

Sustainable Fisheries Development Fund and Sustainable Agricultural Development Fund

The Audit Commission ("Audit") conducted a review of the Sustainable Fisheries Development Fund ("SFDF") and the Sustainable Agricultural Development Fund ("SADF").

2. Hon Kenneth LEUNG declared that his wife was a member of the SADF Advisory Committee. Hon Steven HO Chun-yin declared that he was a member of the SFDF Advisory Committee and the SADF Advisory Committee.

3. The Government established SFDF and SADF (each fund had a commitment of \$500 million) in 2014 and 2016 respectively to put the development of the agriculture and fisheries industries on a sustainable path. With a view to facilitating farmers, fishermen and fish farmers to acquire equipment and related materials to improve productivity and enhance sustainability, two subsidiary funding programmes, namely the Farm Improvement Scheme ("FIS") and the Equipment Improvement Project ("EIP") were set up under SADF in December 2016 and under SFDF in December 2017 respectively. As at 28 February 2019, 11 SFDF and seven SADF projects had been approved with an approved funding of \$59 million and \$82 million respectively; and 238 FIS projects and three EIP projects had been approved with an approved funding of \$6.9 million and \$18.4 million respectively.

4. The Agriculture, Fisheries and Conservation Department ("AFCD") is responsible for administering SFDF, SADF, EIP and FIS.¹ The SFDF Advisory Committee and the SADF Advisory Committee are set up to advise Director of Agriculture, Fisheries and Conservation on the administration of SFDF and SADF respectively. For 2017-2018, the expenditures of the SFDF Secretariat, the SADF Secretariat and the Funding Schemes Section totalled \$6.16 million.

5. The Committee noted the following findings from the Director of Audit's Report:

- from the commencement of SFDF/SADF to December 2018, the Secretariats had processed 23 SFDF and 11 SADF applications respectively, while the time taken for processing some applications was

¹ An SFDF Secretariat and an SADF Secretariat have been set up within the Fisheries Supporting Services Division of AFCD's Fisheries Branch and the Extension and Funds Division of AFCD's Agriculture Branch respectively to carry out duties specific to the operation of SFDF and SADF. A Funding Schemes Section has also been set up within AFCD's Accounts and Supplies Division to handle specifically financial matters of SFDF and SADF.

long (up to 35 months for SFDF applications and 15 months for SADF applications);

- as at 31 December 2018, only one EIP project had been approved. Audit noted that from the dates when individual fishermen submitted their applications to the applicant² to the date of signing the funding agreement between the applicant and the Government, individual fishermen of the above project had waited at least 12 months for the acquisition of the mechanized fishery equipment. The administrative charges (\$1.5 million) amounted to 21% of the approved grant (\$7.2 million) of the project;
- although EIP had the same nature as FIS, individual fishermen and fish farmers could not apply under EIP themselves having regard that SFDF applicants must be legal entities, while FIS allowed farmers to submit applications directly to AFCD;
- 10 SFDF projects had been approved as at 31 December 2018. As at 15 January 2019, delays in submission of reports and financial statements³ were found in seven projects, averaging 84 and 107 days respectively. Audit further examined three projects and noted that:
 - (a) nine (69%) of 13 reports/financial statements submitted by the grantees were resubmitted once to thrice (as at 31 December 2018);
 - (b) long time⁴ had been taken for processing some of the 13 reports/financial statements, ranging from 49 to 311 days (as at 14 February 2019);

² EIP provides grants to applicants (i.e. legal entities connected with fisheries industry) for acquiring mechanized fishery equipment and/or materials on behalf of beneficiaries (i.e. individual fishermen and fish farmers).

³ According to SFDF/SADF application guidelines, an SFDF/SADF grantee is required to, after project commencement, submit the following information within specific time frames: (a) a progress report and a financial statement; (b) an annual report and an audited financial statement with original receipts; and (c) a final report and an audited financial statement of the project.

⁴ Counting from the date of acceptance of a report for assessment purpose by the SFDF Secretariat to the date of provision of the report by the SFDF Secretariat (after its assessment) to a working group of the SFDF Advisory Committee for review.

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- (c) some recommendations made by AFCD in the inspection records of SFDF projects⁵ had not been implemented by the grantees despite that the same recommendations were made in previous inspections. There were no records indicating that AFCD had taken measures to ensure satisfactory implementation of the recommendations by the grantees;
 - (d) the grantee of a project had not purchased any mandatory insurances as specified in the funding agreements (i.e. employees' compensation insurance, public liability insurance and insurance for collateral) up to 31 January 2019 (34 months after the project commencement date); and
 - (e) grantees of two projects had failed to observe the procurement requirements of the funding agreements for eight project items procured;
- the actual disbursement of SFDF and SADF amounted to only a small portion of the planned disbursement, ranging from 0% to 22.6% between 2014-2015 and 2018-2019 (up to 31 December 2018) for SFDF and from 2.7% to 6.7% for SADF in 2017-2018 and 2018-2019 (up to 31 December 2018);
 - the number of applications for SFDF decreased from 15 in 2014 to three in 2018 and that for SADF decreased from 20 in 2017 to 13 in 2018. As at 31 December 2018, 41% and 12% of SFDF and SADF applications had been rejected respectively for various reasons. The number of FIS applications also decreased from 172 in 2017 to 66 in 2018;
 - AFCD did not have any plans for reviewing the overall achievements of SFDF, SADF, EIP and FIS vis-à-vis the overall objective of putting the development of the agriculture and fisheries industries on a sustainable path;
 - in 2014 to 2018, 28 meetings of the SFDF/SADF Advisory Committees and their working groups were held. Audit noted that:

⁵ For the monitoring of SFDF projects, the Administration conducts inspections on the progress of projects at least every six months and makes inspection reports accordingly.

- (a) in each of the years between 2014 and 2018, some members of the SFDF/SADF Advisory Committees (ranging from one to five members) attended less than half of the meetings of their responsible committees, while two of them were reappointed in 2017;
 - (b) the minutes of 10 meetings did not indicate that the chairmen had made rulings on the interests declared by members; and
 - (c) the agendas, discussion papers and draft minutes were not always distributed in a timely manner; and
- none of the SFDF Advisory Committee members made first-tier declaration⁶ in 2016 as the SFDF Secretariat had not distributed first-tier declaration forms to them. In 2018, two SFDF Advisory Committee members did not complete and return the first-tier declaration forms, and the SFDF Secretariat did not follow up the non-submission.

6. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the measures to improve the administration of SFDF, SADF, EIP and FIS applications, the monitoring of project implementation and accounts finalization and the achievement of fund objectives; and the governance issues of committees and working groups of SFDF and SADF. The replies from **Secretary for Food and Health** and **Director of Agriculture, Fisheries and Conservation** are in *Appendices 17* and *18* respectively.

7. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.

⁶ AFCD adopts a two-tier declaration system for managing potential conflicts of interest of members of the SFDF Advisory Committee and the SADF Advisory Committee. Every year, the secretariats of the two funds distributed first-tier declaration forms to committee members for completion.