

**Public Accounts Committee**  
**Consideration of Chapter 7 of the Director of Audit's Report No. 66**  
**Dedicated Fund on Branding, Upgrading and Domestic Sales**

Proposed Answers to PAC's written questions received on 12 May 2016

**Part 2: Overall Management**

**CEDB Q1**

According to paragraph 2.3 and Tables 2 and 3, as at 31 October 2015, more than three years after the commencement of the Dedicated Fund on Branding, Upgrading and Domestic Sales (“BUD fund”) in June 2012, the number of approved projects and the amount of approved funding for both the Organization Support Programme (“OSP”) and Enterprises Support Programme (“ESP”) were lower than estimated. Can the Administration explain the reason(s)? What action has the Administration taken to encourage trade and industrial organizations/enterprises to submit more applications? What action will the Administration take to improve the success rate of OSP and ESP applications?

**HKPC Q1**

According to paragraph 2.3 and Tables 2 and 3, Audit noted that as at 31 October 2015, more than three years after the commencement of BUD Fund in June 2012, the number of approved projects and the amount of approved funding for both OSP and ESP were lower than estimated. Can you explain the reason(s)? What action has Hong Kong Productivity Council (“HKPC”) taken to encourage trade and industrial organizations/enterprises to submit more applications? What action will “HKPC” take to improve the success rate of OSP and ESP applications?

For budgetary planning purpose in 2012, it was assumed that half of the \$1 billion commitment would be for ESP, and half for OSP. Taking further into account that \$60 million would be disbursed to the HKPC for implementation of ESP, about \$500 million would be provided for ESP applications while the remaining \$440 million would be provided for OSP applications. Assuming each enterprise would receive the maximum amount of funding support of \$500,000, it was then assumed that about 1 000 enterprises could directly benefit from the BUD Fund. As regards OSP, assuming that each approved application received the maximum funding of \$5 million, it was roughly estimated that around 90 projects could be funded. The number of enterprises to be benefitted under ESP and the number of projects to be benefitted under OSP so calculated only represent the maximum number of enterprises/projects that can be funded if all of them receive the maximum amount of grant. It is not an estimated number of projects which will be approved. In reality, the number of benefitted enterprises/projects depends on various factors including the number of applications approved after the vetting process, the amount of funding approved, the nature and scale of the approved projects, etc.

On ESP, HKPC has all along been mounting intensive promotional efforts to encourage more applications, particularly since the launch of ESP Easy in late August 2015. From June 2012 to March 2016, HKPC organised and participated in 151 seminars and events in Hong Kong and the Mainland. These seminars and events attracted over 9,400 participants. The intensive publicity efforts resulted in a significant increase in the number of ESP applications in Q3 (October – December) 2015/16 and Q4 (January – March) 2015/16 (being 184 and 151

respectively) when compared to 77 and 90 in the preceding Q1 (April – June) 2015/16 and Q2 (July – September) 2015/16 respectively.

The ESP Secretariat has been assisting applicants in submitting applications with a view to improving the quality of applications, such as providing even clearer guidelines on the application form, organising and participating in seminars and events as mentioned above, and conducting 418 one-to-one consultation sessions to advise interested enterprises on making applications (see paragraph 2.17 of the Audit Report). The success rate of ESP applications has indeed been increasing over the past few years as shown in Table 5 of the Audit Report (28%, 32% and 43% for 2012-13, 2013-14 and 2014-15 respectively). The success rate for 2015-16 (April to December 2015) stood at 84%. This is the highest rate so far. We will continue to monitor closely the situation and will take any further measures as necessary.

Likewise for OSP, Trade and Industry Department (“TID”) has all along been monitoring the number of applications received and has undertaken promotion efforts and support measures with a view to encouraging more applications. Seminars/events have been conducted. Dedicated OSP promotional letters were sent to trade and industrial organisations with rejected or withdrawn applications in May 2014. Another round of these letters went out in January 2016 to over 480 trade and industrial organisations known to TID.

We have been providing one-to-one consultation to potential applicants under OSP. Detailed rejection reasons are also provided to unsuccessful applicants. As of end December 2015, the OSP Secretariat has handled over 2 020 enquiries and

conducted about 130 one-to-one consultation meetings with trade and industrial organisations, professional bodies and research institutes interested in submitting applications.

In the light of the audit recommendations, TID will further enhance promotion efforts by sending promotional letters more frequently, outreaching to trade and industrial organisations which have not applied before. We will highlight our one-to-one consultation in our future promotion. We will also adopt a more targeted approach to discuss with applicants with rejected applications in order that proposals can be revised and re-submitted quickly.

### **CEDB Q2**

**According to paragraph 2.4 (Table 1), "Branding + Domestic sales" was the most popular project nature among others. Was that the result of publicity strategy of the Administration? Will the Administration inform this Committee whether the resources for promotion and publicity were evenly allocated for each of the project natures; if the answer is negative, the reason(s) for that?**

### **TID Q1**

**According to paragraph 2.4 (Table 1), "Branding + Domestic sales" was the most popular project nature among others. Was that the result of publicity strategy of the Administration? Will the Administration inform this Committee whether the resources for promotion and publicity were evenly allocated for each of the project natures; if the answer is negative, the reason(s) for that?**

### **HKPC Q2**

**According to paragraph 2.4 (Table 1), "Branding + Domestic sales" was the most popular project nature among others. Was that the result of publicity strategy of the Administration/HKPC? Will the Administration/HKPC inform this Committee whether the resources for promotion and publicity were evenly allocated for each of the project**

**natures; if the answer is negative, the reason(s) for that?**

The BUD Fund was promoted to the public as a whole and not segregated by project nature. The project nature of the projects reflected the strategies of the applicant enterprises/organisations in developing the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland. It is up to the applicants to decide and design the project elements to suit their need.

**CEDB Q3**

**According to paragraph 2.9 (Table 4), the number of OSP and ESP applications withdrawn before assessment stood at 16.3% and 21.1% respectively. Will the Administration inform this Committee whether the applicants withdrew the application on their own initiative, or they were urged to withdraw their applications by the OSP and ESP Secretariat? In what circumstance will the OSP and ESP Secretariat urge the applicants to withdraw their applications?**

**TID Q3**

**According to paragraph 2.9 (Table 4), the number of OSP and ESP applications withdrawn before assessment stood at 16.3% and 21.1% respectively. Will the Administration inform this Committee whether the applicants withdrew the application on their own initiative, or they were urged to withdraw their applications by the OSP and ESP Secretariat? In what circumstance will the OSP and ESP Secretariat urge the applicants to withdraw their applications?**

**HKPC Q4**

**According to paragraph 2.9 (Table 4), the number of OSP and ESP applications withdrawn before assessment stood at 16.3% and 21.1% respectively. Will the**

**Administration/HKPC inform this Committee whether the applicants withdrew the application on their own initiative, or they were urged to withdraw their applications by the OSP and ESP Secretariat? In what circumstance will the OSP and ESP Secretariat urge the applicants to withdraw their applications?**

For both ESP and OSP, all of the withdrawn applications as shown in Table 4 of the Audit Report were withdrawn by the applicants of their own accord. Reasons for withdrawal mainly are: applicants' internal management decision, applicants' failure to provide required supplementary information before the deadline, ineligibility of applicants (such as failure to show direct relationship with the Mainland entity quoted by the applicants on the application form, insufficient proof of business operation in Hong Kong), etc.

**CEDB Q4**

**Para 2.10 (Figure 2) in the Audit Report shows the number of ESP applications received and promotion events during June 2012 to June 2015. Will the Administration inform this Committee whether it agrees on the causal relationship between these two factors that more promotion events will bring about a higher number of ESP applications? Has the Administration set any cap of resources to be allocated for promotion and publicity? What are the reasons for the declining number of promotion events since June 2012?**

**HKPC Q5**

**Para 2.10 (Figure 2) in the Audit Report shows the number of ESP applications received and promotion events during June 2012 to June 2015. Will the Administration/HKPC inform this Committee whether it agrees on the causal relationship between these two factors that more promotion events will bring about a higher number of ESP applications? Has the Administration/HKPC set any cap of**

**resources to be allocated for promotion and publicity?  
What are the reasons for the declining number of promotion events since June 2012?**

As set out in FCR(2012-13)22, a total of \$4.8 million (\$3.2 million from Government funding and \$1.6 million from HKPC contribution) has been designated for promotion and publicity of the programme over five years. The ESP Secretariat is required to submit to the Programme Management Committee (“PMC”) for approval an Annual Implementation Plan setting out, amongst others, the planned activities, including promotion and publicity activities, and proposed manpower arrangement for the coming year.

Promotion and publicity are one of the factors affecting the number of applications. Other factors, such as the macro economic environment, market situation of specific industry, business strategy of individual enterprises, etc. are also relevant. While the promotion and publicity measures can enhance the public awareness of the BUD Fund, it relies heavily on the coaching and consultation, which involve substantial manpower, provided by the ESP Secretariat for potential applicants to boost the number of applications. Such manpower costs are not categorized under promotion and publicity.

The number of promotion events has not been declining. Steady efforts have been made for promotion and publicity of the ESP over the years. More intensive promotion was launched when the BUD Fund was first introduced in 2012, and when new initiative, such as ESP Easy, was introduced.

**CEDB Q5**

**As indicated in the website of BUD Fund, enterprises which have been registered in Hong Kong and have had substantive business operations in Hong Kong for at least three years at the time of application are eligible to apply for "ESP Easy — Simplified Application Track". Will the**

**Administration consider relaxing the above requirement so as to increase the number of applications for ESP? If not, why not?**

On top of the existing criteria of conventional ESP, the PMC consciously imposed an additional requirement under “ESP Easy” that the applicant enterprises must have been established and have substantive business operation in Hong Kong for at least three years at the time of application to ensure that the simplified track of application would benefit bona fide Hong Kong enterprises with sufficient operation experience.

**CEDB Q6**

**According to paragraphs 2.26 and 2.27, Financial Services and the Treasury Bureau (“FSTB”) and Commerce and Economic Development Bureau (“CEDB”) held a different view as to whether the engagement of HKPC should be considered as partnership or service procurement. In this connection, what factors have been considered by CEDB to determine the nature of engagement, and the weight of these factors?**

**TID Q5**

**According to paragraphs 2.26 and 2.27, FSTB and CEDB held a different view as to whether the engagement of HKPC should be considered as partnership or service procurement. In this connection, what factors have been considered by the Administration to determine the nature of engagement, and the weight of these factors?**

CEDB provided to FSTB in April 2012 relevant justifications to support that its engagement of HKPC to implement the ESP was not a procurement of service, but engagement of a non-government partner. The selection and engagement of HKPC were justified on the cost-effectiveness and the necessary experience and expertise of HKPC to administer the funding



scheme. As we pointed out in FCR(2012-13)22, developing brands, upgrading and restructuring business operations and promoting domestic sales in the Mainland market are specialised subjects requiring professional knowledge, and involve, inter alia, business plans and initiatives put forward by individual enterprises in specific industries and markets. Extensive professional input from an organisation which is close to the business sector, understands their needs and has the experience and expertise in assisting the Hong Kong enterprises in developing brands, upgrading and restructuring operations and promoting domestic sales in the Mainland is essential. In the light of its mission, and more importantly its expertise and experience in the Mainland market, the HKPC was engaged as a partner to implement the ESP of the BUD Fund and for this purpose, HKPC would contribute around \$17 million in terms of professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services. CEDB had also made reference to another similar government funding scheme, the Cleaner Production Partnership Programme, which involved the engagement of HKPC by the Environmental Protection Department (EPD) as an implementation agent of the Programme.

**CEDB Q7**

**According to paragraph 2.28, regardless of nature of engagement, the Controlling Officer should generally follow an open, fair and competitive bidding process so as to pick an agency for project implementation. Will CEDB provide details to show whether it adopted the above procedures before choosing HKPC as a partner?**

As mentioned in our reply to CEDB Q6, the engagement of the

HKPC was not a procurement of services but a partnership arrangement to implement the ESP. CEDB has given due consideration on the partners to be engaged and having regard to the mission of HKPC and its expertise and experience in the Mainland market, CEDB considered that HKPC was the most suitable implementation partner for delivering the initiative. CEDB had separately consulted FSTB on engaging the HKPC as a partner in implementing the ESP of the BUD Fund. FSTB noted CEDB's justifications for engaging the HKPC as a partner and reminded CEDB to properly document the considerations, justifications, specifications on deliverables as well as engagement agreement with the HKPC. The justifications for selection and engagement of HKPC as the implementation partner were set out in detail in the FC submission vide FCR(2012-13)22.

**CEDB Q8**

**According to paragraph 2.33, HKPC charged the Government the implementation fee at the more expensive L3 rates instead of L8 rates. Will the Administration inform this Committee whether FSTB and CEDB had unanimously accepted this arrangement? Had CEDB discussed with HKPC on the feasibility of applying lower charging rates to ESP, though no relevant document is available; if there had been discussion between CEDB and HKPC, what was HKPC's response then? Will the Administration continue to discuss with HKPC for using the lower charging rates to ESP?**

CEDB noted that the HKPC worked out the resources requirement for the ESP in accordance to its internal pricing guideline, i.e. normally L3 rates is applicable to consultancy services (including, amongst others, secretariat services which the HKPC is providing for the ESP).

CEDB had discussed with the HKPC the overall level of the implementation cost and understood that it was meant to enable HKPC to recover the full staff costs and overheads (except for the \$17 million contributed by HKPC as a partner). Having regard to the ESP Secretariat's responsibilities which include, among others, promoting the BUD Fund, processing applications received, vetting applications, advising applicants in making applications, monitoring the progress of approved applications, and conducting promotion activities, CEDB had agreed with the HKPC for the disbursement of a total of \$60 million (comprising \$56 million for staff cost and overheads and \$4 million for various publicity and promotional activities and other expenses) to the HKPC to cover the bulk of the expenses incurred for implementing the ESP of the BUD Fund; and in parallel, as the implementation partner to the Government in ESP, the HKPC is responsible for the rest of the relevant expenditures which amount to about \$17 million in terms of professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services. Such principle of cost-recovery is in line with the precedent case of a similar arrangement between EPD and HKPC in implementing the Cleaner Production Partnership Programme (approved vide FCR(2007-08)47 in January 2008). The above implementation fee arrangement has been reflected in FCR(2012-13)22.

### **CEDB Q9**

**According to paragraphs 2.43 and 2.44, the cost of administering ESP had already amounted to some \$55.3 million, representing around 72% of total estimated expenses (\$77 million) for implementing ESP. Can you explain why the cost of administering ESP as percentage of approved project funding was much higher than that originally estimated (about 15%)? Please provide a year-on-year comparison concerning the staff establishment of the Secretariat since ESP came into operation and the roles and responsibilities of each staff? Given that some**

**95% of the cost of administering ESP was manpower cost, to what extent the amount of resources available for promotion and publicity activities was affected as a result? Does the Administration have any plans to improve the economy in administering ESP, for example, by lowering the manpower cost to free more resources for promotion and publicity activities?**

**TID Q6**

**According to paragraphs 2.43 and 2.44, the cost of administering ESP had already amounted to some \$55.3 million, representing around 72% of total estimated expenses (\$77 million) for implementing ESP. Can you explain why the cost of administering ESP as percentage of approved project funding was much higher than that originally estimated (about 15%)? Please provide a year-on-year comparison concerning the staff establishment of the Secretariat since ESP came into operation and the roles and responsibilities of each staff? Given that some 95% of the cost of administering ESP was manpower cost, to what extent the amount of resources available for promotion and publicity activities was affected as a result? Does the Administration have any plans to improve the economy in administering ESP, for example, by lowering the manpower cost to free more resources for promotion and publicity activities?**

**HKPC Q7**

**According to paragraphs 2.43 and 2.44, the cost of administering ESP had already amounted to some \$55.3 million, representing around 72% of total estimated expenses (\$77 million) for implementing ESP. Can you explain why the cost of administering ESP as percentage of approved project funding was much higher than that originally estimated (about 15%)? Please provide a year-on-year comparison concerning the staff establishment of the Secretariat since ESP came into operation and the roles and responsibilities of each staff? Given that some**

**95% of the cost of administering ESP was manpower cost, to what extent the amount of resources available for promotion and publicity activities was affected as a result? Does the Administration/HKPC have any plans to improve the economy in administering ESP, for example, by lowering the manpower cost to free more resources for promotion and publicity activities?**

The work involved in administering the ESP is much wider in scope than just approving applications. The ESP Secretariat's responsibilities include, among others, promoting the BUD Fund, processing applications received, vetting applications, advising applicants in making applications, monitoring the progress of approved applications, and conducting promotion activities. The workload of the ESP Secretariat has been increasing with a view to enhancing the effectiveness in the implementation and monitoring of projects. Comparing the cost of administering ESP with the approved amount of funding (being about 35% according to paragraph 2.43) only cannot reflect the resources expended by HKPC on work which will not manifest itself in the form of approved funding. For instance, the ESP Secretariat has to vet all applications (whether successful or not) in detail, organise seminars and events, conduct one-to-one consultation sessions to advise interested enterprises on making applications, assess progress and final reports of the projects and clarify details of the reports if necessary, conduct on-site checking, etc.

For the year-on-year comparison concerning the staff establishment of the Secretariat since ESP came into operation, please refer to Table 6 on page 35 of the Audit Report. Staff of HKPC in the ESP Secretariat are required to perform a range of duties including programme management and administration, project monitoring as well as promotion and publicities.

As set out in FCR(2012-13)2, \$4.8 million (\$3.2 million from Government funding and \$1.6 million from HKPC contribution) has been designated for promotion and publicity of the

programme over five years. These designated resources for promotion and publicity are not affected by, if any, the variation of other budget items of the programme. It should also be noted that apart from promotion and publicity measures, the ESP Secretariat has also devoted much efforts in the coaching and consultation with potential applicants, which involve substantial manpower, to boost the number of applications. Such manpower costs are not categorized under promotion and publicity.

To ensure that the ESP Secretariat's manpower deployment is appropriate, the Secretariat is required to submit to PMC for approval an Annual Implementation Plan setting out, amongst others, the planned activities and proposed manpower arrangement taking into account the workload involved for the coming year. We will continue to closely monitor the manpower deployment of the ESP Secretariat.

### **TID Q2**

**According to paragraph 2.8, the Administration had undertaken promotion and publicity activities by various means. How much money has been spent on this area since the establishment of the BUD Fund for OSP and ESP, with a breakdown by project nature, event as well as year? As most of the approved ESP projects were focused on domestic sales in the Mainland, will TID and HKPC step up the promotions efforts in the regions outside Pearl River Delta; if yes, how to implement? Will TID and HKPC inform this Committee whether they have offices or held promotional events in other provinces besides Guangdong?**

### **HKPC Q3**

**According to paragraph 2.8, the Administration/HKPC had undertaken promotion and publicity activities by various means. How much money has been spent on this area since the establishment of the fund in carrying out OSP and ESP respectively, with a breakdown by project nature, event as**

**well as year? As most of the approved ESP projects were focused on domestic sales in the Mainland, will TID and HKPC step up the promotions efforts in the regions outside Pearl River Delta; if yes, how to implement? Will TID and HKPC inform this Committee whether they have offices or held promotional events in other provinces besides Guangdong?**

As set out in FCR(2012-13)22, a total of \$4.8 million (\$3.2 million from Government funding and \$1.6 million from HKPC contribution) has been designated for promotion and publicity of ESP over five years.

From the establishment of the BUD Fund in June 2012 to March 2016, a total of around \$3.16 million (\$2.24 million from Government funding and \$919,000 from HKPC contribution) has been spent on promotion and publicity on ESP as follows:

Year	Expenditure of Promotion & Publicity	Events/Projects
June 2012 – March 2013	HK\$1,119,540.7	<ul style="list-style-type: none"> <li>- BUD opening ceremony</li> <li>- 47 seminars/trade associations' briefings</li> <li>- BUD website establishment and advertisements</li> </ul>
April 2013 – March 2014	HK\$672,053.54	<ul style="list-style-type: none"> <li>- 30 seminars/ trade associations' briefings</li> <li>- 1 annual symposium</li> <li>- promotional video</li> <li>- radio broadcasting</li> <li>- website maintenance &amp; enhancement</li> <li>- advertisements</li> </ul>
April 2014 – March 2015	HK\$870,520.87	<ul style="list-style-type: none"> <li>- 27 seminars/ trade associations' briefings</li> <li>- 2 annual symposium</li> </ul>

		<ul style="list-style-type: none"> <li>- BUD 1st edition casebook</li> <li>- promotional videos</li> </ul>
April 2015 – March 2016	HK\$497,296.48	<ul style="list-style-type: none"> <li>- 45 seminars/ trade associations' briefings</li> <li>- website enhancement &amp; maintenance</li> <li>- ESP Easy launching campaign</li> </ul>

As regards OSP, the government expenditure on promotion and publicity activities has been absorbed and subsumed within the expenditure of relevant bureaux/departments. It is difficult to quantify separately.

As the BUD Fund aims to assist enterprises in Hong Kong to develop the Mainland market, promotion and publicity of the Fund have been carried out mainly in Hong Kong. Nevertheless, promotion and publicity targeting at Hong Kong enterprises operating in the Mainland have also been carried out through the Economic and Trade Offices in the Mainland. HKPC had also conducted promotional seminars in Beijing, Shanghai, Guangzhou, Shenzhen and Dongguan, over the last three and a half years.

**TID Q4**

**According to paragraph 2.17, TID and HKPC will help applicants to revise and resubmit their unsuccessful applications if the applicants so wish. In this regard, will the Administration provide the number of resubmissions since the establishment of BUD Fund, with a breakdown by the number of unsuccessful applications as well as the number of applications withdrawn before assessment?**

**HKPC Q6**

**According to paragraph 2.17, TID and HKPC will help applicants to revise and resubmit their unsuccessful applications if the applicants so wish. In this regard, will**



**the Administration/HKPC provide the number of resubmissions since the establishment of BUD Fund, with a breakdown by the number of unsuccessful applications as well as the number of applications withdrawn before assessment?**

Since the establishment of BUD Fund until end December 2015, we have received 211 resubmissions for ESP, 127 of which are from rejected applications and 84 are from applications withdrawn before assessment. The ESP Secretariat provided advice to applicants on why their applications had been turned down. A good number of resubmissions have eventually been approved.

As for OSP, we have received 12 resubmissions from rejected projects, and 8 resubmissions from previously withdrawn applications as at end December 2015.

#### **HKPC Q8**

**According to paragraph 2.45, while the numbers of applications and approved projects were low and decreasing, the actual number of full-time staff of ESP Secretariat remained at about 15 to 16. The Administration explained this seemingly strange phenomenon, saying the workload of the ESP Secretariat had been increasing with a view to enhancing the effectiveness in the implementation and monitoring of projects. In this connection, will HKPC provide details of work that the full-time staff had to handle? Had any additional work been imposed on the full-time staff on enhancing the effectiveness in the implementation and monitoring of projects when the numbers of applications and approved projects were at a low level and decreasing? Has HKPC planned to critically review the needs on manpower (e.g. to consider expanding the establishment with a view to further enhancing the**

**effectiveness in the implementation and monitoring of projects)?**

The work involved in administering the ESP is much wider in scope than approving applications. The ESP Secretariat's responsibilities include, amongst others, promoting the BUD Fund, processing applications received, vetting applications, advising applicants in making applications, monitoring the progress of approved applications, and conducting promotion activities. In details, the work of ESP Secretariat staff includes:

- contacting the applicants to clarify ambiguous information in the applications and requesting applicants to provide supplementary information and/or to revise applications;
- conducting initial assessment on all received applications and compiling assessments reports for submission to Inter-Departmental Committee ('IDC');
- preparing and arranging the IDC meetings;
- consolidating comments from IDC and contacting applicants to provide further information regarding questions from IDC; consolidating recommendations from IDC and supplementary information from applicants for submission to PMC;
- preparing and arranging PMC meetings;
- preparing summary lists capturing PMC vetting results;
- informing all applicants of the vetting results through official letters;
- for rejected applications, answering questions raised by applicants regarding the vetting results and providing suggestions on how to revise the applications for resubmission;
- for Approval with Conditions applications,

communicating with the applicants and assisting them to revise the applications to fulfil the conditions for approving the applications; and

- for approved projects, preparing and arranging signing of funding agreements of the projects with grantees, providing briefing sessions to the grantees on the funding agreements and writing of progress reports, following up and monitoring approved projects (including handling of changes requests, providing consultation sessions on report writing, assessing progress and final reports of the projects and conducting on-site checking, etc.), disbursement of funds as approved by PMC after the grantee has opened designated bank account and deposited matching fund, etc.

The manpower level is considered suitable for implementing the above work.

### **HKPC Q9**

**According to Table 6 of paragraph 2.45, over 50% of ESP Secretariat's staff were at consultant grade, in particular that in 2012-2013, 10 of 12 staff were principal consultant/senior consultant/consultant. Will HKPC inform this Committee the reasons to employ so many consultants? What are their roles in the implementation and monitoring of ESP projects? In what circumstance the ESP Secretariat will reduce the number of consultants?**

As all non-listed Hong Kong enterprises from any industry are eligible to submit applications under ESP, the applications received covered a wide range of industries and specific natures/areas, which would require professional judgement on vetting and follow up. To ensure all applications are handled properly, the ESP Secretariat would need to deploy staff at

“consultant” level or above in the light of their experience and qualifications to handle vetting and monitoring tasks.

For the roles and responsibilities of the ESP Secretariat in the implementation and monitoring of ESP projects, please refer to our response to HKPC Q8.

### **Part 3: Management of OSP projects**

#### **CEDB Q10**

According to paragraph 3.4, an OSP applicant is allowed to engage implementation agents to carry out the project in accordance with the proposal. Implementation agents directly participate in the project to provide services such as project administration, event organization and professional consultancy, and charge the grantee a consultancy fee for the services provided. However, Audit noted that some grantees had not provided the OSP Secretariat with details of the consultancy fees, and a grantee assigned its staff to take up the duties of the approved additional manpower and charged the manpower cost to the project accounts. Having regard that incorrect/false manpower information and unclear accounts are serious problems in project management, under what circumstances will the OSP Secretariat withhold the grant to the grantees?

#### **TID Q7**

According to paragraph 3.4, an OSP applicant is allowed to engage implementation agents to carry out the project in accordance with the proposal. Implementation agents directly participate in the project to provide services such as project administration, event organization and professional consultancy, and charge the grantee a consultancy fee for the services provided. However, Audit noted that some grantees had not provided the OSP Secretariat with details of the consultancy fees, and a grantee assigned its staff to take up the duties of the approved additional manpower and charged the manpower cost to the project accounts. Having regard that incorrect/false manpower information and unclear accounts are serious problems in project management, under what circumstances will the OSP Secretariat withhold the grant to the grantees?

Many non-profit-distributing trade associations lacked the expertise and manpower resources to formulate detailed plans and

deliverables for OSP projects. Without the assistance of an experienced and professional implementation agent, these trade associations would be unable to put forward well-thought-out proposals that could meet the requirements of the OSP. The implementation agent helped the applicant develop the project proposal including its detailed scope and deliverables.

For better assessment of the reasonableness of individual budget items, the OSP Secretariat has required since January 2014 that for proposed consultancy fees to be charged by implementation agents, breakdown by services/project deliverables should be provided in the applications. For the projects which Audit noted that details of consultancy fee were not provided (para 3.8(a) of the Audit report), they were approved before January 2014.

In accordance with the project agreement signed between the Government and the grantee for OSP funded project, the Government reserves the right to withhold any further payment to the grantee if 50% or more of the grant plus the cash contribution by the applicant and sponsor (if any) remains unspent in the project account; if the applicant has failed or is likely to fail to execute the project; or if any reports, financial statements or other deliverables submitted by the applicant does not meet the standards specified in the project agreement. Since the launch of BUD Fund in June 2012, we have not encountered any such cases which warrant the Government to exercise the above right.

For the project which involved unallowable manpower cost (para 3.27 of the Audit report), the grantee has been asked to refund the amount involved to the Government. It has already done so. The incident has been duly reflected in the grading of the project, which will be taken into account by the secretariat and the Vetting Committee in considering future OSP applications from the same

organisation.

**CEDB Q11**

**Has the Administration set a cap on consultancy fee? According to paragraph 3.9, the OSP Secretariat has implemented the enhancement measures since January 2014. Why did the OSP Secretariat make the change in January 2014? How many projects were granted with implementation agents before January 2014 and what was the amount incurred in terms of the consultancy fees? Are there cases that the Administration urged applicants to reduce consultancy fees before and after the implementation of enhancement measures? If yes, please provide details of these cases.**

**TID Q9**

**Has the Administration set a cap on consultancy fee? According to paragraph 3.9, the OSP Secretariat has implemented the enhancement measures since January 2014. Why did the OSP Secretariat make the change in January 2014? How many projects were granted with implementation agents before January 2014 and what was the amount incurred in terms of the consultancy fees? Are there cases that the Administration urged applicants to reduce consultancy fees before and after the implementation of enhancement measures? If yes, please provide details of these cases.**

“Consultancy fee” under the OSP refers to the sum given to a project implementation agent for managing the project and/or carrying out project measures specified by the applicant. The fee varies from project to project and depends on the project nature and the service required by the applicant from the implementation agent. While there is no cap, we have been adopting a comprehensive approach in vetting individual budget items, including consultancy fee of implementation agent. Our existing practice is to first assess the reasonableness of individual budget

items, and vet budget items with cost on the high side by making reference to approved projects of similar nature and deliverables. The updated Operation Manual in January 2016 sets out more clearly the above procedures. Moreover, secretariat staff is required to document in case files justifications and reference details adopted during the vetting. To facilitate the vetting process, the secretariat has started to develop a database to record the approved budget of individual cost items of approved projects.

For better assessment of the reasonableness of individual budget items, the OSP Secretariat has required since January 2014 that for proposed consultancy fees to be charged by implementation agents, breakdown by services/project deliverables should be provided in the applications.

Before January 2014, 26 projects with implementation agents were approved and the total amount incurred for consultancy fees was \$25,659,425.

After the vetting of the consultancy fee by the secretariat in accordance with the approach mentioned above, any proposed reduction will be submitted to the Vetting Committee for consideration. For the 45 approved projects mentioned in the Audit report, 37 were approved before January 2014 and 26 of them involved the engagement of implementation agents. The consultancy fees of 22 projects were reduced while the implementation agent of one project did not request for consultancy fee. For the 8 projects approved after January 2014, 4 of them involved the engagement of implementation agents. The consultancy fees of 3 projects were reduced.

### **CEDB Q12**

**Is there any cap on the cash and in-kind contribution that the**



**applicants contribute to the total expenditure for OSP projects? If yes, how does the Administration ensure that cash and in-kind contribution is within the cap and what is/are the consequence(s) in case cash and in-kind contribution exceeds the cap; if no, reasons for not setting a cap?**

**TID Q10**

**Is there any cap on the cash and in-kind contribution that the applicants contribute to the total expenditure for OSP projects? If yes, how does the Administration ensure that cash and in-kind contribution is within the cap and what is/are the consequence(s) in case cash and in-kind contribution exceeds the cap; if no, reasons for not setting a cap?**

Under the OSP, the maximum amount of grant for each approved project is \$5 million, or 90% of the total project expenditure, whichever is the less. The grantee is required to contribute the remaining 10% of the total project expenditure, which may be in cash, in kind or in the form of sponsorship from any third parties other than the Government. The 10% contribution is a minimum requirement for the grantee. A grantee may contribute a higher percentage of the project cost (i.e. >10%) and request for OSP funding of a lower percentage of the project cost (i.e. <90%). There are so far 7 OSP funded projects with grantees contributing more than 10% of the project cost.

**CEDB Q13**

**Audit recommended the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry to tighten the control on in-kind contribution and strengthen the monitoring of the progress of OSP projects as well as the monitoring of the submission of reports by OSP grantees (paragraphs 3.19, 3.29 and 3.35 refer). In this connection, will the Administration consider imposing penalties on the grantees who fail to follow the project agreements and**

**guidelines?**

**TID Q15**

**Audit recommended the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry to tighten the control on in-kind contribution and strengthen the monitoring of the progress of OSP projects as well as the monitoring of the submission of reports by OSP grantees (paragraphs 3.19, 3.29 and 3.35 refer). In this connection, will the Administration consider imposing penalties on the grantees who fail to follow the project agreements and guidelines?**

With a view to further enhancing the operation of OSP, TID completed an internal review on the vetting and monitoring procedures of OSP in end October 2015 and improvement measures (including requirements on monitoring the fees of implementation agents, control on in-kind sponsorship, checking of books and records, and website updating, etc.) were identified and incorporated in the latest update of the OSP Operation Manual in January 2016.

The project agreement signed between the Government and the grantee for OSP funded project already includes penalty clauses in which the Government reserves the right to suspend or terminate, after consultation with the Vetting Committee, funding support for a project. The grantee may have to return all/part of the grant together with all administrative, legal and other costs and interest under such circumstances. Besides, any non-compliance with the terms and conditions of the project agreement will also be taken into account by the OSP secretariat when giving the overall grading of projects for Vetting Committee's endorsement. The grading will be reflected to the Vetting Committee when the grantee applies for OSP funding again.

### **TID Q8**

**According to paragraph 3.5 (Table 11), HKPC was an implementation agent who had undertaken 22 OSP projects. Had TID and the Vetting Committee assessed the capacity of each of the implementation agents as far as handling of projects is concerned? Was HKPC engaged as an implementation agent by 22 different grantees? Please provide details of the grantees involved. If HKPC is assessed to be a competent implementation agent of OSP projects, could HKPC carry out OSP projects and apply for the funding on its own?**

Where an implementation agent is proposed, the application form submitted should contain detailed information for vetting of the implementation agent, including CV of its key staff responsible for implementing the project, and currently a detailed breakdown of the consultancy fee charged by the agent. The secretariat and Vetting Committee will consider the suitability of the implementation agent in implementing the project based on their capabilities and past experience.

Among the 22 projects which HKPC was engaged as an implementation agent, a total of 21 grantees were involved (one of the grantees have two OSP funded projects implemented by HKPC). These 22 projects were not carried out simultaneously and were taken up by several project teams in HKPC. A list of the projects is as follows.

No.	Project ref.	Name of Grantee
1	BUD122005	Hong Kong Sea Transport and Logistics Association Limited
2	BUD143003	
3	BUD122006	Hong Kong Far Infrared Rays Association Limited
4	BUD122011	Hong Kong Electrical Appliance Industries Association Limited
5	BUD122012	Hong Kong Medical and Healthcare Device Industries Association Limited
6	BUD122013	Hong Kong Plastic Machinery Association Limited
7	BUD122015	The Hong Kong Electronic Industries Association Limited
8	BUD123003	The Hong Kong Printers Association
9	BUD124001	SAE International (Hong Kong) Limited
10	BUD124007	Hong Kong Intimate Apparel Industries' Association Limited
11	BUD124010	Federation of Hong Kong Industries
12	BUD131013	The Hong Kong Medicine Dealer's Guild
13	BUD132002	Hong Kong Surface Finishing Society Limited
14	BUD132010	Hong Kong Watch Manufacturers Association Limited
15	BUD133001	The Federation of Hong Kong Footwear Limited
16	BUD133003	Hong Kong (SME) Economic and Trade Promotional Association Limited
17	BUD133006	Licensing and Franchising Association of Hong Kong Limited
18	BUD133010	Hong Kong Auto Parts Industry Association Limited
19	BUD133016	Hong Kong Footwear Association Limited
20	BUD134001	Hong Kong Metal Merchants Association
21	BUD141002	Hong Kong Optical Manufacturers Association Limited
22	BUD143007	Federation of Hong Kong Brands Limited

Under the OSP, non-profit-distributing organisations such as trade and industrial organisations, professional bodies or research institutes, which shall either be statutory organisations or organisations registered under the laws of the Hong Kong Special Administrative Region, are eligible to apply. HKPC fulfils the above requirement but has not applied for OSP funding so far.

**TID Q11**

**According to paragraph 3.18, whether manpower shortage was a major factor affecting the verification of the claimed value of in-kind contribution? Given that the Operation Manual was updated in January 2016, whether the OSP Secretariat has increased the number of staff to carry out the verification duties? Please provide the details if it has and reasons if it has not.**

Before the Operation Manual was updated in January 2016, the secretariat required the grantee to provide a letter listing out the nature and the amount of in-kind contribution as documentary proof for in-kind contribution under OSP projects. The then practice had been duly adopted by the secretariat and reflected no problem in manpower.

TID completed an internal review on the vetting and monitoring procedures of OSP in end October 2015 and improvement measures (including requirements on monitoring the fees of implementation agents, control on in-kind sponsorship, checking of books and records, and website updating, etc.) were identified and incorporated in the latest update of the OSP Operation Manual in January 2016.

Staff of the secretariat has all along followed the procedures in the OSP Operation Manual in vetting and monitoring OSP projects. The newly added verification duties for in-kind contribution can be absorbed by existing staff of the OSP secretariat hence we do not have a need to increase the number of staff for the said duties for now.

**TID Q12**

**According to paragraph 3.25, since Audit found that Project B**

**and Project C did not follow the requirement to keep recruitment records for seven years, have any remedial actions been taken to address the problems? Will the grantees of Project B and Project C be penalized or punished for the breach of the requirement? Will the chance of the grantees' being awarded projects in future be affected because of any breach of the requirements under the OSP guidelines? Please provide details.**

The project agreement requires that the grantee shall maintain full and proper books of accounts and records (including receipts, counterfoils, vouchers, quotations and tendering documents and other supporting documents) in connection with the project during the project period plus a minimum period of seven years. The Grantee shall also ensure that the Government can access to such books and records for conducting audit, inspection, verification and copying upon reasonable notice during the project period and the seven-year period mentioned above, and explain to the Government any matters relating to the funds concerned upon request.

The failure of the two grantees in maintaining proper books and records of the project for seven years after project completion had been documented in case files, which will be taken into account by the secretariat and Vetting Committee in considering future OSP applications from the organisations concerned. Moreover, after the non-compliance was discovered by Audit, we reminded the two grantees again to strictly follow the requirements as set out in the project agreement for their other on-going or future funded projects, if any, including the keeping of books and records for seven years after project completion. We will also include in the briefing before project commencement, correspondences / notifications to grantees (such as the letters attaching the project agreements and reminders to be issued before project completion,

etc.) a reminder of the requirement to keep proper books and records for seven years after project completion.

### **TID Q13**

**According to paragraph 3.25, has the OSP Secretariat found the reasons of not widely advertising the job vacancy and the incompliance of documentation as required under the OSP guidelines by the grantees of Project B & Project C? Had the OSP Secretariat noted the inappropriate practice of the grantees of the two projects when the recruitment exercises for the two projects took place?**

Our Guide to Application advises grantees that job vacancies arising from recruitment of project staff should be widely advertised in local newspaper and/or other channels. While advertising in local newspaper is not a must, both grantees indicated that they had placed advertisements in their own websites when submitting final reports to the secretariat upon project completion. The secretariat did not raise queries at that time in consideration that advertisements in websites are accessible to the public at large hence the above requirement was fulfilled. Nevertheless, in updating the OSP Operation Manual in January 2016, we have revised the format of progress/final reports to be submitted by grantees, so that more detailed information on the advertising channels (e.g. name of website/magazine/newspaper used for advertising) will be provided. To facilitate the assessment by secretariat staff, we will also include in the Operation Manual criteria on whether job vacancies have been widely advertised.

### **TID Q14**

**According to paragraph 3.27, the OSP Secretariat considered that the grantee's management of project was below standard.**

**In this connection, had the grantee been penalized? If yes, please provide details. Was manpower shortage a major factor which had caused the lax supervision by the OSP Secretariat?**

The OSP already has in place a mechanism in the vetting and monitoring of projects since its launch. On the monitoring of projects, the secretariat oversees project activities and the grantee's submissions (such as progress reports, final reports and audited accounts), and return of residual funds by grantees. Upon project completion, the secretariat assesses the effectiveness of the project based on its deliverable and results. The deliverables and the results of the projects will be submitted to the Vetting Committee to facilitate its monitoring of implementation and evaluating the effectiveness of the funded projects.

TID completed an internal review on the vetting and monitoring procedures of OSP in end October 2015 and improvement measures (including requirements on monitoring the fees of implementation agents, control on in-kind sponsorship, checking of books and records, and website updating, etc.) were identified and incorporated in the latest update of the OSP Operation Manual in January 2016. To enhance the knowledge and understanding of staff of the OSP Secretariat, a briefing on the enhancement measures introduced to the OSP Operation Manual was conducted in February 2016. Regular meetings will be held to brief staff of any new and enhancement measures.

For the said project, once the charging of unallowable cost to the project accounts was discovered by the secretariat, prompt action has been taken to direct the grantee to return the amount of unallowable cost to the Government. Refund by the grantee was made within a month after the secretariat wrote to it.



The incident has been duly reflected in the grading of the project, which will be taken into account by the secretariat and the Vetting Committee in considering future applications from the same organisation. We consider that the secretariat has adequate resources in operating the OSP.

## **Part 4: Management of ESP projects**

### **CEDB Q14**

According to paragraph 4.6, the applicants needed to wait, in addition to the some three to six months taken for project approval, one to seven months for the signing of the agreement for project commencement, depending on the conditions of the projects. Has the Administration reviewed the application procedures with a view to shortening the lead time for project approval? Will holding more PMC meetings be a viable solution to the issue?

### **TID Q17**

According to paragraph 4.6, the applicants needed to wait, in addition to the some three to six months taken for project approval, one to seven months for the signing of the agreement for project commencement, depending on the conditions of the projects. Has the Administration reviewed the application procedures with a view to shortening the lead time for project approval? Will holding more PMC meetings be a viable solution to the issue?

### **HKPC Q10**

According to paragraph 4.6, the applicants needed to wait, in addition to the some three to six months taken for project approval, one to seven months for the signing of the agreement for project commencement, depending on the conditions of the projects. Has the Administration/HKPC reviewed the application procedures with a view to shortening the lead time for project approval? Will holding more PMC meetings be a viable solution to the issue?

ESP applications are considered in batches by the PMC which meets once around every three months (March, June, September, December). About 90% of the applications are submitted a few days before the closing date, which is the end of the month three months before the next PMC meeting. The remaining 10% are submitted generally no more than a week before the closing date.

In other words, applications are processed, as soon as they have been received, in about three months, during which the ESP Secretariat clarifies details of applications with applicants and submits the applications for consideration of IDC, before a PMC meeting. After the applications are approved with or without conditions, most of the grantees require some time for addressing conditions of approval, opening dedicated bank accounts or making upfront payment, etc. before they could commence the approved projects.

In order to facilitate project commencement, HKPC has been working with the grantees such that potential conditions for approval can be minimized as much as possible before consideration by the PMC. As a result, the number of cases of approval with conditions has been on the low side recently, being five, three, five and five for the batches of Q1, Q2, Q3 and Q4 2015. For applications under ESP Easy under which the funding scopes of projects are confined to a number of specified measures, there are no cases of approval with conditions and hence the grantees need not take time to address conditions of approval. Project commencement is further facilitated under ESP Easy since the grantees need not make upfront payment and reimbursement of funds they have expended can be recognized as far back as to after the application submission dates as long as the applications are approved. No dedicated bank accounts are required.

Additional IDC meetings have already been arranged in each quarter to vet ESP Easy applications. They will then be considered by the PMC by circulation of papers. For conventional ESP applications which cover more variety of project measures and budget items, the current practice of conducting one PMC meeting in each quarter is considered appropriate. We will continue to monitor the situation.

### **CEDB Q15**

**According to paragraph 4.13 (Table 13), of 11 progress**

reports selected by Audit, no progress report was submitted on time. What were the reasons for the late submission? Has the Administration finished the review of the practice of requiring grantees to submit a progress report every six months for the projects with duration of more than 12 months and up to 24 month? Please provide details if it has or the progress if it has not. Of Audit's selected projects, will the Administration provide a breakdown by the number of days between the disbursement of final payments to the grantees and the completion dates of the projects?

#### **TID Q18**

According to paragraph 4.13 (Table 13), of 11 progress reports selected by Audit, no progress report was submitted on time. What were the reasons for the late submission? Has the Administration finished the review of the practice of requiring grantees to submit a progress report every six months for the projects with duration of more than 12 months and up to 24 month? Please provide details if it has or the progress if it has not. Of Audit's selected projects, will the Administration provide a breakdown by the number of days between the disbursement of final payments to the grantees and the completion dates of the projects?

#### **HKPC Q11**

According to paragraph 4.13 (Table 13), of 11 progress reports selected by Audit, no progress report was submitted on time. What were the reasons for the late submission? Has the Administration/HKPC finished the review of the practice of requiring grantees to submit a progress report every six months for the projects with duration of more than 12 months and up to 24 month? Please provide details if it has or the progress if it has not. Of Audit's selected projects, will the Administration/HKPC provide a breakdown by the number of days between the disbursement of final payments to the grantees and the completion dates of the projects?

The grantees were late in submitting progress reports due to the

following reasons:

- 1) about 96% of the grantees were SMEs and 65% of them did not have more than 10 staff. That they had limited manpower and time to prepare the reports was understandable;
- 2) there was turnover of the project co-ordinator/deputy project co-ordinator and the new staff needed time to take over the projects and submit the reports; and
- 3) the grantees took time to consolidate the supporting documents and engage auditors to prepare the annual audited accounts.

The Administration has not embarked on any review of the practice of requiring grantees to submit a progress report every six months for the projects with duration of more than 12 months and up to 24 months. The current requirements are considered appropriate for the purpose of proper monitoring of the projects. Nevertheless, the ESP Secretariat has taken various measures to facilitate the grantees' submission of reports. Please see our response to HKPC Q12 and HKPC Q13. We will continue to monitor the situation.

Disbursement of final payments for the grantee will only be made when the final report and the audited accounts, which are to be submitted within two months after the project completion date, are accepted by the PMC. The progress reports and final reports submitted by grantees usually lacked clarity and details, and the ESP Secretariat needs to take a lot of time and efforts to clarify with the grantees. The 11 progress reports selected by Audit with delay in report submission are related to five individual projects. Of these five projects, the number of days between the disbursement of final payments to the grantees and the submission dates of the finalised final report (with clarifications as advised by the Secretariat) ranges from 95 to 168 days.

**CEDB Q16**

**According to paragraphs 4.22, 4.23 & 4.24, does CEDB agree that as time progresses, the overall termination rate will**

**increase? Does the Administration expect that eventually the overall termination rate may be as high as those for Batch 1 and Batch 2 (26.5% and 30.2% respectively)? What were the causes of terminations? How many projects were terminated because (i) the grantee failed to comply with any terms, conditions or undertakings in the project agreement and the grantee failed to remedy the breach to the satisfaction of the ESP Secretariat within a stipulated time; and (ii) the grantee had abandoned the project agreement? Had the ESP Secretariat, the IDC and PMC considered the possible reasons which led to termination as mentioned in Note 19 in assessing the project applications? Had the ESP Secretariat provided assistance to the grantees when they encountered the difficulties as mentioned in Note 19? What actions have been taken to address the issues? Please provide the details if it has and reasons if it has not.**

**HKPC Q14**

**According to paragraphs 4.22, 4.23 & 4.24, does HKPC agree that as time progresses, the overall termination rate will increase? Does the HKPC expect that eventually the overall termination rate may be as high as those for Batch 1 and Batch 2 (26.5% and 30.2% respectively)? What were the causes of terminations? How many projects were terminated because (i) the grantee failed to comply with any terms, conditions or undertakings in the project agreement and the grantee failed to remedy the breach to the satisfaction of the ESP Secretariat within a stipulated time; and (ii) the grantee had abandoned the project agreement? Had the ESP Secretariat, IDC and PMC considered the possibilities as mentioned in Note 19 in assessing the project applications? Had the ESP Secretariat provided assistance to the grantees when they encountered the difficulties as mentioned in Note 19? What actions have been taken to address the issues? Please provide the details if it has and reasons if it has not.**

As at 31 March 2016, the overall termination rate stood at 9.6%, (52 among 541 projects) being lower than the 13% as at October

2015 as stated in paragraph 4.23 of the Audit Report. For each and every terminated project, the ESP Secretariat conducted a review for IDC's and PMC's consideration. In light of the decreasing trend, it is expected that the overall termination rate may not be as high as those for Batch 1 and Batch 2.

As of October 2015, 36 out of 45 projects were terminated due to change of external market situation or demand in the Mainland, the grantee's internal issue or restructuring, lack of resources or manpower to implement the project, change of the grantee's marketing strategy or corporate direction, increasing costs, labour shortage, and change of operating environment as a result of changes in regulations, etc.

The other nine cases were terminated on the ESP Secretariat's recommendation among a total of 45 termination cases mentioned in the Audit Report. Those nine cases were terminated either because the grantees were found not implementing most of the key measures/deliverables or had abandoned the project agreement. This is a result of close monitoring by the ESP Secretariat through communications with the grantees by phone/emails, follow up with grantees on their submitted change requests and reports, findings from on-site checking etc.

The applicant's financial and manpower capability in project implementation, among others, will be considered by the ESP Secretariat, IDC and PMC when assessing the project applications. However, changes in market conditions are not something that could be foreseen at application vetting stage.

The ESP Secretariat has taken various measures to facilitate implementation of the approved projects. Please see our response to HKPC Q12 and HKPC Q13.

#### **TID Q16**

**According to paragraph 4.4, the PMC meets once every three months to consider the applications for ESP, and it could take**

**as long as six months before an application is approved. Will the Administration inform this Committee the approval procedures in details? Can PMC hold extra meetings to consider the applications; if not, what are the difficulties? As indicated in the information paper provided by the Administration to the Legislative Council Panel on Commerce and Industry (LC Paper No. CB(1)632/14-15(03)), around 97% of ESP applications came from small and medium enterprises ("SMEs"). As the scale of the projects organized by SMEs are relatively small, can the ESP Secretariat introduce any measures to expedite the handling procedures?**

The ESP Secretariat conducts initial assessments on all applications. The IDC, which comprises members from relevant government bureaux/departments, assesses all applications having regard to the initial assessment and makes recommendations to the PMC. The PMC is chaired by the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) and comprises ex-officio members and non-official members from the trade. It assesses all applications having regard to the recommendations of the IDC and advises the Government on the approval or otherwise of the applications.

The PMC meets about once every three months to consider the ESP applications in batches. About 90% of the applications are submitted a few days before the closing date, i.e. the end of March, June, September and December. The six months lead time only appears if an application is received at the beginning of a batch. As mentioned in our response to CEDB Q14, TID Q17 and HKPC Q10, most of the applications are processed, as soon as they have been received, in about three months, during which the ESP Secretariat clarifies details of applications with applicants and submits the applications for consideration of IDC, prior to the PMC meeting.

The ESP Easy was introduced in August 2015 with a view to simplifying application procedures under which the funding



scopes of projects are confined to a number of specified measures and application form is simplified. Under ESP Easy, the project duration can start from a date before the project is approved by the PMC and before a funding agreement is signed but after the date of submission of application, subject to PMC's approval of the application. All relevant expenditure incurred as early as after the date of submission of application to the ESP Secretariat can be recognised and reimbursed, provided that the measure was within the project duration and included in the project proposal approved by the PMC. Additional IDC meetings were already arranged in each quarter to vet ESP Easy applications. They will then be considered by the PMC by circulation of papers. For conventional ESP applications which cover more variety of project measures and budget items, the current practice of conducting one PMC meeting in each quarter is considered appropriate. We will continue to monitor the situation.

#### **HKPC Q12**

**According to paragraph 4.14, the grantees did not have enough manpower and experience to prepare the progress and final reports. Has the ESP Secretariat provided any guidance and support to help the grantees compile their reports? Please provide details if it has, and reasons if it has not.**

#### **HKPC Q13**

**Will the ESP Secretariat consider giving briefing or sending model report to the grantees to facilitate their submission of reports and to streamline the process as recommended in paragraph 4.15?**

The ESP Secretariat has taken various measures to facilitate implementation of approved projects, especially quality and speedy submission of progress reports and final reports:

- (a) Briefing sessions for agreement signing: to provide one-to-one briefing on the funding agreement and to

introduce report submission requirement as well as the progress and final report templates. As of April 2016, the ESP Secretariat has provided a total of 487 briefing sessions to the grantees. Grantees are also reminded of key elements for compiling the reports at the briefing session. It is normally a 45-minute meeting held in the ESP Secretariat.

- (b) Consultation sessions for report writing: to provide one-to-one consultation to address grantee's questions in compiling the progress/final report. It is normally a 2-hour session held in the ESP Secretariat or grantee's office. Since the introduction of this service in December 2013 till April 2016, the ESP Secretariat has provided a total of 61 consultation sessions to the grantees.
- (c) Sharing session: a seminar was organized in March 2015 and grantees of on-going projects were invited to participate. At the seminar, the ESP Secretariat reiterated the compliance on project progress and monitoring, introduced the report compilation requirement, shared reference samples, and answered questions from grantees.
- (d) Mock-up report templates in BUD website: mock-up templates were posted in BUD website in November 2015 with reference samples of progress and final report. The templates covered guidelines, reference examples and lists of supplementary information/supporting documents needed etc. For ESP Easy project, a streamlined and simplified final report template was developed and uploaded to BUD website in March 2016.
- (e) On-site checking by the ESP Secretariat: to check the progress and clarify the submitted progress/final report (if any), such as verification of the supplementary information and supporting documents, provision of consultation on the report revision (if needed) or preparation of the next report. It is normally a 3-hour meeting held in grantee's office/factory.

- (f) Professional advice: The ESP Secretariat recruited an auditor in April 2015 to provide professional advice and address queries from grantees' auditor by phone/emails. Moreover, the ESP auditor provided professional consultation sessions during on-site checking which helped to facilitate grantee in submission of the audit reports. As of April 2016, a total of 51 professional consultation sessions had been provided by the ESP auditor.

## **Part 5: Way forward**

### **CEDB Q17**

**According to paragraph 5.4, the Government undertook to report to the Legislative Council Panel on Commerce and Industry its assessment on the overall effectiveness of BUD Fund when more projects were completed. In this connection, how many more projects should be completed before the said assessment exercise will be triggered?**

The CEDB and TID, with the support of the HKPC, have been reviewing the operation and implementation of the BUD Fund on an ongoing basis, with a view to enhancing its operation. We have been reporting the operation of the Fund to the LegCo Panel on Commerce and Industry every year. We aim to provide an update to the Panel on the implementation progress, including the effectiveness of the funded projects, within the coming legislative year.

### **CEDB Q18**

**According to paragraph 5.7, the Secretary for Commerce and Economic Development has said that the Government will continuously review the operation of BUD Fund on an ongoing basis and implement improvement measures, and will consider further review as appropriate. Against this backdrop, what improvement measures have been/will be implemented for the operation of BUD Fund? If a further review on the operation of BUD Fund is not carried out at this stage, is the Administration satisfied with the current operation of BUD Fund?**

### **TID Q19**

**According to paragraph 5.7, the Secretary for Commerce and Economic Development has said that the Government will continuously review the operation of BUD Fund on an ongoing basis and implement improvement measures, and will**

**consider further review as appropriate. Against this backdrop, what improvement measures have been/will be implemented for the operation of BUD Fund? If a further review on the operation of BUD Fund is not carried out at this stage, is the Administration satisfied with the current operation of BUD Fund?**

The CEDB and TID, with the support of the HKPC, have been reviewing the operation and implementation of the BUD Fund on an ongoing basis, with a view to enhancing its operation. The following improvements have been/will be implemented -

On ESP

(a) Operation of ESP:

- (i) The ESP Easy was introduced in August 2015 with a view to simplifying application procedures under which the funding scopes of projects are confined to a number of specified measures. Under ESP Easy, the application form is simplified; vetting procedures for applications are streamlined such that applications would be circulated to the PMC for endorsement after consideration by the IDC; the process of arranging signing of funding agreement for ESP Easy projects is simplified such that grantees need not open dedicated project accounts. ESP Easy is well received by the trade. Up to the end of March 2016, we have received 218 applications.
  
- (ii) Collation and collection of information in respect of the funded projects have been stepped up since June 2015, including (i) conducting completion surveys with grantees upon completion of the projects; (ii) conducting tracking surveys one year after the end date of the project period; and (iii) collating information about the deliverables of the project

based on the final reports submitted by the grantees.

- (iii) Enhancement measures were put in place in March 2016 following internal reviews on the operation of the ESP, including revising the Normal Track application form and amending the holistic business plan section by adopting a simplified format, streamlining the vetting of ESP Easy applications, etc.

(b) Support to applicants:

The ESP Secretariat has been assisting applicants in the preparation of applications with a view to improving the quality of applications, such as providing even clearer guidelines on the application form, organising and participating in 151 seminars and events, and conducting 418 one-to-one consultation sessions to advise interested enterprises on making applications.

(c) Promotion:

- (i) The ESP Secretariat has stepped up the promotion efforts since the third quarter of 2015 and has made intensive promotion efforts such as participating in exhibitions, conducting telephone and email marketing work as well as conducting one-to-one consultation sessions with interested enterprises, etc.
- (ii) To attract more applications under ESP, the ESP Secretariat has secured the support from the Hong Kong Trade and Development Council, the Hong Kong Export Credit Insurance Corporation, the Hong Kong Science and Technology Parks Corporation and Hongkong Post to provide special offers to enterprises which obtain funding from the BUD Fund.

On OSP

(a) Operation of OSP:

- (i) TID completed an internal review on the vetting and monitoring procedures of OSP in end October 2015 and improvement measures (including requirements on monitoring the fees of implementation agents, control on in-kind sponsorship, checking of books and records, and website updating, etc) were identified and incorporated in the latest update of the OSP Operation Manual in January 2016. To enhance knowledge and understanding of staff of the OSP Secretariat, a briefing on the enhancement measures introduced to the OSP Operation Manual was conducted in February 2016. Regular meetings will be held to brief staff of any new and enhancement measures.
- (ii) In the light of the Audit findings and recommendations, we will further update the Operation Manual and ensure that staff of the OSP secretariat are fully acquainted with and comply with the requirements relating to the management and monitoring of OSP projects.

(b) Support to applicants:

- (i) We have been providing support to applicants at different stages of their applications, such as one-to-one consultation to potential applicants so that we can provide our views on the applications at an earlier stage; giving detailed rejection reasons to unsuccessful applicants to assist them in understanding Vetting Committee's views to facilitate

their re-submissions.

- (ii) In response to the audit recommendations, we will highlight in our future promotion that applicants may approach the Secretariat for one-to-one consultation to help them understand the objectives and criteria when preparing applications. We will also adopt a more targeted approach to discuss with applicants with rejected proposals in order that proposals can be revised and re-submitted quickly.

(c) Promotion:

- (i) Apart from on-going measures including promotional seminars/events and one-to-one consultation meetings with potential applicants, promotional letters were sent to trade and industrial organisations with rejected or withdrawn applications in May 2014. Another round of these letters were sent in January 2016 to over 480 trade and industrial organisations known to TID.
- (ii) In the light of the audit recommendations, we will step up our promotion efforts further by sending promotional letters more frequently, outreaching to trade and industrial organisations which have not applied before to encourage them to apply, and adopting a more targeted approach to discuss with applicants with rejected proposals in order that their proposals can be revised and resubmitted quickly.

**CEDB Q19**

**According to the information paper provided by the**



**Administration to the Legislative Council Panel on Commerce and Industry (LC Paper No. CB(1)632/14-15(03)), the Administration measures the effectiveness of BUD Fund with/by the feedbacks from grantees and the number of new posts created under the projects. As some enterprises shared in the symposia held by BUD Fund that their performance had increased by 30% after participating in the programme, will the Administration use the participating enterprises' performance as one of the performance indicators of BUD Fund?**

**TID Q20**

**According to the information paper provided by the Administration to the Legislative Council Panel on Commerce and Industry (LC Paper No. CB(1)632/14-15(03)), the Administration measures the effectiveness of BUD Fund with/by the feedbacks from grantees and the number of new posts created under the projects. As some enterprises shared in the symposia held by BUD Fund that their performance had increased by 30% after participating in the programme, will the Administration use the participating enterprises' performance as one of the performance indicators of BUD Fund?**

The objective of the BUD Fund is to assist enterprises explore and develop the Mainland market through developing brands, restructuring and upgrading business operation, and promotion domestic sales. Driving sales performance is not a specific objective of the BUD Fund. Moreover, sales performance is usually affected by various factors, some of which are beyond control, for example, the overall economic environment, and the effect of a project on sales performance would take time to materialise.

Notwithstanding the above, with a view to having a comprehensive picture of the Fund's effectiveness, we have in place a mechanism to collate and collect project information and feedback from grantees. The ESP Secretariat has been

conducting surveys with grantees upon completion of the projects and one year after completion of projects. Sales performance of the grantee after project completion is one of the aspects included in the survey.

As of end of November 2015, around 97% of the grantees responding to the completion survey considered the programme generally effective in assisting in the business development of enterprises, while all the grantees responding to the tracking survey considered the programme effective. Upon project completion, grantees generally considered that the project had helped them in various areas, including enhancing product competitiveness, enhancing the overall competitiveness of enterprises, enhancing corporate image, enhancing the awareness of the brand/product/service, increasing domestic sales turnover and developing domestic sales network, etc.