

ITEM FOR FINANCE COMMITTEE

HEAD 22 – AGRICULTURE, FISHERIES AND CONSERVATION DEPARTMENT

Subhead 700 – General non-recurrent

New Item “Sustainable Agricultural Development Fund”

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

PROBLEM

To implement the New Agriculture Policy (NAP) announced in the 2016 Policy Address, the Government intends to establish a Sustainable Agricultural Development Fund (SADF) to provide financial assistance to farmers for modernising methods of production and improving productivity, and fund research and other projects that facilitate the modernisation, promotion and sustainable development of the agricultural industry. We need Finance Committee’s approval for the establishment of SADF.

PROPOSAL

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

/JUSTIFICATION

JUSTIFICATION

Policy Backdrop

3. Hong Kong has become increasingly reliant on imports for food supply. In 2015, the local agricultural industry produced \$292 million worth of crop produce. Local production accounted for about 1.9%, 0.2% and 27% of fresh vegetables, fruits and flowers consumed in the territory.

4. Responding to the growing aspirations of Hong Kong people in favour of the longer-term balanced development of our city, the Government undertook to review our agricultural policy. In the first quarter of 2015, we conducted a consultation exercise seeking public views on adopting a more pro-active approach towards the modernisation and sustainable development of local agriculture. The views and comments collected have been reported to the Legislative Council (LegCo) Panel on Food Safety and Environmental Hygiene (FSEH Panel) on 9 June 2015 (LC Paper No. CB(2)1621/14-15(07)).

5. The public views received carry wide support for NAP, notwithstanding Hong Kong's fundamental positioning as a trade and financial hub. There is a general recognition that the benefits that agriculture could bring to society go beyond the local provision of food as an alternative to imports. They can encompass intangible yet no less important social goods that contribute to the sustainable and balanced development of our community.

New Agriculture Policy

6. Under NAP, the Government has decided to –
- (a) set up an Agricultural Park (Agri-Park) to help nurture agro-technology and agro-business management;
 - (b) conduct a consultancy study to explore the feasibility and merits of identifying and designating “Agricultural Priority Areas”¹ (APAs) in order to incentivise the use of agricultural land therein that may otherwise lie fallow for long-term agricultural purposes;
 - (c) set up SADF to provide financial support for the modernisation and sustainable development of local agriculture;
 - (d) facilitate development of hydroponics and agro-technology;
 - (e) facilitate leisure farming ancillary to agricultural production; and
 - (f) enhance food safety and the marketing of local fresh produce.

/7.

¹ The proposal is to conduct a study to explore the feasibility and merits of identifying clusters of farmland in the rural New Territories outside potential or strategic development areas that have higher value for agricultural activities.

7. An overview about the above supportive measures and the implementation plan is set out in the paper presented to the FSEH Panel on 2 February 2016 (LC Paper No. CB(2)767/15-16(03)).

Current Challenges Facing the Industry and the Need for SADP

8. Agricultural activities in Hong Kong are undertaken predominantly in the rural New Territories and urban fringes. According to data of the Agriculture, Fisheries and Conservation Department (AFCD), as at end 2015, there are about 2 400 farms in Hong Kong, cultivating about 685 hectares (ha) of agricultural land and employing directly about 4 300 farmers and workers. The farmland in Hong Kong is largely held in private hands, often with fragmented ownership. The average size of farms in the territory is about 0.2 ha or 3 dau chung². Many farmers are still cultivating their crops in a traditional manner as their forefathers did, with limited application of modern agro-technology and mechanisation in production, and sub-optimal efficiency. A significant proportion of agricultural land has been left fallow, whilst some farmland has been channelled to storage and other industrial uses.

9. Despite the provision by AFCD of technical support and advice to farmers to pursue more modernised farming practices (such as organic farming, protective cultivation, in-building crop production, mushroom farming, etc.) and apply modern agro-technologies (like greenhouse technology, controlled environment production, multi-layer farming and hydroponics), there remains a general reluctance on the part of most local farmers to invest in or try out new production methods or other measures that would help enhance productivity. The underlying reasons include uncertainty about the tenure of the farmland and the commercial viability of new products or production methods, as well as the lack of capital.

10. Under NAP, the Government has proposed to establish an Agri-Park as a production base to help nurture agro-technology and agro-business management, as well as to facilitate knowledge transfer with a view to enhancing productivity. We have also proposed to commission a consultancy study to explore the feasibility and merits of identifying and designating APAs in order to incentivise their use for long-term agricultural purposes. We believe these

/initiatives

² Dau chung [斗種] being the customary local measurement unit for farms, is equivalent to about 674.5 square metres or 7 260 square feet.

initiatives would, in time, help address some of the challenges facing the industry described above. Further measures to facilitate the rehabilitation of fallow farmland and encourage landowners to rent out their farmland would also be explored.

Scope of SADF

11. SADF is designed to support practical, application-oriented projects, schemes or research work that would help farmers enhance their productivity and output, as well as contribute to fostering the sustainable development and enhancing the overall competitiveness of the agricultural industry. These may include –

- (a) direct grants to farmers for mechanising and modernising their farming **equipment and materials**;
- (b) funding support for promoting **research and development** that eases the application of technology to agricultural production;
- (c) projects to facilitate the **transfer of knowledge**;
- (d) projects to enhance industry-wide **manpower training**;
- (e) projects to improve **agricultural infrastructure**;
- (f) projects to strengthen **marketing and branding** of local agricultural produce;
- (g) projects to render practical and farm-based support to enhance the effectiveness of **agricultural rehabilitation** in the farms concerned; and
- (h) other one-off projects consistent with the objective of SADF.

12. Eligible projects may contain commercial elements. The related rules are set out in greater detail in paragraphs 37 to 38 below. Whilst our main focus in taking forward NAP is on crop farming (vegetables, fruits and ornamental plants), the poultry and livestock rearing sector may also make use of and benefit from SADF for projects that aim at strengthening their farm biosecurity, enhancing value or mitigating the possible nuisance that the farms may cause to the environment. Consistent with the Government's policy of containing the scale of the poultry and livestock rearing sector, projects aiming at expanding the number of farms or the poultry/livestock population will not be considered.

13. It is premature to predict with precision how the local agricultural sector would evolve under NAP including how it would capitalise on the funding made available by SADF. We consider that the scope proposed in paragraph 11 above should be a broad enough remit for SADF. Illustrative examples of how SADF may be deployed to help revitalise the local agricultural sector are set out in paragraphs 14 – 25 below.

/Farm

Farm Improvement Scheme

14. We propose to set up a “Farm Improvement Scheme” (FIS) under SADF to provide direct grants to local farmers for acquisition of farming equipment and materials, such as small mechanised farming equipment or materials for building automated irrigation systems or protective structures.

15. It is proposed that farmers engaged in commercial production (i.e. where the production is meant for commercial sale as opposed to personal consumption by the farmers themselves) may apply under FIS for a direct grant to cover the cost for acquiring farming equipment or materials on a pre-approved list. The grant is to be issued on a reimbursement basis up to 80% of the cost of each piece of equipment and materials concerned, i.e. the successful applicant is required to bear at least 20% of the cost. This is to minimise the chance of abuse of public funding under FIS and to help ensure that the equipment acquired would be put to productive use by the farmers. For the purpose of administering FIS, AFCD has conducted a search and come up with a tentative list of farming equipment/materials eligible for funding support under FIS as set out in Enclosure 1. Having regard to the current market price of the equipment and materials shortlisted, we would propose that the maximum grant that an applicant may receive will initially be capped at \$30,000, irrespective of the number of items sought. AFCD, in consultation with the Advisory Committee to be set up to advise on matters relating to the administration of SADF (the SADF Advisory Committee), may review from time to time the maximum level of the grant as well as the ceilings for individual equipment / materials eligible for support under FIS, having regard to factors such as inflation, adjustments to the price of eligible equipment and materials, etc. AFCD may also, on the advice of the SADF Advisory Committee, update the list having regard to the prevailing equipment / materials available and the operational needs of farmers.

Encl. 1

16. Successful applicants have to produce evidence of their purchases / installation / operation of the equipment before they are reimbursed. Sufficient safeguards will be built into the modus operandi to ensure that an applicant is genuinely engaged in commercial production, and the equipment purchased is kept and actively deployed by the applicant (farmer) concerned. To prevent double benefits, applications should be made on a one grant per farm basis; a successful applicant, as well as his/her spouse, is not eligible for any further grant under FIS even if he/she (and his / her spouse) own[s] more than one farm or subsequently acquire[s], rent[s] or relocate[s] to a different farm. More details of FIS including eligibility and the amount and scope of support are further elaborated in Enclosure 1.

/Promoting

Promoting mechanisation and modernisation

17. Apart from FIS, projects that would improve and promote farm mechanisation and automation, or other modernised practices that would benefit the whole industry may be supported under SADF. For example, we may promote the use of post-harvest cooling and automated packaging facilities for communal use for the purpose of brand-building and sustaining the shelf-life of the fresh produce for marketing, or other shared-use schemes benefiting local agricultural communities.

Research and development of new products and new farming practices, and transfer of knowledge

18. Research and development work on production (featuring intensive land use, automation, adoption of agro-technologies, quality seeds and varieties, environmentally-friendly pest and disease management, and farm input materials that meet the demand for agricultural produce in various local niche markets) is instrumental to the further healthy development of local agriculture. We believe that local tertiary institutions have both the capabilities and manpower to pursue more research in these respects. Examples of research projects that may benefit from funding support under SADF are given below -

(a) Organic Farming

The niche market for organic produce continues to grow as Hong Kong people become more receptive to organic products despite their relatively higher price. Its further development hinges on raising the productivity of the organic farms to increase their outputs and lower the cost. This can be achieved through investing into research efforts that help address the associated pest and disease problems, ease the introduction of suitable cultivars and varieties, or allow effective recycling of wastes (e.g. food wastes, plant wastes generated from gardens and parks) into soil conditioners for farm use.

(b) Multi-layer farming

The system intensifies the use of land through stacking up facilities thereby increasing the effective production area. Supplementary artificial lighting may be used for indoor application of this system. It has been adopted in several overseas countries. More research work on the selection of suitable crops and provision of energy efficient artificial lighting would help facilitate wider adoption in Hong Kong.

/(c)

(c) Hydroponics and other soil-less systems

Hydroponic production grows plants on nutrient solution. It is efficient, clean and readily lends itself to multi-layer indoor mass factory-type production under a completely controlled environment. It is feasible to turn vacant factory buildings into such plant factory supplemented with farmers market in the vicinity. More research is needed to identify the best cultivation conditions (e.g. nutrient supply, light condition) and energy efficient facilities for micro-climate control for production of different crop varieties under hydroponics and other soil-less systems, as well as disinfection facilities for disease-free production. In considering applications relating to hydroponics and other soil-less systems, we would take into account the impact on farmland sustainability and the need to avoid irreversible damage to land under active cultivation.

(d) Mushroom farming

Fresh mushroom (including medicinal fungi) commands a high price and has a strong demand from restaurants. The land requirement for growing mushroom is not as extensive as other types of crops. It thus bears good potential for further development in Hong Kong. More research efforts to identify the most suitable materials and methods to produce the substrate on which mushroom grows would be beneficial for the further development of this segment.

(e) Automation and post-harvest technologies

Local farming stands to make a huge gain in efficiency if the whole production process can be re-engineered to incorporate higher degrees of automation from farms through to retail ends, while preserving produce freshness and nutrition values. Research is needed in the areas of process re-engineering and designs, machine adaptation, and preservation of produce freshness after harvesting.

(f) Tissue grafting and culture for propagation

Plants can be propagated more efficiently through tissue block grafting or cell culture of the respective plants. Applied research into these technologies is required to garner the skills from related biological fields for adaptation to local circumstances.

19. SADF may provide support for research and development projects/activities (such as field trials, demonstration projects, pilot schemes, etc.) which aim to transfer knowledge to the agricultural community (including knowledge about advanced or innovative farming technologies and systems, as

/well

well as best practices that improve productivity). Local tertiary institutions or non-governmental organisations (NGOs) may make use of funds under SADF to conduct capacity building projects such as professional development conferences, vocational training courses, study tours, seminars on modern technologies, and demonstrations. Overseas experts may be invited to share their knowledge and experience in modern agro-technologies, thereby encouraging our farmers to move up the technology ladder.

20. SADF may also be used for developing modern farm management practices and models that befit the local situation, and conducting associated studies on leisure farming to better understand consumers' preference. To encourage entrepreneurs to venture into pursuing new agricultural practices that could help raise productivity, improve sustainability or diversify production, matching grants from SADF may be provided for commercially viable projects.

Facilitating rehabilitation of fallow agricultural land

21. Farmland in Hong Kong is largely held in private hands, with fragmented ownership. During the public consultation, some farmers and prospective farmers expressed difficulty with renting farmland. On the other hand, according to the Heung Yee Kuk, many landowners in the New Territories might be willing to lease their farmland but sometimes find it unattractive to do so as they might have to deal with multiple farmers individually and the burden of administering such leases might outweigh their rental return. Without facilitation to encourage landowners to release their farmland, some farmers would hence not be able to put Hong Kong's agricultural land resources to productive use. Having considered the above views and drawing reference from the operation of the Management Agreement (MA) Scheme³ with funding support from the Environment and Conservation Fund, we consider it worthwhile to enable SADF to provide funding to NGOs or farming organisations for implementing projects aimed at facilitating landowners to release their farmland and promoting agricultural rehabilitation of fallow agricultural land. For instance, the NGO or farming organisation may apply for funding from SADF for the following –

- (a) hiring staff to coordinate the leasing of farmland en bloc from one or a number of landowners, and then sub-leasing to individual farmers on such terms that are affordable by farmers, in particular new entrants to agriculture. SADF will not subsidise rent for the concerned land or operating costs of individual farmers;

/(b)

³ Under the MA Scheme, NGOs, including universities, community bodies and green groups, may apply for funding from the Environment and Conservation Fund to provide landowners or tenants of the twelve ecologically important sites (Priority Sites) and private land in country parks and country park enclaves with financial incentives in exchange for management rights over their land or their cooperation in enhancing conservation of these areas. At present, four MA projects are being carried out under the Scheme.

- (b) supporting and assisting small farmers in practical, application-oriented projects to enhance the effectiveness of rehabilitating the fallow farmland of the farmers concerned through preparation and improvement of soils, and betterment of irrigation facilities, etc.; or
- (c) organising practical and application-oriented courses for farmers for upgrading their farming skills and developing new farming techniques, etc.

22. For the effective use of SADF, application for rehabilitation projects involving fallow farmland situated within potential development areas already identified by the Government or would be affected by public works projects would not normally be considered. Upon completion of the consultancy on APAs, applications for funding geared towards facilitating the rehabilitation of agricultural land within APAs could be given higher priority. Relevant departments (including the Planning Department, Lands Department and Civil Engineering and Development Department) will be consulted as appropriate when considering such funding applications.

Promoting brand-building and marketing of local agricultural produce

23. It is proposed that SADF may also be used for supporting different projects that enhance marketing of local agricultural produce. Certain farmers have started to make use of direct sales channels to reach out to customers, such as farmers' markets, phone order, e-channels, social media, etc. To encourage more farmers to try out new marketing channels, funding assistance could be provided to facilitate the setting up of more farmers' markets, the development of new retail or online order collection points, and the exploration of other new ideas as technology continues to advance. For farmers who have the right produce and ambition to tap into overseas markets, funding could also be provided for them to explore the export potential of their produce. Projects involving brand-building (including those that help enhance food safety standard at the production level and are thus beneficial in fostering the branding of domestically grown produce as "safe produce") and marketing of local produce may provide added impetus to help farmers reach out to customers more effectively.

24. Local organic produce still accounts for a small share of about 0.3% of the market. We see good room for using funds under SADF to take forward projects that may help further promote the marketing of organic produce to local end-users, such as branding / packaging / accreditation or certification / establishment of dedicated marketing channels / marketing events such as tasting contests, etc.

/Promoting

Promoting farming villages and leisure farming

25. Leisure farming is gaining popularity around the world and gathering momentum in Hong Kong. Not only would the pursuit of leisure farming activities help enhance the income of farmers and sustainability of local farming, it would also provide good educational and recreational opportunities for city dwellers. Indeed, farming activities are often found in village communities in the rural areas where neighbouring villagers are mostly engaged in agricultural activities. SADF may provide funding support to NGOs, farming organisations or agricultural associations for carrying out, in suitable farming villages, practical and farm-based projects that aim at promoting leisure farming that is ancillary to commercial crop producing farms. For instance, a project could be funded to help establish a new model of leisure farming operation through facilitating collaboration between farms and local villages in the delivery of projects which help bring out characteristics in the farming practices of the concerned farms / local village that can enhance the appeal of the farms to prospective visitors. Farms engaged in crop production may open up for visitors to gain farming experience creating opportunities for the neighbouring villages to provide complementary services for visitors such as catering or even lodging. This might help revitalise the rural economy and help preserve the heritage of rural communities, in addition to facilitating agricultural rehabilitation. Funding might also be given to projects that help improve agricultural infrastructures such as irrigation and footpath in appropriate locations and provide communal facilities conducive to the development of leisure farming.

Expected Benefits

26. It is anticipated that the projects or programmes funded by SADF will benefit the local agricultural sector by increasing the productivity of local farms and enhancing agricultural production in terms of quality and variety. The modernisation and sustainable development of the agricultural industry will encourage existing farmers to spruce up their production and the range of produce, attract new entrants to the agricultural industry, and help improve farmers' livelihood and their ability to cope with the ever-changing operating environment. It is also expected to encourage the rehabilitation of some of the farmland that may otherwise remain idle, thereby allowing new entrants to participate in agricultural activities and put fallow farmland resources to productive use. Not only would this generate new job opportunities and contribute to the economy, it would also help enhance the supply of fresh, good quality and safe local agricultural products to the people of Hong Kong. Coupled with the full implementation of the various supportive measures under NAP, we believe that the benefits that agricultural development could bring to the well-being of society, apart from being a source of food supply, could be more fully realised.

/Eligibility

Eligibility and Assessment Criteria

27. We propose that SADF should fund programmes, projects and research that would facilitate the development of modern and sustainable agriculture, thereby enhancing the overall competitiveness of the agricultural industry as a whole. Eligible applicants for SADF (including FIS thereunder) may include individual farmers, as well as tertiary and research institutions, non-profit making agricultural industry associations and trade unions, and other NGOs.

Encl. 2 28. An application fulfilling the assessment criteria (set out in Enclosure 2) will be considered, and may be awarded on its merits (including the efficacy of the application, whether similar applications have been funded by SADF before and, where appropriate, the capacity and capability of the applicant), and relative priority as compared with competing 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. 622) 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 agricultural industry in Hong Kong. These include local registered agricultural co-operative societies, non-profit-making agricultural organisations, NGOs or social enterprises;
- (b) academic and research institutions in Hong Kong; and
- (c) individual farmers.

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.

29. Except for applicants seeking grants under FIS whose eligibility is set out separately in Enclosure 1, applicants for funding under SADF must demonstrate that they possess the necessary experience, expertise or technical knowhow in agriculture in order to be eligible to be considered for funding from SADF. As a general principle, in order to encourage wider applications from more concerned parties in the agricultural industry, projects from applicants that have already received funding from SADF will be accorded lower priority vis-à-vis comparable applications. The actual priority of the applications will be determined on the advice of the SADF Advisory Committee.

Governance and Administration

Encl. 3

30. Implementation of SADF will be overseen by AFCD. The SADF Advisory Committee, to be appointed by the Secretary for Food and Health, will be set up to advise DAFC on the administration of SADF. The proposed terms of reference of the SADF Advisory Committee are set out in Enclosure 3. The authority for awarding grants under SADF will rest with DAFC as the Controlling Officer for grants not exceeding \$15 million on the advice of the SADF Advisory Committee. Any grant exceeding \$15 million and recommended by the SADF Advisory Committee will require separate approval by the LegCo Finance Committee (FC). The SADF Advisory Committee will be chaired by a non-official and comprise members drawn from or are knowledgeable about the agricultural sector and relevant professions and expertise areas such as legal, accounting, marketing, as well as academics and government officials. It will discuss and make recommendations to DAFC in respect of the overall strategy, allocation and disbursement of funds, approval of projects and oversight on project implementation. Different vetting committees overseen by the Advisory Committee may be formed to consider and vet funding applications against a set of assessment criteria agreed by the SADF Advisory Committee. The day-to-day administration of SADF and secretariat support will be provided through an executive arm within AFCD.

31. To ensure proper governance of SADF, AFCD may seek the advice of the Independent Commission Against Corruption (ICAC), Department of Justice, Audit Commission and other relevant parties on the assessment criteria, procedures to be adopted, as well as other matters related to the operation of SADF as appropriate. AFCD will also seek ICAC's advice in drawing up a code for declaration of interest for compliance by members of the SADF Advisory Committee and the vetting committee / sub-committees established under it.

32. As Controlling Officer, DAFC would need to exercise prudence in approving grants and disbursing public funds under SADF and ensure that due regard would be given to value-for-money considerations. In discharging his role, DAFC would take into account the views of the SADF Advisory Committee. Except for direct grants made under FIS to local farmers for the acquisition of farming equipment and materials, he should see to the establishment of assessment and monitoring mechanisms to help ensure that only projects that can contribute in a direct and practical way towards the sustainable development and productivity enhancement of the local agricultural industry should be funded, and that a grantee would focus his energy on delivering positive practical results in ongoing projects.

/Monitoring

Monitoring and Evaluation

33. Applicants of funded projects are accountable for the proper and prudent use of public funds. The successful applicants 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 review these reports with a view to monitoring progress and assessing if the outcome of each funded project is meeting the intended objective(s). Grants will only be disbursed if the vetting committee / subcommittees are satisfied with the progress and / or deliverable(s) of the project.

34. In order to explore the technical and commercial feasibility of new agricultural operations, and to develop new, sustainable modes of agricultural operation, procurement of capital assets may be required in some projects and those assets would remain with the grantees after completion of the projects. To ensure value for money, the procurement of any capital assets, supporting facilities and associated installation services must comply with procurement requirements stipulated by AFCD and the SADF Advisory Committee, who may additionally impose suitable conditions in addition to the general procurement procedures. Failure to fulfil these conditions may lead to withdrawal of the grant and recovery of the fund disbursed.

35. To enhance monitoring of the approved projects, AFCD and the SADF Advisory Committee may conduct on-site inspection of selected projects on top of reviewing the progress and final reports submitted by the applicants. To facilitate the assessment of benefits brought about by approved projects to the agricultural industry, the applicants would be required to provide in the final report relevant information such as additional job opportunities created and enhancement in productivity upon completion of the project.

36. Key features of the projects approved under SADF each year, including the identity of the grantees, expected benefits in terms of productivity enhancement and the progress or outcome of each approved project, are to be released on the AFCD website. The accounts of SADF would be audited and published every year.

/Projects

Projects with Commercial Elements

37. There are initiatives that aim at demonstrating the technical feasibility and commercial viability of new agricultural practices and the deliverables (i.e. technology demonstration and transfer of knowledge or practical knowhow) may subsequently be imparted to other stakeholders within the agricultural industry. Such initiatives may involve a commercial element.

38. We propose that projects with commercial elements may also be supported by SADF subject to the general rules and monitoring and control measures described in Enclosure 2. Major rules and measures include –

- (a) The applicant will be required to draw up a detailed business plan and budget of the proposed project which will be subject to the scrutiny of the SADF Advisory Committee and AFCD. The applicant must include all relevant financial and related information of the project in the application.
- (b) Upon approval of a project, the Government will enter into a contractual agreement (the Agreement) with the successful applicant as well as other relevant parties such as third-party financier(s) 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 applicable. DAFC may decide and impose any additional conditions in the Agreement as he deems appropriate.
- (c) A project involving commercial elements will be funded on a dollar-for-dollar matching basis⁴, with the Government's total contribution capped at the applicant's total contribution, as set at the time the Agreement is signed. 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 part of the financing required for the project. Whether and the extent of the 50% cap to which the Government would fund the project would take into account the project's potential benefits to the agricultural sector and to the Hong Kong economy.

/(d)

⁴ Except for those applications under FIS.

- (d) Subject to detailed conditions to be imposed by DAFC, as a general rule, the Government may recoup its contribution in a manner commensurate with the Government's share of funding contribution in relation to the successful applicant and third party financier(s), if any, towards the project on a pro rata basis. The Government's maximum contribution and commitment as well as the details of cost recouping including the repayment schedule will be prescribed up-front in the Agreement. The successful applicant should make repayments to the Government in accordance with a pre-agreed schedule at the time the Agreement is entered into. Depending on the actual circumstances of the case, the Government may, at its absolute discretion, vary the repayment schedule. Recoupment will be made until the Government's contribution is repaid in full. The payment received shall be credited to the General Revenue of the Government.
- (e) 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 progress 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 completion of the project. These documents will be uploaded onto the AFCD website and made available for public inspection.
- (f) To ensure fair use of funding and safeguard public funding against undue commercial risk, no applicant can undertake more than one SADF-funded project with commercial elements at the same time.

Prudential Management

39. SADF would not accept any application that has been funded or could have been funded by other government sources, or if there is / will be any duplication in terms of the work carried out by other institution(s) / applicant(s) of government funds. In addition, all applicants are required to declare whether their proposals are also being considered or have been approved 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 applicant, and certain expenditure items, like external audit fees, may be subject to caps imposed).

Relationship with the existing Agricultural Development Fund and Agricultural Loan Funds

40. At present, AFCD has been making use of the Agricultural Development Fund (ADF) set up by the Vegetable Marketing Organisation (VMO)⁵ for promoting and supporting farmers interested in conversion to organic farming and other modern farming practices. ADF is derived from levies collected from farmers who use VMO's marketing facilities on trading. It is not open for public application, and its funding is limited to projects undertaken by AFCD, VMO and the Federation of Vegetable Marketing Co-operative Societies Ltd. (FVMCS). Given the ADF's specific targets for funding and limited pool of resources, it cannot afford to serve the intended role of SADF due to the sheer size of the funding required to help modernise farmers' equipment or to support long-term or larger scale development projects and studies to explore new development fronts. During 2014-15, the ADF spent over \$38 million to support various agricultural development projects, including the promotion of organic farming, improvement of VMO's wholesale marketing facilities, and organisation of different promotion activities. With the increasing number of competing projects in recent years, the ADF has already been called on to dispense money at a rate exceeding the annual operating profits generated by VMO, rendering the ADF's own sustainability in the long run questionable.

41. We have reviewed the scope and terms of loan funds available to farmers, including the Kadoorie Agricultural Aid Loan Fund⁶, J. E. Joseph Trust Fund⁷ and VMO Loan Fund⁸. These funds, all established in the 1950s, are primarily designed to provide small loans to farmers as development and/or working capital. In 2014-15, the three funds together provided some \$7 million agricultural loans. As of 31 December 2015, they together had a total capital of some \$47 million. Both their ambit and limited capital base render them

/incapable

⁵ VMO is a non-profit making organisation established under the Agricultural Products (Marketing) Ordinance (Cap. 277) for the purposes of providing for the improvement of agriculture, the marketing of agricultural products, and encouraging co-operative markets.

⁶ Established in 1955 under the Kadoorie Agricultural Aid Loan Fund Ordinance (Cap. 1080), the Kadoorie Agricultural Aid Loan Fund makes loans to farmers, pond fish operators and mariculturists for development and working capital. During 2014-15, a total of 33 agricultural loans amounting to over \$3 million were issued.

⁷ Established in 1954 under the J.E. Joseph Trust Fund Ordinance (Cap. 1067), the J.E. Joseph Trust Fund makes loans to farmers' co-operative societies and individual farmers for use either as development or working capital. The co-operative societies relent the money to their members at low interest rates. During 2014-15, a total of 13 loans amounting to about \$1.7 million were issued.

⁸ Established in 1953 by the VMO from its trading surplus, the VMO Loan Fund makes loans to local crop farmers for agricultural production and development. During 2014-15, a total of 29 loans amounting to over \$1.9 million were issued.

incapable of supporting any serious research or prolonged development projects for the sustainable development of the agricultural industry as a whole. Neither could they offer sufficient incentive to encourage farmers to invest in mechanisation equipment due to their loan nature. In addition, these loan funds are not available 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. Establishing SADF, and setting up FIS under it, can fill the gap currently not covered by these three loan funds.

42. On creation of SADF, VMO will re-focus ADF to support projects that benefit local vegetable co-operatives and their members to improve their farms or marketing of their produce. This may include field trials and hands-on field training at their farms, and upgrading of local co-operative facilities. Those projects currently supported by ADF but falling outside the focus of ADF in the future may turn to SADF for funding support, provided that the projects can meet SADF's funding criteria and pass SADF Advisory Committee's independent assessment of the projects' merits. The three loan funds mentioned in paragraph 41 above will be devoted to providing loans to small farming operations as working capital or for facilities maintenance.

Implementation Timetable

43. Subject to FC's approval of the necessary funding commitment, we shall proceed with preparations for inviting applications (such as formulating application forms, detailed operational guidelines and appointment of the SADF Advisory Committee, etc.). We aim to have funds disbursed to the first batch of successful applicants in 2017.

FINANCIAL IMPLICATIONS

44. We propose to create a new commitment of \$500 million for SADF. As we do not propose to restrict the number of applications to be processed each year, the actual cash flow will depend on the number of applications received and approved. For planning and budgetary purpose, the estimated cash flow is \$100 million each for FY2017-18 and FY2018-19, and \$50 million for the ensuing six years. Cash flow for the initial period is expected to be higher in anticipation of receiving more applications from farmers under FIS for acquisition of small farming equipment and materials.

/Year

Year	(\$ million)
2017-18	100
2018-19	100
2019-20	50
2020-21	50
2021-22	50
2022-23	50
2023-24	50
2024-25	50
Total	500

45. For implementation of NAP, additional manpower resources will be provided to AFCD from 2016-17 to create non-directorate civil service and time-limited posts. AFCD's existing manpower, supplemented by the new posts to be created, will be deployed to administer SADF, including promoting it to the agricultural industry, encouraging submission from concerned parties such as NGOs and tertiary institutions, serving SADF Advisory Committee and processing applications. The additional manpower resources involved will be included in the Estimates of the relevant years. Annual audited statements on SADF will be prepared and FHB will report progress to the FSEH Panel regularly.

PUBLIC CONSULTATION

46. The public consultation on NAP was conducted in the first quarter of 2015. During the consultation period, we have conducted three public fora and attended more than 20 meetings with agricultural associations and other stakeholders including Heung Yee Kuk, a number of district councils and the relevant advisory committees such as the Advisory Committee on Agriculture and Fisheries⁹ and its subcommittees, to explain the proposals and to listen to their views. We also briefed the LegCo FSEH Panel on 13 January 2015. By the end of the consultation period, we have received more than 1 100 written submissions from members of the public and concerned parties. The views and comments collected during the consultation period are summarised in LC Paper No. CB(2)1621/14-15(07). The trade and LegCo members in general supported the establishment of SADF.

/47.

⁹ Established to advise the Government on matters pertaining to (i) the development of agriculture and fisheries production in Hong Kong; (ii) the formulation of agricultural, fisheries and other related policies; and (iii) other matters relating to the production, distribution and marketing of agriculture and fisheries products.

47. We also briefed the FSEH Panel about SADF on 8 March 2016. Members were generally in support of the SADF proposal.

**Food and Health Bureau
Agriculture, Fisheries and Conservation Department
April 2016**

Sustainable Agricultural Development Fund – Farm Improvement Scheme

General

1. The Farm Improvement Scheme (FIS) is set up under the Sustainable Agricultural Development Fund (SADF) to provide direct grants to local farmers for acquisition of farming equipment and materials for helping farmers improve their farming efficiency and productivity.

Eligibility

2. An applicant must be a resident or a registered company / organisation of Hong Kong and operate a crop farm engaged in commercial production of not less than 1 dau chung (d.c.)¹ or a licensed livestock farm in Hong Kong. Crop farms smaller than 1 d.c. are not eligible for the scheme taking into account the limited benefits that they may attain from mechanisation because of the small scale of their operation.
3. To prevent double benefit, applications should be made on a one grant per farm basis; a successful applicant, as well as his/her spouse, is not eligible for further grant under FIS even if he/she and his/her spouse own[s] more than one farm, or subsequently acquire[s], rent[s] or relocate[s] to a different farm.
4. An applicant would need to provide proofs² to certify that his/her farm is an operating farm for commercial production.
5. Only equipment and materials shortlisted by the Agriculture, Fisheries and Conservation Department (AFCD) for FIS and put to use in the applicant's farm are eligible for application for grant. A tentative list of eligible equipment and materials is at Annex³.

Annex

¹ Dau chung (斗種) is the customary local measurement unit for farms equivalent to about 674.5 square metres or 7260 square feet.

² The proofs may include, among others –

- tenancy agreement (preferably stamped), Government leases documents, and/or sworn declarations of genuine user of the farmland;
- receipts of agricultural inputs procured, sales of agricultural products, and/or records of the registration scheme according to the Food Safety Ordinance (Cap.612);
- record of participation in schemes run by the Agriculture, Fisheries and Conservation Department, including the Voluntary Registration Scheme for local vegetable farms, the Accredited Farm Scheme, and the Organic Farming Support Service; and
- any other proofs that can help establish the applicant's status as an operator of a farm for commercial production.

³ AFCD may set a grant ceiling for each shortlisted item as appropriate, having regard to the prevailing market prices of the equipment and materials concerned. AFCD, on the advice of the SADF Advisory Committee to be set up to advise on matters relating to the administration of SADF (the SADF Advisory Committee), may update the list having regard to the prevailing equipment / materials available and the operational need of farmers.

Amount and Scope of Support

6. The grant will be issued on a reimbursement basis and will cover up to a maximum of 80% of the cost of each piece of eligible equipment and materials purchased, i.e. the successful applicant is required to bear at least 20% of the cost.
7. The maximum grant that an applicant may receive will initially be capped at \$30,000, irrespective of the number of items sought. AFCD, in consultation with the SADF Advisory Committee, may review from time to time the maximum level of grant as well as the ceilings for individual equipment / materials eligible for support under FIS, having regard to factors such as inflation, adjustments to the price of eligible equipment and materials, etc.

Tentative list of Farm Equipment and Materials Allowed



1. Cultivator tiller
To loosen top soil before cultivation.



2. Tractor mounted rotavator
To break up compact soil into smaller pieces before cultivation.



3. Ridger attachment
To attach behind a tiller or rotavator for gathering and heaping up the loose soil against young plants planted in rows.



4. Bed shaper
To attach behind a tiller or rotavator for forming the shape of the raised soil bed on loosen soil for cultivation.



5. Rotary plow
To break new ground, building raised bed and creating drainage ditches on harden soil when powered by a tractor.



6. Brush cutter
To clear grass, small bushes and undergrowth.



7. Weed burner

To burn weed, kill underground insect pests and reduce soil-borne plant pathogen population.



8. Mulch layer

For laying plastic mulch.



9. Intertiller

To loosen top soil and weeding between rows of planted crops.



10. Motorised sprayer

For spraying liquid fertilisers or liquid pesticides onto plants.



11. Fertiliser / Compost spreader

To spread granular fertiliser or compost onto the field before cultivation.



12. Chipper / Shredder

For cutting and chipping plant debris into smaller pieces.



13. Planter
For precise seeding directly
onto the soil bed.



14. Transplanter
For transplanting young seedlings
onto the soil bed.



15. Handheld harvester
For harvesting crops.



16. Insect attraction lamp
To attract insect pests for monitoring
and control of pest situation.



17. Vegetable packaging machine
For packaging harvested vegetables.



18. Parts and materials for irrigation
system

For setting up irrigation system.

 <p>19. <u>Parts and materials for protective structure</u> For erecting simple protective structure to protect crops from heavy rain and/or pests.</p>	 <p>20. <u>Automatic Scraper System</u> For removal of livestock waste.</p>
 <p>21. <u>Materials to cover waste treatment facilities</u> To reduce odour generated.</p>	 <p>22. <u>Bird Entrance Barrier</u> Plastic strip curtains or chain link doors to prevent ingress of wild birds.</p>
 <p>23. <u>Belt Manure Removal System</u> For removal of chicken manure.</p>	 <p>24. <u>Solid Liquid Waste Separator</u> For separation of solids from livestock waste to improve treatment efficiency.</p>

Note: The photos are for indication purpose only. Different types and makes may appear different from the photos.

**Assessment Criteria for Funding Support
under the Sustainable Agricultural Development Fund (SADF)**

Guiding principles

Projects approved for funding support under SADF will be expected to assist the local agricultural community to rise to the challenges on the horizon with a view to enabling the agricultural industry to enhance their productivity and output or switch to a sustainable or high value-added mode of operations, as well as facilitating the modernisation and enhancing the overall competitiveness of the agricultural industry.

2. SADF aims to provide financial support to facilitate the development of modern and sustainable agriculture in Hong Kong. Projects that fail to demonstrate the relevance to local sustainable agriculture would not be supported.

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

4. SADF should be tailored to accommodate a wide range of projects, schemes or research work that could meet the above guiding principles. These may include, but are not limited to,

- (a) direct grants to farmers for mechanising and modernising their farming **equipment and materials**;
- (b) funding support for promoting **research and development** that eases the application of technology to agricultural production;
- (c) projects to facilitate the **transfer of knowledge**;
- (d) projects to enhance industry-wide **manpower training**;
- (e) projects to improve **agricultural infrastructure**;
- (f) projects to strengthen **marketing and branding** of local agricultural produce;
- (g) projects to render practical and farm-based support to enhance the effectiveness of **agricultural rehabilitation** in the farms concerned; and
- (h) other one-off projects consistent with the objective of SADF.

Whilst our main focus in taking forward NAP is on crop farming (vegetables, fruits and ornamental plants), the poultry and livestock rearing sector may also make use of and benefit from SADF for projects that aim at strengthening their farm biosecurity, enhancing value or mitigating the possible nuisance that the

farms may cause to the environment. Consistent with the Government's policy of containing the scale of the poultry and livestock rearing sector, projects aiming at expanding the number of farms or the poultry/livestock population will not be considered.

Encl 1 5. Whilst the Farming Improvement Scheme (FIS) (see Enclosure 1) established under SADF is targeted at individual farms to assist them in modernising their farming equipment and facilities, the benefits of projects funded under SADF in general must accrue to the local agricultural community as a whole, and not just to an individual, a single organisation, a consortium of agricultural companies or a narrow sector.

6. Projects in general should be non-profit making in nature. Commercial projects may be considered, subject to the criteria described in paragraphs 19 to 31 below. Cost recouped from the project would be channelled to the General Revenue of the Government.

7. 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. As a general principle, in order to encourage wider applications from more concerned parties in the agricultural industry, projects from applicants that have already received funding from SADF will be accorded lower priority vis-à-vis comparable applications. Actual priority of the applications will be determined on the advice of the SADF Advisory Committee (see paragraph 9 below).

Assessment Criteria

8. The Assessment Criteria set out below apply to all applications for funding support under SADF, except for applications made under the Farm Improvement Scheme.

9. In considering an application, the Director for Agriculture, Fisheries and Conservation (DAFC) and the Advisory Committee to be set up to advise DAFC on matters relating to the administration of SADF (the SADF Advisory Committee) should give due consideration to –

Project Needs

- whether there is a demonstrated need for the proposed project (e.g. for the sustainable development of the local agricultural industry and improvement of competitiveness of the industry);
- whether the project scope, objectives and long-term impacts are realistic and clearly expressed in concrete terms as 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 Government policy priorities in facilitating sustainable development of agriculture;
- 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 agricultural co-operative societies, non-profit making agricultural 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 the proposed project has alternative sources of funding support or would be more appropriately funded by other sources¹;

¹ The same project should not be funded through another fund, or the subject of a loan issued under the existing Agricultural Loan Funds.

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 on completion of the project;
- whether the project would benefit the local agricultural community and agricultural industry as a whole, not merely to an individual, a single organisation, a consortium of agricultural companies or a narrow sector;
- whether the outcome (e.g. experiences and deliverables) have good value and potential for wide dissemination in the agricultural 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 funding support from SADF expires.

Eligibility

10. 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. 622) 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 agricultural industry in Hong Kong. These include local registered agricultural co-operative societies, non-profit-making agricultural organisations, non-governmental organisations or social enterprises;
- (b) academic and research institutions in Hong Kong; and,
- (c) individual farmers.

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.

11. Except for applicants seeking grants under FIS whose eligibility is set out separately in Enclosure 1, applicants for funding under SADF must demonstrate that they possess the necessary experience, expertise or technical knowhow in agriculture in order to be eligible to be considered for funding from SADF.

Administrative Matters and Monitoring Mechanism

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

13. 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. The SADF Advisory Committee members may carry out inspections or require the applicant to attend meetings to examine the progress of the projects.

14. 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 under the SADF Advisory Committee may 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 farmers 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 easy access by members of the public.

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

16. To ensure proper governance of SADF, AFCD may seek the advice of the Independent Commission Against Corruption (ICAC), Department of Justice, Audit Commission and other relevant parties on the assessment criteria, procedures to be adopted as well as other matters related to the operation of SADF as appropriate. AFCD will also seek ICAC's advice in drawing up a code for declaration of interest for compliance by members of the SADF Advisory Committee and vetting committee / sub-committees established under it.

17. DAFC will approve, on the advice of the SADF Advisory Committee, grants not exceeding \$15 million. Grants exceeding \$15 million recommended by the SADF Advisory Committee will be subject to the approval of the Legislative Council (LegCo) Finance Committee (FC).

18. As Controlling Officer, DAFC would need to exercise prudence in approving grants and disbursing public funds under SADF and ensure that due regard would be given to value-for-money considerations. In discharging his role, DAFC would take into account the views of the SADF Advisory Committee. Except for direct grants made under FIS to local farmers for the acquisition of farming equipment and materials, he should see to the establishment of assessment and monitoring mechanisms to help ensure that only projects that can contribute in a direct and practical way towards the sustainable development and productivity enhancement of the local agricultural industry should be funded, and that a grantee would focus his energy on delivering positive practical results in ongoing projects.

Arrangements for Projects with Commercial Elements

19. There are initiatives that aim at demonstrating the technical feasibility and commercial viability of new agricultural practices and the deliverables (i.e. technology demonstration and transfer of knowledge or practical knowhow) may subsequently be imparted to other stakeholders within the agricultural industry. Such initiatives may involve a commercial element. They will be considered on individual merits, as well as the general rules and monitoring and control measures as set out in the ensuing paragraphs.

20. 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 SADF Advisory Committee and AFCD. In vetting applications, they may consult independent experts of the relevant fields as appropriate. The applicant must include all relevant financial and related information of the project in the application.

21. To ensure fair use of funding and safeguard public funding against undue commercial risk, no applicant can undertake more than one SADF-funded project with commercial elements at the same time.

22. Upon approval of a project, the Government will enter into a contractual agreement (the Agreement) with the successful applicant as well as other relevant parties such as third-party financier(s) 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 he deems appropriate.

23. 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 as set at the time the Agreement is signed. 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 part of the financing required for the project. Whether and the extent of the 50% cap to which the Government would fund the project would take into account the project's potential benefits to the agricultural sector and to the Hong Kong economy.

24. The successful applicant is required to provide capital goods of the project or floating charge as collateral for the grant and any related monies owed to the Government. In case the successful applicant does not repay the Government, whether in the event where the project is commercially successful and makes profits, or where the project is commercially unsuccessful and the applicant is liquidated, the Government may exercise its rights against the collateral.

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

26. Grant to a commercial project 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 after AFCD has accepted the audited accounts and final report of the project.

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 Grantee is required to grant a licence for the Government to further sub-grant the IP right to any person at any terms as the Government thinks fit.

27. Subject to detailed conditions to be imposed by DAFC, as a general rule, the Government may recoup its contribution 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 or the LegCo FC (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)). The Government's maximum contribution and commitment as well as the details of cost recouping including the repayment schedule will be prescribed upfront in the Agreement. The successful applicant should make repayments to the Government in accordance with a pre-agreed schedule at the time the Agreement is entered into. Depending on the actual circumstances of the case, the Government may, at its absolute discretion, vary the repayment schedule. Recoupment will be made until the Government's contribution is repaid in full. The payment received shall be credited to the General Revenue of the Government.

28. 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.

29. 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 progress 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 completion of the project. These documents will be uploaded onto the AFCD website and made available for public inspection.

30. 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.

31. 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 SADF all residual grants.

**Proposed Terms of Reference
of the Advisory Committee of the
Sustainable Agricultural Development Fund (SADF Advisory Committee)**

TERMS OF REFERENCE

The SADF Advisory Committee is established to –

- (a) 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 SADF;
- (b) 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 cap for funding support under the Farm Improvement Scheme;
 - (iii) the merits of individual applications, and upon selection of successful applicants, the terms, amount and forms of funding support;
 - (iv) any subsequent need to change the terms, amount and forms of funding support to a project in view of any material variation of or modification to the project.
 - (v) compliance of funded projects with the terms of support and their effectiveness in achieving stated objectives; and
 - (vi) 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) advise on any other matters related to SADF as referred to it by DAFC.

The SADF Advisory Committee may establish vetting committee/subcommittees for vetting applications, or for other purposes related to SADF, as it deems fit.

COMPOSITION

2. The SADF Advisory Committee shall consist of –
- (a) a Chairman, who shall be appointed by the Secretary for Food and Health (SFH) 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 SFH for a term of three years, and who shall be eligible for reappointment;
 - (c) representative of SFH as ex officio member; and
 - (d) DAFC or his representative as ex officio member.
