

NOTE FOR FINANCE COMMITTEE

Extension of the Application Period of the Dedicated Fund on Branding, Upgrading and Domestic Sales

PURPOSE

This note informs Members of the extension of the application period of the Dedicated Fund on Branding, Upgrading and Domestic Sales (the BUD Fund) for another five years to 24 June 2022.

BACKGROUND

2. The Finance Committee approved in May 2012 vide FCR(2012-13)22 the creation of a non-recurrent commitment of \$1 billion to set up the BUD Fund to assist enterprises in enhancing their competitiveness and sustaining their business development in the Mainland through developing brands, upgrading and restructuring operations and promoting domestic sales in the Mainland. The BUD Fund comprises the “Enterprise Support Programme” (ESP) and the “Organisation Support Programme” (OSP), which provide funding support to eligible enterprises and non-profit-distributing organisations respectively. The Hong Kong Productivity Council (HKPC) serves as our implementation partner¹ in taking forward the ESP while the OSP is administered by the Trade and Industry Department (TID).

3. The BUD Fund was launched in June 2012 for an initial period of five years until 24 June 2017. In FCR(2012-13)22, it was mentioned that the BUD Fund might be reviewed and extended, if necessary. The uncommitted balance of the approved BUD Fund as at end February 2017 stood at around \$459 million (representing 45.9% of the total commitment approved). The Financial Secretary announced in the 2017-18 Budget the extension of the application period of the BUD Fund for another five years to June 2022 to continue to assist Hong Kong enterprises in furthering their business development in the Mainland.

/UPDATES

¹ The HKPC is a multi-disciplinary organisation dedicated to promoting productivity excellence of the industry through the provision of integrated support across the value chain of the industry and has taken forward a number of initiatives in assisting local manufacturers in industrial upgrading, business transformation or relocating their operations. In 2012, the HKPC was engaged as an implementation partner for the ESP.

UPDATES

4. Up to end February 2017, we received a total of 2 232 applications and 179 applications under the ESP and the OSP respectively. Of the 2 087 ESP applications processed as at February 2017, 493 were subsequently withdrawn by the enterprises and 806 were approved². The total amount of funding approved was about \$287 million. Of the 170 OSP applications processed as at February 2017, 31 were subsequently withdrawn by the organisations and 59 were approved³. The total amount of funding approved was about \$194 million.

5. As mentioned in paragraph 2 above, the aim of the BUD Fund is to assist enterprises in enhancing competitiveness and furthering business development in the Mainland. We have evaluated and consider the BUD Fund effective in achieving its purposes. For the ESP, according to the completion surveys and tracking surveys conducted by the HKPC, around 99% of the ESP grantees considered the ESP effective in assisting in their business development. They generally considered that the projects had helped them in various areas, including upgrading their overall competitiveness, enhancing corporate image, enhancing the awareness of the brand/product/service, and increasing domestic sales turnover, etc. About 97% of the grantees considered the ESP useful to their long term development and they generally still found the projects helpful in various areas one year after project completion.

6. For the OSP, participating enterprises were generally satisfied with the effectiveness of and benefits brought about by the projects, and considered that the projects could enhance the brand image and competitiveness of their products or services in the Mainland market. Quite a number of them also considered that the projects had enhanced their understanding of the market environment and regulations in the Mainland and assisted them in building up business networks in the Mainland, thereby boosting their confidence in exploring the domestic sales market.

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² Another 788 ESP applications were rejected mainly because the applicants cannot demonstrate that the proposed activities in the projects can enhance its competitiveness and facilitate its business development in the Mainland; the applicant cannot show that it has sufficient ability to implement the proposed project; the project details are too broad-brush and lack clarity, etc.

³ Another 80 OSP applications were rejected mainly because the applicants cannot demonstrate that the proposed projects can enhance competitiveness of Hong Kong enterprises in the Mainland; the project proposal is not clear or the implementation plan lacks concrete details; the project is not cost effective; the applicant did not solicit sufficient support from the trade and relevant industry associations or professional bodies to ensure that the project could be effectively implemented, etc.

7. While continued growth and success of the Mainland business of the enterprises would depend on a variety of factors, we consider that the BUD Fund can enhance the overall competitiveness of the enterprises and lay foundation for their further development in the Mainland market. This would in turn benefit their business operations in Hong Kong in the long run, and create new job opportunities, as well as generate demand for professional services or other services in Hong Kong.

8. Having regard to the feedback of enterprises as well as the recommendations relating to the management of the BUD Fund made in the Director of Audit's Report No. 66, we have reviewed and implemented a host of measures to further improve the operation of the BUD Fund, including –

- (i) launching the “ESP Easy – Simplified Application Track” in August 2015;
- (ii) stepping up the collation and collection of information in respect of the ESP since June 2015;
- (iii) conducting an internal review of the ESP in October 2015 and putting in place streamlining procedures to make the scheme more user-friendly;
- (iv) introducing a “Simplified Option” under the ESP since October 2016 which allows applicants to commence projects as early as after the date of submission of applications and waives the requirement of setting up a separate project account should the applicants opt not to receive initial payment of funding;
- (v) streamlining the reporting requirement for ESP grantees;
- (vi) highlighting in our promotion for the ESP and the OSP that applicants may approach the Secretariat for one-on-one consultation to help them understand the objectives and criteria when preparing applications; and
- (vii) adopting a more targeted approach to discuss with applicants with rejected proposals in order that proposals can be revised and re-submitted quickly, etc.

/EXTENSION

EXTENSION OF THE APPLICATION PERIOD

9. Having regard to the positive feedback from the trade, and the effectiveness of the BUD Fund in helping Hong Kong enterprises in exploring and developing the Mainland market as explained in paragraphs 5 to 7 above, the Government will extend the application period of the BUD Fund for another five years to 24 June 2022 subject to the funding balance. The scope, funding principles, as well as overall assessment and project monitoring mechanism of the Fund will remain unchanged.

10. TID will continue to administer the OSP. For the ESP, the HKPC will continue to be engaged as the implementation partner in light of its mission, expertise and experience in the Mainland market. With the experience of operating the ESP and implementing enhancements along the way, we consider that the HKPC is in the best position to continue serving as the implementation partner. The HKPC will continue to act as the secretariat of the ESP to administer the scheme, including planning and organising publicity and promotional activities, receiving and undertaking initial vetting of applications, coordinating the further vetting of project applications by the Inter-departmental Committee and the Programme Management Committee, monitoring the progress of the approved projects, disbursing funds for approved projects, and providing general advice on the application procedures, etc. to enterprises.

FINANCIAL IMPLICATIONS

11. As at end February 2017, the funding committed under the BUD Fund was around \$541 million⁴ and hence the uncommitted balance stood at about \$459 million. Extending the application period of the Fund will not entail an increase in the approved commitment of \$1 billion.

12. TID will continue to absorb the additional requirement to administer the OSP for the second term. As for the ESP, similar to the funding arrangement of the first term⁵, part of the administrative and promotion costs for the second term

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⁴ Comprising \$287 million and \$194 million of funding approved under the ESP and OSP respectively, as well as the \$60 million implementation fee for ESP for the first term.

⁵ For the first term, as set out in FCR(2012-13)22, a total of \$60 million would be disbursed to HKPC from the approved BUD Fund to cover the bulk of the expenses incurred for implementing the ESP. The amount includes \$56 million for staff and other operating costs of a dedicated team to be set up for programme management, administrative support and project monitoring and a total of \$4 million for various publicity and promotional activities and other necessary expenses such as audit fees. The HKPC would be 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.

will be funded by the BUD Fund while the remaining will be contributed by the HKPC as the implementation partner.

13. The Government and the HKPC have critically reviewed the manpower deployment and other resources requirements for providing the secretariat services, having regard to the enhanced measures as set out in paragraph 8 above as well as the experience gained in the first term. In addition to the implementation fee for the HKPC to administer the ESP in the first term, we estimate that a total of about \$48 million will be provided to the HKPC from the uncommitted balance of the approved BUD Fund to cover the bulk of the expenses incurred for implementing the ESP in the second term, i.e. the 7.5 years⁶ from June 2017 to December 2024 (comprising about \$46 million for covering the staff and other operating costs of a dedicated team for programme management, administrative support and project monitoring, and \$2 million for various publicity and promotional activities and other necessary expenses such as audit fees). The HKPC, as the implementation partner, will be responsible for the rest of the relevant expenditures which amount to about \$11 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. Detailed breakdown for the second term of the ESP is set out in the Enclosure.

Encl.

PUBLIC CONSULTATION

14. We briefed the Trade and Industry Advisory Board, the Textiles Advisory Board and the Small and Medium Enterprises Committee of TID in March 2017 and Members welcomed the proposal. We also briefed the Legislative Council Panel on Commerce and Industry on 18 April 2017 and Members noted the proposal.

15. Members are invited to note the content of the paper.

Commerce and Economic Development Bureau
Trade and Industry Department
June 2017

⁶ 7.5 years comprise a 5-year application period and another 2.5 years for overseeing and monitoring the implementation of projects approved in the latter phase of the 5-year application period.

**Estimated Cost Breakdown for
the Enterprise Support Programme in the Second Term**

	Funding by Government (\$'000)	Contribution by HKPC (\$'000)
(I) Secretariat Services		
• Programme Team Management ^(Note 1)	9,660	4,360
• Programme Administration, Applications Handling and Project Monitoring ^(Note 2)	36,640	6,620
Sub-total	46,300	10,980
(II) Promotion, publicity, dissemination and others		
• Promotion and publicity ^(Note 3)	1,160	60
• Dissemination ^(Note 4)	780	50
• Others (e.g. audit fees) ^(Note 5)	60	0
Sub-total	2,000	110
TOTAL	48,300	11,090

Remarks

Note 1 : The Hong Kong Productivity Council (HKPC) plans to assign officers at managerial grade to oversee and supervise the implementation of the ESP.

The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.

Note 2 : The HKPC plans to engage a team comprising a number of officers at consultant grade and Project Officer to assist in applications handling, project monitoring and programme administration.

The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.

Note 3 : Expenditures involved for promoting the ESP would include those for organising seminars, placing advertisements and production of promotional videos, etc. The HKPC will include the activities planned to be organised in the coming year in the annual implementation plan for prior approval by the Programme Management Committee (PMC) and provide a financial estimate for these activities. The Government will cover the actual expenses incurred on a reimbursement basis.

The HKPC will contribute part of the speaker fees and venue rentals, and provide other technical and support services, as part of its contribution to the implementation of the ESP.

Note 4 : Expenditures involved for dissemination would include those of development and maintenance of a website on the ESP, organising symposia and production and distribution of guidebooks for sharing of experience and success stories, etc. The HKPC will include the activities planned to be organised in the coming year in the annual implementation plan for prior approval by the PMC and provide a financial estimate for these activities. The Government will cover the actual expenses incurred on a reimbursement basis.

The HKPC will provide ancillary technical and support services as part of its contribution to the implementation of the ESP.

Note 5 : To safeguard the proper use of public money, the HKPC will be required to produce to the PMC annual and final audited accounts in relation to its provision of secretariat services for the ESP.
