of fisheries resources;
 - alternative livelihood projects for fishermen such as demonstration sessions, pilot projects of fishermen organisations and/or individual fishermen highlighting vocational/business opportunities in other fisheries or sea related areas that they might switch to;
- (ii) Capture Fisheries
- fisheries resource enhancement projects such as restocking and artificial reef deployment programmes;
 - research and monitoring projects such as studies on local and offshore fisheries resources, development of new sustainable fishing technology, socio-economic studies of the local fisheries industry and fishermen;
- (iii) Aquaculture
- technology or business strategies that would help enhance the market potential of local aquatic produce; and
 - aquaculture related projects such as cultivation of new species, the use of food waste and Chinese herbs in production of fish feed, establishment of local fish hatcheries and fry cultivation system, setting up centralised electricity, air compression and real-time water quality monitoring network in fish culture zones, formulation of quality assurance system for aquaculture produce and promotion of organic fish farming.
