
FACT SHEET

Loan funds for fishermen

1. Background

1.1 The purpose of this fact sheet is to provide members of the Panel on Food Safety and Environmental Hygiene ("the Panel") with general information about two loan schemes available to fishermen, namely the Fisheries Development Loan Fund ("FDLF") and the Fish Marketing Organization Loan Fund ("FMOLF"). Members' deliberations on issues about these Funds are also highlighted.

2. Fisheries Development Loan Fund

2.1 FDLF was established by the Government in 1960. Its objective is two-fold: providing loans for fishermen to switch to sustainable fisheries or related operations, and for mariculturists and pond fish farmers to develop sustainable aquaculture business so as to conserve fishery resources.

2.2 FDLF is a revolving fund¹ with a start up capital of HK\$2 million. In order to meet the loan demand from the fishing industry, the Finance Committee approved increases in the commitment of the loan capital of this Fund several times between 1961 and 2006, bringing the total government commitment to the current HK\$290 million.²

Management of the Fisheries Development Loan Fund

2.3 The Agriculture, Fisheries and Conservation Department ("AFCD") administers FDLF. AFCD is responsible for the appraisal of loan proposals, disbursements of loans, follow-up of loan repayments and recovery of outstanding loans.

¹ Repayments from borrowers are ploughed back into the Fund for financing other loan applications.

² Prior to June 2006, the loan capital of the Fund was increased to HK\$5 million in December 1961, HK\$7 million in October 1984 and HK\$100 million in November 1997. In June 2006, the Fund was increased by HK\$190 to HK\$290 million.

2.4 Under the regulations³ of FDLF, the authority for approving the loan applications varies depending on the requested loan amount. Accordingly, the Director of Agriculture, Fisheries and Conservation is the authority for approving loans not exceeding HK\$5 million. Loans exceeding HK\$5 million but not exceeding HK\$10 million are subject to the approval of the Secretary for Financial Services and the Treasury, and those loans exceeding HK\$10 million are approved by the Finance Committee.

2.5 In making decisions to grant the loans, the Director of Agriculture, Fisheries and Conservation is advised by the Fisheries Development Loan Fund Advisory Committee, which is a non-statutory body comprising the Director himself as the chair and 10 other members.⁴ Other duties of the Advisory Committee include drawing up criteria for approving loans and meeting regularly to review the repayment situation of individual loan cases.

Number of applications

2.6 According to the Government, over 40 loans have been approved under FDLF since 1997, amounting to some HK\$118 million.⁵ Only two loans were approved between 2006-2007 and 2010-2011, involving an amount of HK\$5.33 million.⁶ In March 2011, the balance of FDLF was HK\$38.7 million.

Interest rates and repayment of loans

2.7 The interest rate for loans to fishermen is compound interest calculated on a monthly basis at 2.5% per annum.⁷ For loans to fish farmers, the interest rate is compound interest calculated on a monthly basis at the "no-gain-no-loss" interest rate.⁸

³ The latest version of the loan regulations was approved by the Finance Committee in June 2006, which sets out, among other things, the objectives for the grant of loans under the Fund, eligibility requirements, interest payable, approval authority and repayment arrangement.

⁴ Members of the Advisory Committee include Members of the Legislative Council ("LegCo"), district councilors, representatives from the fishing industry, experts in professional fields and the representative of Director of Marine.

⁵ Health, Welfare and Food Bureau (2006b).

⁶ The two loans were granted in 2006-2007 and 2008-2009 respectively. See Annex II to *Official Record of Proceedings of the Legislative Council* (2011).

⁷ Upon approval of the Finance Committee in June 2006, the compound interest rate for loans to fishermen was reduced from around 4.15% (equivalent to a simple rate of 6%) to 2.5%.

⁸ The no-gain-no-loss interest rate is set at a certain percentage below the average of the best lending rates ("BLR") of the note-issuing banks, with that percentage being the average differential between BLR and the Hong Kong Dollar Inter-bank Offered Rates in the preceding 120-month period.

2.8 Loans repayments are made on a quarterly basis by deduction of an agreed percentage (at a minimum rate of 15%) of the borrowers' proceeds of sale of catches at the wholesale fish markets run by the Fish Marketing Organization⁹ and/or in cash. The maximum repayment period is 14 years.

3. Fish Marketing Organization Loan Fund

3.1 FMOLF was established by the Fish Marketing Organization in 1946. The purpose of this Fund is to provide fishermen with loans on a revolving basis to help them tide over the annual fishing moratorium in the South China Sea. The loans enable the affected fishermen to maintain and repair their fishing vessels for resumption of fishing operation after the moratorium.

3.2 FMOLF is financed by the surplus earnings of the Fish Marketing Organization, whose main source of revenue is generated from the levy of commission and fees for the wholesale services and facilities provided. To maintain sufficient capital to fund the loan projects, the Government injected a sum of HK\$65 million into FMOLF in June 1999. A further capital injection of HK\$60 million was made by the Government in June 2006.

Operation of the Fish Marketing Organization Loan Fund

3.3 FMOLF provides loans of up to HK\$120,000 per vessel¹⁰, based on the horsepower of its engine. The Director of Marketing (whose office is held by the Director of Agriculture, Fisheries and Conservation at present) is the authority for approving these loans.

3.4 The interest rate for loans under FMOLF is set at a "no-gain-no-loss" level, with the borrowers only being required to pay interest at 2% per annum (compounded monthly) and the differential between "no-gain-no-loss" interest rate and 2% absorbed by the Fish Marketing Organization. Loan repayment is made by quarterly instalments with the total amount to be repaid within one year after drawdown.

⁹ The Fish Marketing Organization is a self-financing, non-profit-making organization operating seven wholesale fish markets in Hong Kong to provide wholesale marketing for fishermen, fish wholesalers and buyers.

¹⁰ Under FMOLF, the maximum loan amount may increase to up to HK\$150,000 per vessel, taking into account the change in fuel price in the preceding year and the operating environment of the fishermen.

4. Members' deliberations

4.1 Matters relating to loan schemes for fishermen were discussed at meetings of the Panel, the Finance Committee and LegCo. Concerns arising from these meetings focused primarily on the loan capital, interest rates and the provision of interest-free loans.

Loan capital

4.2 At the Council meeting held on 6 November 2002, Members discussed issues about the development of offshore fishing industry as an alternative livelihood options for fishermen in the face of diminishing fishery resources. In response to the request for the capital injection into FDLF to support offshore fishing activities, the Administration was of the view that the fishing industry was receiving relatively generous financial aid as compared with other sectors. Apart from FDLF, fishermen may apply for loans under FMOLF and those funding schemes for small and medium enterprises, if they meet the relevant eligibility criteria. Further, the Administration considered that injecting additional capital into FDLF might encourage the industry to rely heavily on the Government for financial assistance, which was unfair to other sectors not provided with the same level of assistance from the Government.

Interest rates

4.3 At the meeting of the Finance Committee held on 16 June 2006, while members generally supported the Government's proposals of increasing the approved commitment of FDLF to HK\$290 million and injecting HK\$60 million into FMOLF, there was a concern over the use of taxpayers' money to subsidize the fishing industry by providing loans at below market interest rates. The Administration responded that it was necessary to introduce a lower interest rate for loans under FDLF to encourage the switch from trawling to non-trawling operations to conserve the fishery resources. Meanwhile, FMOLF was provided to fishermen with genuine financial hardship. Having regard to the similar loans provided by the Fish Marketing Organization, an interest rate of 2% per annum was offered to the borrowers of FMOLF.¹¹ Further, loans provided under the two schemes should not be considered subsidies, as the borrowers had to repay their loans.

¹¹ FMO pays part of the interest on the loans. See paragraph 3.4 for details.

4.4 The reasons for proposing a different interest rate for loans to fish farmers and the FMOLF scheme were explained by the Administration at the meeting of the Panel on 26 May 2006. Accordingly, the provision of loans to fish farmers aimed to help mariculturists and fish farmers develop their business and upgrade their operations. The adoption of "no-gain-no-loss" interest rate (5.859% as at April 2006) was to prevent the Government from incurring losses in providing such loans. By the same token, the "no-gain-no-loss" principle also applied to FMOLF as moratorium was an operating condition already known by the industry. However, on account of the severe hardship facing the affected fishermen, the Administration proposed that the interest paid on these loans be shared between the borrowers and the Fish Marketing Organization.

Interest-free loans

4.5 At its meeting held on 11 May 2010, the Panel discussed the impact of the trawl ban in Hong Kong waters¹² on the livelihood of trawler fishermen. Some Panel members noted that the affected fishermen might apply for loans under FDLF to switch to sustainable fisheries and related operations. They also requested the Administration to consider offering interest-free loans to these fishermen. A similar suggestion was also made by members at other Panel meetings, e.g. at the meeting on 17 May 2011. According to the Administration, it was difficult to justify the provision of interest-free loans to fishermen. Nonetheless, a review of the terms and conditions of FDLF was underway to see how the fishermen's needs in switching to sustainable fishing operations could be better addressed.

¹² The subsidiary legislation for banning trawling in Hong Kong waters was passed by LegCo on 18 May 2011.

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27 March 2012
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