

ITEM FOR FINANCE COMMITTEE

LOAN FUND

Head 262 - PRIMARY PRODUCTS

New Subhead “Kadoorie Agricultural Aid Loan Fund - loans to mariculturists affected by cold spell”

Members are invited to approve the creation of a new subhead under the Loan Fund with a commitment of \$10 million to enable the Kadoorie Agricultural Aid Loan Fund to make loans to mariculturists affected by cold spell.

PROBLEM

The cold spell prevailing from mid January to early February 2004 had led to massive fish mortalities in the majority of Hong Kong’s 26 fish culture zones, particularly those located in the northeastern waters and Port Shelter. Many affected mariculturists need to apply for loans under the Kadoorie Agricultural Aid Loan Fund (KAALF) to re-establish their businesses. However, the balance of the KAALF is insufficient to meet the expected demand.

PROPOSAL

2. We propose to create a new subhead under the Loan Fund with a commitment of \$10 million to enable the Kadoorie Agricultural Aid Loan Fund Committee to make loans to the affected mariculturists.

/JUSTIFICATION

JUSTIFICATION

3. The majority of locally cultured marine fish are tropical/sub-tropical species which are vulnerable to prolonged low water temperature below 15°C. The cold spell that took place early this year has led to a sharp decline in water temperature to less than 15°C for about 10 days resulting in a high mortality of cultured marine fish in a number of fish culture zones, mostly located in the northeastern waters and in Port Shelter. It is estimated that the losses suffered by the mariculturists amounted to 3,000 piculs of fish valued at some \$10-12 million.

4. Fish kill due to prolonged cold spell is a natural disaster which could not be prevented. To provide urgent assistance to the fish farmers in need, we have arranged prompt disbursement of relief under the Emergency Relief Fund, with a maximum payment of \$6,440 for each affected mariculturist. As many mariculturists have indicated a need for loans to re-establish their fish culture businesses and the KAALF only has a balance of \$0.26 million as at 31 March 2004, we propose to make available loan capital of \$10 million to the KAALF to meet the needs of the affected mariculturists.

Loan assistance under the Kadoorie Agricultural Aid Loan Fund

5. The KAALF is administered by the KAALF Committee, a statutory committee established under the Kadoorie Agricultural Aid Loan Fund Ordinance (Cap. 1080). The Committee is empowered by the Ordinance to determine the loan terms and the loan amount for individual applicants.

6. Under the existing arrangements, loans are available under the KAALF to mariculturists for the purpose of business development and production. Such loans may be used for purchasing fish fry, fish feed and farm equipment and for the building and maintenance of fish rafts. The size of the loan will depend on the need of mariculturists in their fish farming businesses and other factors including the repayment ability and past repayment record of the operators, the provision of guarantor/ security, and the duration needed to culture fish to marketable size. The interest rate of the loan varies with the loan amount as follows –

/Loan

Loan Amount	Interest Rate
<i>Not exceeding \$100,000 -</i>	
- <i>Working capital</i>	average bank savings deposit rate
- <i>Development capital</i>	3/4 of the average bank savings deposit rate
<i>Over \$100,000 but below \$160,000 -</i>	1/2 x (average bank savings deposit rate + prime rate)
<i>\$160,000 or above -</i>	Prime rate

7. We consider that the current KAALF interest rates for loans not exceeding \$160,000 should continue to apply to loans granted to the affected mariculturists. For loans above \$160,000, the current interest rate is prime rate. In view of the serious damage the cold spell has inflicted on the local fish farming operations and the substantial financial support required by the mariculturists to rebuild their business, we propose to extend the interest rate currently applied to loans between \$100,000 and \$160,000 (currently 2.505% p.a.) to loans between \$160,000 and \$200,000 so as to relieve the interest burden of the mariculturists. We expect that loans up to \$200,000 would be able to meet the needs of most mariculturists to re-establish their fish culture businesses. For loans over \$200,000, the prime rate shall continue to apply. Apart from the above interest rate modification, we propose that other existing criteria for loans from the KAALF should continue to apply. The terms of the proposed loans are set out at the Enclosure, subject to the decision of the KAALF Committee.

Encl.

FINANCIAL IMPLICATIONS

8. Based on the assumption that the \$10 million, of which half would be for loans not exceeding \$100,000 and another half for loans between \$100,000 and \$200,000, would be fully drawn down on day one, that all loans would be repaid one-off at the end of the two-year loan period, and that the current Government’s “no-gain-no-loss” interest rate of 2.826% p.a. would remain constant throughout the loan period, the amount of interest forgone by the Government would be about \$0.3 million. Subject to Members’ approval, we shall provide necessary funds up to \$10 million from the Loan Fund to the KAALF in 2004-05. Subsequent loan repayments and the interest thereon will be credited to the Loan Fund.

/BACKGROUND

BACKGROUND INFORMATION

9. Established in 1955 under the KAALF Ordinance, the KAALF is vested with the Director of Agriculture, Fisheries and Conservation (DAFC) as the trustee and administered by the KAALF Committee, which is also chaired by the DAFC. It provides loans to farmers for the purpose of encouraging or improving agriculture, including all forms of aquaculture. During 2003-04, 118 loans, amounting to \$10.4 million, were granted. The balance of the fund stood at \$0.26 million as at 31 March 2004.

Health, Welfare and Food Bureau
April 2004

**Parameters for the Grant of Loans from the
Kadoorie Agricultural Aid Loan Fund
to Mariculturists affected by the Cold Spell during January – February 2004**

1. Purpose of the loan For working capital needs, including the purchase of fish fry, fish feed, farm equipment, and the building and maintenance of fish rafts.
2. Eligibility of applicants
 - (a) Holder of a valid mariculture licence issued under the Marine Fish Culture Ordinance prior to the cold spell in January – February 2004 and who has suffered fish kill caused by the cold spell and is in need of a loan for the above purpose;
 - (b) the stock in the mariculture farm must be owned by the applicant and not be beneficially owned by another person or a company; and
 - (c) the applicant does not have unsatisfactory past repayment records.
3. Number and maximum amount of loans

No more than one loan per applicant will be granted.

Maximum loan amount will depend on the actual need for mariculture operations and provision of adequate security as required.
4. Security

The applicant shall provide land-based properties and/or bank guarantee as security for a loan above \$100,000, or a guarantor for a loan not exceeding \$100,000.

5. Interest
- For loans not exceeding \$100,000 - Average bank savings deposit rate (currently stands at 0.01% per annum);
- For loans over \$100,000 but not exceeding \$200,000 - Half of the sum of average bank savings deposit rate and prime rate (currently stands at 2.505% per annum); and
- For loans above \$200,000 - Prime rate (currently stands at 5% per annum).
- Interest will be charged on the outstanding loan balance from the date of draw down of the loan. The interest rate will be determined at the date of draw down and fixed for the entire loan period.
6. Loan period
- Two years.
7. Repayment
- By half-yearly instalments commencing six months after the draw down of the loan, with an option of one-off repayment in full at the end of the loan period. The accrued interest will be included in the last instalment.
8. Submission of applications
- Applications should be submitted within three months from the date of Finance Committee's approval of the loan commitment. Priority would be given to loan applications submitted within one month from the approval date.
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