

## **NOTE FOR FINANCE COMMITTEE**

### **Enhancement Measures to the Recycling Fund**

#### **PURPOSE**

This note briefs Members on the further enhancement measures to the \$1 billion Recycling Fund (the Fund), which was launched in October 2015, to promote the recovery and recycling of waste recyclables by assisting the recycling sector to upgrade its operational capabilities and efficiency for the sustainable development of the recycling industry and hence less waste disposal at landfills. The further enhancement measures will be implemented from 1 November 2019 to provide additional support for the recycling industry and relevant stakeholders by relaxing certain existing requirements.

#### **FURTHER ENHANCEMENT MEASURES**

2. The Environmental Protection Department (EPD) carried out a comprehensive mid-term review of the Fund during the second half of 2018. Having regard to the review findings and stakeholders' suggestions, the Advisory Committee on Recycling Fund (RFAC) rolled out in January 2019 the first batch of enhancement measures. They include increasing the current rental subsidies to help applicants cope with the high rentals in Hong Kong or relocate their operations to more suitable locations (e.g. industrial buildings or sites zoned for industrial purpose); relaxing the requirements on conducting audits and submitting progress reports to reduce applicants' administrative workload; and expediting payment of the approved funds to the subsidised enterprises to improve their cash flow. The RFAC will introduce further enhancement measures in November 2019 as set out below.

(a) Under the Enterprise Support Programme –

- (i) the cumulative maximum funding amount will be raised from \$5 million to \$15 million for each enterprise;
- (ii) the cumulative maximum number of approved projects will be raised from three to ten for each enterprise; and

/(iii) .....

- (iii) the maximum project period will be extended from two to four years.
- (b) The application period of the Fund will be extended for two years from October 2020 to October 2022, and the overall operational period of the Fund from 2022 to 2026, with the last four years being the progress monitoring period for monitoring the implementation and progress of the remaining approved projects. The engagement of the Hong Kong Productivity Council (HKPC) as the Secretariat and implementation partner will also be extended correspondingly.

Encl. 3. For details of the above enhancement measures, please refer to paragraphs 13 to 19 as well as Annexes F and G of the LC Paper No. CB(1)922/18-19(03) attached at Enclosure.

4. On 29 April 2019, we reported findings of the mid-term review of the Fund and relevant enhancement measures to the Panel on Environmental Affairs of the Legislative Council. Members of the Panel supported the measures.

## FINANCIAL IMPLICATIONS

5. As at the end of August 2019, the total amount of funding support approved by the Fund was \$208 million. With the extension of the operational period of the Fund as well as the implementation of the above enhancement measures, we expect that more applications will be received with more funding support granted to the approved projects. Given the existing balance of the Fund, there is no plan for additional injection of funding to the Fund at this stage.

6. To dovetail with the extended engagement of the HKPC as the implementation partner and Secretariat, the Government will need to provide an additional \$49.93 million for the HKPC to cover the staff and other operational costs and to strengthen publicity and promotional activities for the Fund. The additional expenditure will be borne by the EPD with existing resources, such that the remaining balance of the Fund can be left intact for supporting the recycling industry and other relevant stakeholders. The HKPC will also bear part of the additional expenditure to be incurred for the extended period, with its share to be increased by \$9.16 million, i.e. from the original \$18.94 million to \$28.10 million.

7. Members are invited to note the content of this note.

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Environment Bureau  
Environmental Protection Department  
October 2019

**For discussion on  
29 April 2019**

**Legislative Council Panel on Environmental Affairs**

**Proposed enhancement measures to the Recycling Fund**

**PURPOSE**

The Environmental Protection Department (“EPD”), together with the Advisory Committee on Recycling Fund Chairman and representatives of the Hong Kong Productivity Council (“HKPC”), briefed this Panel on the progress of implementation of the Recycling Fund (“the Fund”) in November 2016. This paper reports to Members the results of a mid-term review of the Fund and the relevant enhancement measures.

**BACKGROUND**

2. The Administration launched the \$1 billion Fund in October 2015 to promote the recovery and recycling of waste recyclables by facilitating the recycling industry to upgrade its operational capabilities and efficiency for the sustainable development of the recycling industry. Specifically, the Fund aims to support projects which can

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- (a) raise the quantity and quality of recyclables recovered;
- (b) develop markets for recycled products; and
- (c) enhance the overall capability, capacity, efficiency and skills of, as well as the market information obtained by, the recycling industry.

3. The scope and principles of the Fund were set out in the Legislative Council

(“LegCo”) Finance Committee (“FC”) Paper FCR(2015-16)25 (**Annex A**). Under the original plan, the Fund was rolled out for applications for five years (i.e. from 2015 to 2020), comprising two funding programmes, namely the Enterprise Support Programme (“ESP”) and the Industry Support Programme (“ISP”).

4. The ESP provides funding support on a matching basis, and supports individual enterprises to upgrade and expand their local waste recycling business. Each applicant enterprise may submit more than one application, and obtain a cumulative funding support capped at \$5 million to implement not more than three approved projects.

5. The ISP provides funding support for non-profit distributing organisations to undertake projects which assist the local recycling industry in general to enhance their operational capability and productivity. Each approved project may obtain a maximum of \$15 million. There is no limit of cumulative funding or number of projects for each applicant.

6. For the administration and operation of the Fund, the Administration set up an Advisory Committee on Recycling Fund (“RFAC”) in August 2015 to advise and make recommendations to the Secretary for the Environment. RFAC Members are appointed by the Secretary for the Environment for a tenure of 3 years. The current membership list (2018-2021) is at **Annex B**. Separately, as proposed in the LegCo FC Paper FCR(2015-16)25, HKPC is the implementation partner and Secretariat of the Fund. As the implementation partner of the Fund, HKPC has undertaken to bear an expenditure of about \$18.9 million for providing professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services. During the operational period of the Fund<sup>1</sup>, a total of \$99.9 million will be paid by the Fund for HKPC to administer the Fund, supervise the programmes, conduct technical assessments, monitor the projects, publicise the Fund and conduct periodic market development and technological studies on matters relating to recycling industries.

## **LATEST SITUATION OF THE FUND**

7. As of end March 2019, the Fund has received 526 applications, of which

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<sup>1</sup> Seven years in total, including an application period of five years and the subsequent progress monitoring period of two years.

226 applications were approved, 75 applications rejected, 170 applications withdrawn before consideration by the RFAC, and 55 applications being processed. Excluding the 47 approved projects which have been subsequently withdrawn after RFAC's approval, a total of 179 funded projects have commenced or will soon commence, accounting for a total funding support of \$152 million<sup>2</sup>. The Fund has provided an effective platform in rendering timely and comprehensive support for the recycling industry amid the various challenges and opportunities in the international recycling market.

8. The projects approved under the ESP involve different types of recyclables, including waste paper, waste metals, waste plastics, waste electrical and electronic equipment, food waste or waste cooking oil, waste tyres, waste wood, construction waste, used furniture, used clothes, etc. (**Annex C**). The total recycling capacity for these approved projects would be about 150 000 tonnes (**Annex D**). The approved ISP projects aim to develop practice notes and guidelines for recycling operations, provide training programmes for practitioners, formulate registration systems for recyclers and conduct trial projects on collection of recyclables adopting advanced technology and operational modes. These projects could help enhance the overall operation of the recycling industry and the standard of practitioners. Fundings approved for individual ESP projects range from \$6,000 to \$5 million, and those approved for individual ISP projects, from \$0.4 million to \$14 million.

9. Since the launch of the Fund, in light of market conditions as well as the views expressed by applicants and stakeholders, the RFAC, the EPD together with HKPC, have been exploring continuously the need for introducing enhancement measures to facilitate the recycling industry to make better use of the Fund to address its needs, and to attract more worthwhile applications.

10. For example, we have streamlined the application procedures and requirements in order to encourage more recyclers to apply for the Fund, as well as to reduce applicants' administrative workload associated with the implementation of approved projects under the Fund. Separately, in response to the challenging business environment of the recycling industry in recent years, we have, from time to time, expanded the list of equipment and machinery which the recyclers may apply for under a streamlined process. The key enhancement measures before the mid-term review are summarised in **Annex E**.

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<sup>2</sup> Among the 179 projects, 168 were ESP and 11 were ISP, involving funding support of about \$96 million and \$56 million respectively.

## MID-TERM REVIEW OF THE FUND

11. With the Fund entering the latter half of its operational period, we carried out a comprehensive mid-term review of the Fund during the second half of 2018. One of the objectives of the review is to identify room for further improving the various aspects of operation of the Fund, with a view to better supporting the operation and function of every key component of the recycling system (including from source separation to handling and processing of recyclables).

12. We held numerous meetings with members of the RFAC, representatives of the major recycling trade associations and HKPC in late 2018, to gather views from various stakeholders' on the existing arrangements and room for possible improvement. Result of the mid-term review was that all stakeholders recognised the effort of the RFAC and the EPD in continuously enhancing the operation of the Fund, but also considered it necessary to further simplify the application and reporting procedures, and expedite the disbursement of subsidy to suit the cash flow of enterprises. The recycling trade also expressed their wish for the Fund to enhance the overall subsidy to enterprises, and provide appropriate support in premises and rent.

### *Enhancement measures rolled out in January 2019*

13. Having regard to the review findings and stakeholders' suggestions, the RFAC rolled out the first batch of enhancement measures in January 2019, as set out in **Annex F**. Among other things, noting that high rental cost has been one of the key challenges faced by the recycling industry, and that locating recycling operations in suitable land or premises would also help minimise nuisance caused to the neighbourhoods, the Fund will provide a higher level of rental support to project applicants from a cap of \$20,000 per month or 10% of the total approval amount to \$40,000 per month or 20% of the total approved funding amount, whichever is lower, and will offer rental subsidies to recyclers who plan to relocate their operations to more suitable or desirable locations (e.g. industrial buildings or land zoned for industrial purpose). Since the implementation of the first batch enhancement measures, there is an increasing trend in the number of applications received, from an average of 36 cases in each of the previous batches to 59 cases in the recent batch<sup>3</sup>

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<sup>3</sup> Applications for the Fund are received in batches at 3-month intervals. The application period of the recent batch

of applications.

14. Moreover, the RFAC and the EPD also consider it necessary to enlarge the scope of eligible applicants to cover other important and relevant stakeholders, mainly the Incorporated Owners and property management companies. We believe that these stakeholders, if suitably supported, would contribute to building a viable and healthy recycling system, such as by making available more quality recyclables and business opportunities for the recycling industry, which are conducive to the sustainable development of the industry itself as well as the implementation of the Municipal Solid Waste (MSW) Charging in future. We will soon roll out suitable publicity to specifically encourage them to apply for the Fund. The RFAC will also consider applications submitted by stakeholders in other sectors, provided that the applicants are able to prove that their work has all along been closely related to the recycling industry and has played a material part in the recycling system.

15. The RFAC will adjust its application criteria and processing mechanism to implement these enhancement measures.

### ***Proposed further enhancement measures***

16. As for the further enhancement measures, we also propose extending the project duration and raising the maximum cumulative number of approved projects as well as the funding cap each enterprise is eligible to under the ESP. Also, we propose extending the operational period of the Fund. The justifications for proposing these further enhancement measures (details set out in **Annex G**) are set out in the ensuing paragraphs.

#### ***(a) Proposed further enhancement measures to the ESP***

17. The proposed further enhancement measures for the ESP aims at providing additional support for the recycling industry and relevant stakeholders by relaxing the existing rules. Firstly, we have noted that some applicants have already used up the existing funding limit/ quota (i.e. maximum cumulative number of approved projects/ maximum cumulative funding amount). Given the upcoming challenges and opportunities being faced by the recycling industry<sup>4</sup>, it is suggested raising, for

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started on 1 December 2018 and ended on 28 February 2019.

<sup>4</sup> For instance, stricter control of imported recyclables already imposed or to be imposed by the Mainland and other overseas markets, implementation of MSW Charging and the proposed Producer Responsibility Scheme for various



each eligible enterprise, the maximum cumulative number of approved projects from three to ten<sup>5</sup>, as well as the cumulative maximum funding amount from \$5 million to \$15 million. After relaxing the caps, applicants already used up the existing quota or funding limit will be eligible to apply for additional support from the Fund. We believe that raising the cumulative funding cap per enterprise may serve as an incentive for the industry to implement projects of a larger scale or with more value-added elements. In addition, we propose extending the maximum project period from two to four years, which would facilitate applicants to implement projects which require substantial infrastructure or a longer lead time.

*(b) Extension of the operational period of the Fund*

18. The original operational period of the Fund is from 2015 to 2022, including an application period from October 2015 onwards for a total of five years until October 2020, followed by a period of two years for progress monitoring of the remaining approved projects. In view of the response of stakeholders, we believe that it is crucial for the Fund to, after the original operational period, continue to provide financial support to the recycling industry and other relevant stakeholders, for the sustainable development of the industry itself and for better preparing the community at large for the upcoming challenges and opportunities including the implementation of the MSW Charging. In short, we propose extending the application period of the Fund for two years from October 2020 to October 2022, and the overall operational period of the Fund from 2022 to 2026, with the last four years being the progress monitoring period, for monitoring of the implementation and progress of the remaining approved projects<sup>6</sup>. We will conduct another review in 2021 on whether it is necessary to further extend the operation of the Fund.

*(c) Continuous engagement of HKPC*

19. In the course of the mid-term review of the Fund, we also consulted both the RFAC members and the major recycling trade associations regarding HKPC's performance as the Secretariat and the implementation partner of the Fund. Both the

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types of materials, etc.

<sup>5</sup> Given that the scale and scope of ESP projects are larger and more complicated than Standard Projects ("SP"), recyclers should only be allowed to concurrently implement 3 ESP projects to ensure the successful implementation and completion of the projects. Such restriction will not apply to recyclers implementing SP projects.

<sup>6</sup> As per paragraph 18 and **Annex G**, the maximum duration allowed for a project is recommended to extend from two to four years.

RFAC members and the trade associations acknowledged HKPC's professional performance and effort in executing its role<sup>7</sup> as the Secretariat and the implementation partner of the Fund. We therefore propose extending the partnership with HKPC in accordance with the proposed extended operational period of the Fund mentioned above.

## FINANCIAL IMPLICATIONS OF THE PROPOSAL

20. With the proposed extension on the operational period of the Fund as well as the implementation of further enhancement measures outlined in **Annex F** and **Annex G**, we expect that more applications would be received and more funding support would be granted to the approved projects. In view of the existing balance of the Fund, it is projected that no additional injection of funding to the Fund is required at this stage. The revised estimated cash flow is as follows:–

<b>Year</b>	<b>(\$ million)</b>
Balance of the Fund as at March 2019	900
2019-20	80
2020-21	230
2021-22	230
2022-23	150
2023-24	70
2024-25	60
2025-26	50
2026-27 (as at end September 2026)	30

- With the launch of further enhancement measures within 2019, we expect that more applications would be received from 2020 to 2022.
- The Fund will cease accepting applications in October 2022.

21. For the proposed extended engagement with HKPC as the Secretariat and the implementation partner, HKPC will also bear part of the expenditure, increased from the original \$18.94 million to \$28.10 million (i.e. an addition of \$9.16 million) to cover the additional expenditure in the proposed extended period. The Government

<sup>7</sup> Key tasks carried out by the HKPC (as the Implementation Partner and the Secretariat of the Fund) include developing, updating and implementing internal procedures on handling and processing applications and associated liaison works with applicants, conducting preliminary assessment for each application, resolving issues and providing guidance and advice to unsuccessful applicants for resubmission, monitoring approved projects, handling disbursement to grantees, organising publicity and promotional activities for the Fund, engaging the recycling industry, providing technical support and professional advice to both EPD and the RFAC, etc.

will need to provide an additional \$49.93 million to HKPC for covering the staff and other operational costs and to strengthen publicity and promotional activities for the Fund. We propose that the additional expenditure be borne by the current EPD resources, such that the remaining balance of the Fund could be left intact for supporting the recycling industry and other relevant stakeholders.

## **WAY FORWARD**

22. Subject to Members' comments on the measures, we will issue an information paper to the FC of LegCo on the findings of the review and the enhancement measures, before rolling out the remaining enhancement measures, as set out in paragraph 16 to 19 above in the second half of 2019.

23. The EPD and the RFAC will keep in view the implementation of the Fund as well as the effectiveness of the enhancement measures, and will continue to enhance the operation of the Fund according to the latest situation.

**Environment Bureau**  
**Environmental Protection Department**  
**April 2019**

For discussion  
on 26 June 2015

FCR(2015-16)25

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 44 – ENVIRONMENTAL PROTECTION DEPARTMENT**

#### **Subhead 700 General non-recurrent**

#### **New item “Recycling Fund”**

Members are invited to approve the creation of a new commitment of \$1 billion for setting up the Recycling Fund.

### **PROBLEM**

We need to promote the development of effective and sustainable recycling operations in order to increase the recovery and recycling of waste and to reduce disposal at landfills, as part of our overall strategy to tackling Hong Kong’s pressing waste problem.

### **PROPOSAL**

2. The Secretary for Environment proposes to create a new non-recurrent commitment of \$1 billion for setting up a Recycling Fund (the Fund) to promote the recovery and recycling of waste by facilitating the recycling industry to upgrade its operational capabilities and efficiency for sustainable development.

### **JUSTIFICATION**

3. In the past 30 years, our municipal solid waste (MSW) increased by nearly 80% while the daily per capita MSW rate rose from 0.97 kg to 1.33 kg. The increase in our waste load put tremendous pressure on the entire waste chain. In response to this imminent waste problem, the Government issued in May 2013 the

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“Hong Kong Blueprint for Sustainable Use of Resources 2013-2022” (the Blueprint), which sets out a comprehensive strategy to reduce waste at source through the reuse, recycling and recovery of resources before resorting to landfill disposal. Under the pillars of policy formulation, infrastructural developments and social mobilisation, we pledge to reduce per capita municipal solid waste disposal by 40% by 2022. The recycling industry plays a pivotal role in achieving this goal.

4. According to our latest survey, there are currently about 2 000 companies and organisations engaged in recycling operations in Hong Kong. Around 95% of the companies employ less than 50 employees. This shows that the recycling industry is mainly composed of small and medium enterprises. The majority of them are limited to a simple mode of collection, storage, sorting, baling then exporting, and around two thirds of recyclables by weight were exported to the Mainland, followed by other Southeast Asian jurisdictions such as Vietnam and Taiwan. With the tightening control on imports of recyclables in various markets, these small recyclers will need to strengthen their capacity and quality of recycling processes in order to remain as commercially viable players in the recycling industry. In the context of the waste management policy, Government sees benefits in facilitating the enhancement of the quality and competency of the recycling industry as a whole in order to help reduce waste at landfills and other disposal outlets.

5. The proposed Recycling Fund could facilitate the sustainable development of the recycling industry through upgrading their operational effectiveness and capacity in various areas, including –

- (a) enhancing the logistics system to improve recycling collection efficiency;
- (b) installation of new facilities to enhance separation and collection of recyclables;
- (c) expanding treatment capacity and adopting value-added recycling processes leading to better quality of recycled products;
- (d) promoting the viability and market competitiveness of recycled products through commercialization and related marketing efforts;
- (e) developing and offering training and certification programmes on occupational health and safety for frontline workers of the whole recycling industry;

/(f) .....

- (f) providing training or certification schemes for the industry to enhance overall operational standards and establish market confidence in the recycling industry; and
- (g) facilitating experience sharing with international and regional practitioners on the latest technologies and best practices of recycling industries.

6. Against the above backdrop, we propose that the objectives of the Fund should be to promote the recovery and recycling of waste by facilitating the upgrading of operational capabilities and efficiency of the recycling industry for sustainable development. Specifically, the Fund should aim to support projects which can –

- (a) raise the quantity and quality of recyclables recovered from the waste stream as well as those of recycled products from their treatment, thus reducing disposal at our landfills;
- (b) promote markets for recycled products, thus providing greater impetus to local landfill diversion; and
- (c) enhance the overall capability, capacity, efficiency and skills as well as market information of the recycling industry, thus facilitating its sustainable development.

### **Funding Scope and Principles**

7. The Fund will target at two main groups of applicants, namely, individual enterprises and non-profit distributing organisations<sup>Note</sup> (NPOs). The funding principles are elaborated in the ensuing paragraphs.

#### **(a) Funding for Individual Enterprises**

8. We propose that the Fund should provide project-based matching funds for enterprises to upgrade and expand their waste recycling operations in Hong Kong. Enterprises with business registration in Hong Kong and have

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<sup>Note</sup> Non-profit distributing organisations include those statutory organisations or organisations registered under the laws of Hong Kong which are non-profit distributing.

demonstrated a close connection with the recycling industry in Hong Kong are eligible to apply. Applicants could submit proposals for enhancing the source separation, collection and/or treatment of recyclables recovered from the waste stream to landfills, or commercialisation and marketing of recycled products made from these recyclables. They must demonstrate that the proposed project will remain as their business processes and be able to operate on their own resources without further funding support after the project period, which is set at two years maximum.

9. Grants for individual recyclers will be set at 50% of supported expenditure items with a cap of at \$5 million per application subject to a cap of three applications and a maximum project period of two years. Eligible expenditure items include capital costs for purchase of equipment, installations and vehicles to enable the addition of value-adding processes and/or to expand the capacity of operations, or operating costs such as additional costs of manpower, training, transportation and equipment rental, cost of promotion and publicity associated with the enhanced operation, expenses on commercialisation of recycled products, etc. The funding limit of \$5 million has been drawn up with reference to a number of factors, including the estimated cost of machinery and equipment for value-adding recycling and related processes, manpower and logistics support to encourage source separation and collection of recyclables, etc. To cater for different operational circumstances of recyclers, individual enterprises will be eligible to making more than one application, subject to a cap of three applications and the cumulative funding cap of \$5 million.

#### **(b) Funding for Industry Support Projects**

10. We propose that the Fund should also provide funding for NPOs such as professional bodies, trade and industry organisations, research institutes and other industrial support organisations to undertake non-profit making projects for enhancing the operational standards and productivity of the industry, such as upgrading the skills and safety of incumbent and potential employees of the recycling industry and/or expanding its potential workforce, as well as developing certification schemes for recycling operations. Funded projects should be for the benefit of the industry as a whole rather than for individual enterprises, and the project outcome should be open for sharing with members of the industry.

11. Grants for NPOs to conduct programmes for the upgrading and development of the industry may cover up to 100% of approved expenditure items depending on the merits of the case. For example, training programmes on

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occupational safety for frontline workers could be considered for a 100% grant taking into account the nature and benefits of such training to the trade. Grants are proposed to be capped at \$15 million per project which may cover the costs of manpower and consumables, etc. The funding limit of \$15 million is considered appropriate having regard to the estimated cost of manpower training programmes, technical research and promotion activities.

12. The Fund is proposed to be open for application initially for five years, and may then be extended subject to the funding balance and periodic review.

13. To ensure that there is no duplication of public funding for any single project through different sources, the Fund will not consider any proposed project that has been funded or will be funded by other Government sources, or if there is/will be any duplication in terms of the work carried out by other institutions/applicants of Government funds. For completeness of information, the applicants will be required to declare whether their projects submitted to the Fund are being considered for other funding schemes supported by the Government or public bodies. Furthermore, to provide greater encouragement to individual enterprises and non-profit distributing organisations to invest in projects meeting the goals of the Fund, and that the basic tenet of the Fund is to help the recycling industry become sustainable through a funding support on a one-off basis, we do not recommend to recoup the Government's contribution from the net income generated from projects with commercial elements.

### **Expected Benefits**

14. The Fund is expected to bring about the following benefits –
- (a) increase the quantity and quality of recyclables recovered from the waste stream, thus reducing disposal at our landfills;
  - (b) drive investment in the standards and treatment capacity of recycling facilities, including, equipment and installations as well as development in technical capabilities, enabling recyclers to upgrade their operations and undertake value-adding processes;
  - (c) promote market viability of recycled products to increase outlets for locally processed recyclables, thus incentivising investments in the industry;

/(d) .....



- (d) facilitate sustainable development of the recycling industry by providing support to enhance the upgrading of the capacity and capabilities of recyclers as appropriate and where justified; and
- (e) a recycling industry with increased capabilities will enable more effective recovery and recycling of waste, thereby contributing to the Government's policy objective of waste reduction as pledged in the Blueprint.

### **Implementation Partner**

15. We plan to engage the Hong Kong Productivity Council (HKPC) to act as our implementation partner to the Fund to leverage on HKPC's mission, expertise and experience in waste management initiatives as well as relationship with the recycling sector.

16. HKPC is a statutory organisation specifically set up to provide technical support to Hong Kong industry. Its mission is in line with the objective of the Fund in respect of enhancing the capability of the industry to achieve sustainable development. HKPC has been working closely with Government, local industries/trades as well as green groups and academia to improve the environment of Hong Kong. Examples of relevant Government programmes it has helped develop and/or implement include the Cleaner Production Partnership Programme and consultancy studies associated with or related to the recycling trade.

17. We have been discussing with HKPC in drawing up a mode of operation, which will include tasks relating to promoting and publicising the Fund, conducting periodic market development and technological studies on matters relating to recycling industries, and promoting the industry's knowledge on the latest developments, providing general advice on the application procedures to applicants, receiving and processing of applications, monitoring the progress of the approved projects and checking on compliance with the terms of grants, etc. HKPC will provide an in-kind contribution 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, while other necessary expenses incurred by HKPC in implementing the Fund will be met by the Fund. In this connection, HKPC will be required to work out annual implementation plans and budgets for prior approval by the Environmental Protection Department. The manpower arrangements and activities in relation to publicity and/or promotion, market development and technological studies will be reviewed and suitably adjusted as necessary having regard to the workload, status of the Fund and prevailing market conditions.

18. Funding from the Government will be disbursed to the HKPC annually, and the disbursement will be contingent upon HKPC's submission and acceptance of the annual implementation plan and budget. HKPC will also be required to submit regular progress reports and evaluation on the operation of the Fund, as well as annual audited accounts.

19. To avoid conflict of interests, HKPC will not seek funding support from the Fund as an applicant and will not take part in the provision of consultancy service or the implementation of any approved project under the Fund.

### **Administration and Operation**

20. An Advisory Committee on Recycling Fund (Advisory Committee) will be set up to advise and make recommendations to the Secretary for the Environment on matters relating to the overall administration and operation of the Fund. Membership of the Advisory Committee will include persons with experience in different sectors relevant to the promotion of waste reduction and recycling, including management of housing estates and commercial venues, academics, representatives of trade and industry associations, relevant bureaux/departments, etc. The Advisory Committee will be chaired by a non-official while HKPC will be serving as the secretariat. The Government will consider and approve applications based on the advice of the Advisory Committee. The proposed terms of reference of the Advisory Committee are set out in Enclosure 1.

Encl. 1

21. The guiding principles and major criteria in the assessment of individual applications are at Enclosure 2. We are seeking the advice of Independent Commission Against Corruption in working out the details of the criteria and procedures to be adopted, as well as requirements relating to declaration of interests and other matters related to the operation of the Fund as appropriate.

Encl. 2

### **Review and Monitoring Mechanism**

22. A robust monitoring mechanism will be put in place to ensure that applicants of funded projects are accountable for the proper and prudent use of public funds. For example, applicants will be required to go into contractual agreements with the Government which will lay down detailed conditions for the grants, terms for purchases and disposal of capital assets, as well as recall of payments and/or assets in the event of unsatisfactory project performance, etc. Periodic progress reports and audited accounts prepared by independent auditors will be required, as well as project completion reports and final audited reports.

/23. ....

23. As we anticipate that procurement of capital assets and employment of manpower may be required in some projects, Government procurement procedures and open recruitment need to be adopted in all applicable cases. Applicants will be required to disclose their procurement and staff recruitment mechanisms during the application stage and to report the operation of the mechanisms with supporting documents in the progress and final reports to facilitate inspection checks. Failure to comply with the mechanisms may lead to recall of all or part of the grant. Additional conditions specific to each project may be imposed as appropriate.

24. To facilitate the assessment of benefits brought about by the approved projects in achieving the Government's policy objectives, applicants will also be required to report on a regular basis relevant benchmarks such as the increase in tonnage of recyclables treated that would otherwise be sent to landfills, extra types of waste processed enhanced market outlets and added value for recycled products and/or improvement to the manpower situation as a result of training courses offered, etc.

25. To complement the above monitoring efforts, on-site spot checks and random inspections will be conducted by HKPC to verify records and validate the deliverables and targets as reported by the successful applicants on a case-by-case basis. Disbursements to successful applicants will only be made at designated stages of the projects on a milestone basis after review of periodic reports and satisfactory performance during on-site inspections. The final payment will only be disbursed upon satisfactory completion of the project and checking of all reports submitted.

26. For the sake of transparency, application procedures and assessment criteria of the Fund and information on funded projects will be uploaded onto the Internet and made available to the public. The Legislative Council Panel on Environmental Affairs will be also regularly briefed on the progress of the Fund.

## **FINANCIAL IMPLICATIONS**

27. The establishment of the Fund will involve a total commitment of \$1 billion, which will cover both grants for the applications as well as the necessary administrative and monitoring costs incurred in operating the Fund.

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28. On the assumption that HKPC will be engaged to administer the Fund for seven years (five years for managing the Fund and two years for monitoring of funded projects), it is estimated that a total of \$99.9 million will be required. It comprises –

- (a) \$84.1 million being administrative and monitoring costs of for setting up a dedicated team for programme management, technical evaluation and project monitoring; and
- (b) \$15.8 million being expenses for publicity and promotion activities, briefings for applicants and seminars for experience sharing, as well as conducting periodic market development and technological studies on matters relating to recycling industries.

HKPC will provide an in-kind contribution of \$18.9 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. The estimated cost breakdown of the Fund and HKPC's in-kind contribution is set out at Enclosure 3.

Encl. 3

29. The actual annual funding allocation and the operating tenure of the Fund will depend on the actual number of applications and amounts of grants approved, subject to periodic review by the Advisory Committee taking into account prevailing market conditions and industry needs. The estimated cash flow is as follows –

<b>Year</b>	<b>(\$ million)</b>
2015-16	30
2016-17	100
2017-18	200
2018-19	220
2019-20	220
2020-21	150
2021-22	60
2022-23	20
<b>Total</b>	<b>1,000</b>

**/IMPLEMENTATION .....**

**IMPLEMENTATION TIMETABLE**

30. Subject to Members' approval of the proposed Fund and completion of necessary preparatory work, we intend to launch the Fund in the second half of 2015.

**PUBLIC CONSULTATION**

31. We have held meetings with representatives from different sub-sectors of the recycling industry to gather views on the proposed scope and operational framework of the Fund. The trade representatives are supportive and have expressed their wish for the early establishment of the Fund. We also briefed the Legislative Council Panel on Environmental Affairs about the Fund on 23 July 2014. Members generally supported the proposal, and their views have been taken into account in devising the current proposal.

**BACKGROUND**

32. Over the years, the Government has implemented a host of support measures to encourage waste reduction and promote the healthy development of the recycling industry in Hong Kong, such as providing infrastructural support, driving community mobilisation and introducing relevant legislation and funding schemes, etc. In August 2013, the Steering Committee to Promote the Sustainable Development of the Recycling Industry was set up under the chairmanship of the Chief Secretary for Administration to study policies and measures to reduce waste at source and promote the sustainable development of the recycling industry. The Chief Executive announced in his 2014 Policy Address that \$1 billion had been earmarked for setting up the Fund.

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**Proposed Terms of Reference for  
Advisory Committee on Recycling Fund**

To advise the Secretary for the Environment on –

- (a) matters relating to the overall administration of the Recycling Fund (the Fund), including publicity and promotion, consultation and engagement of stakeholders, application and assessment arrangements, monitoring mechanism, consideration of plans, budgets and reports prepared by the Secretariat of the Recycling Fund, and evaluation of the effectiveness of the Fund;
- (b) matters relating to the operation of the Fund –
  - (i) application guidelines and procedures, assessment and funding criteria, safeguard and control mechanisms;
  - (ii) assessment of applications, terms and conditions to be imposed for each application recommended for approval by the Government and the amount of fund to be granted;
  - (iii) monitoring on progress of approved projects, project results and disbursement of funds; and
  - (iv) advising appropriate actions to be taken against non-compliance of approved projects; and
- (c) any other matters related to the Fund.

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**Guiding principles and major criteria in the assessment of applications for the Recycling Fund**

**A. Guiding principles**

To provide funding to projects which demonstrate potentials to –

- (i) raise the quantity and quality of recyclables recovered from the waste stream as well as those of recycled products from their treatment, thus reducing disposal at our landfills;
- (ii) promote markets for recycled products, thus providing greater impetus to local landfill diversion; and
- (iii) enhance the overall capability, capacity, efficiency and skills as well as market information of the recycling industry, thus facilitating its sustainable development.

**B. Major assessment criteria**

*For Enterprises*

- (i) Potential extra quantity and quality of recyclables recovered.
- (ii) Potential increase in the competitiveness of recycled products.
- (iii) Potential enhancement of overall capability, capacity, efficiency and skills.
- (iv) Need, viability and cost-effectiveness of the project with reference to prevailing markets conditions and contribution to increasing waste recovery.
- (v) Sustainability of project which can be maintained without further funding support after the project period.

*For NPOs, professional bodies and industrial support organisations*

- (i) Potential enhancement of the overall capability, knowledge and skills of participants in the recycling industry.
- (ii) Potential enhancement of the operational standards and productivity of the recycling industry.
- (iii) Benefits of the project to the recycling industry in general.
- (iv) Need, viability and cost-effectiveness of the project.
- (v) Usefulness of the project for sharing with members of the industry.

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**Enclosure 3 to FCR(2015-16)25**

**Estimated Cost Breakdown of the Recycling Fund  
and HKPC's in-kind contribution <sup>(Note 1)</sup>**

	<b>Funding by Government 5+2 years (\$'000)</b>	<b>Contribution by HKPC 5+2 years (\$'000)</b>	<b>Total Cost 5+2 years (\$'000)</b>
<b>1. Funding Provided for Approved Projects <sup>(Note 2)</sup></b>	<b>900,120</b>	<b>N/A</b>	<b>900,120</b>
<b>2. Program Management &amp; Technical Assessment</b>			
• Programme Director and Deputy Programme Director <sup>(Note 3)</sup>	--	9,520	9,520
• Programme Manager <sup>(Note 4)</sup>	13,380	--	13,380
• Programme Management & Administration <sup>(Note 5)</sup>	29,210	1,650	30,860
• Technical Evaluation and Monitoring <sup>(Note 5)</sup>	38,340	7,770	46,110
• Others <sup>(Note 6)</sup>	3,150	--	3,150
<b>Sub-total</b>	<b>84,080</b>	<b>18,940</b>	<b>103,020</b>
<b>3. Education, Publicity &amp; Promotion <sup>(Note 7)</sup></b>			
• Website development and maintenance	710	--	710
• Design and Printing Promotional Materials	280	--	280
• Launching Ceremony	210	--	210
• Briefing Sessions	890	--	890
• Technical Visits to Showcases	540	--	540
• Newspaper and Radio Supplements	1,290	--	1,290
• Video Production for Showcases	1,120	--	1,120
• Eco Expo and Annual Seminar	1,880	--	1,880
• Periodic Market and Technological Studies	8,880	--	8,880
<b>Sub-total</b>	<b>15,800</b>	<b>--</b>	<b>15,800</b>
<b>TOTAL (1)+(2)+(3)</b>	<b>1,000,000</b>	<b>18,940</b>	<b>1,018,940</b>

**Notes:**

- Note 1: For cost estimation purpose, assuming that the Recycling Fund will be implemented in Q3 2015 and taking into account the disbursement of funds to approved projects in a phased approach, the actual disbursement funds may continue up to 2022-23 for meeting the requirements of projects approved in the latter phase of the five-year application period.
- Note 2: After deducting \$99.88 million to be disbursed to HKPC for acting as the Fund's implementation partner, the remainder of the \$1 billion will cover grants for successful applicants and other contingency uses. The actual funding allocation between individual enterprises and NPOs will depend on the number of applications and amounts of grants approved, subject to the advice of the Advisory Committee taking into account prevailing market conditions and industry needs.
- Note 3: HKPC plans to assign one Programme Director, who is a Director of HKPC, and one Deputy Programme Director, who is a General Manager of HKPC, to work on a part-time basis to oversee and supervise the implementation of the Recycling Fund, as the HKPC's in-kind contribution to the Recycling Fund. The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.
- Note 4: HKPC plans to assign one Programme Manager, who is a Principal Consultant of HKPC, to oversee the overall planning and management of the various initiatives proposed for the Recycling Fund and to serve as the Secretary of the Recycling Fund Advisory Committee. The Programme Manager will spend 70% of his time for the Recycling Fund Programme in the first 5 years and will gradually reduce to spending 35% of his time in Years 6-7. The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.
- Note 5: For Programme Management and Administration, HKPC plans to engage three Programme Officers and two Programme Assistants. For Technical Evaluation and Monitoring, HKPC plans to engage one Technical Team Leader, two Programme Officers and Two Programme Assistants. As part of its in-kind contribution, HKPC will sponsor the manpower services of 1.2 Programme Officers to work full-time to assist in the work of the Programme Manager. The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.
- Note 6: Other costs include fee for programme auditing, transportation, mailing, printing, part-time helpers, etc. These will be absorbed by the Recycling Fund.
- Note 7: All activities and expenditure in relation to education, publicity and/or promotion will be reviewed and suitably adjusted as necessary having regard to the progress of the Recycling Fund and prevailing industry circumstances.

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**Membership of the Advisory Committee on Recycling Fund  
(2018-2021)**

**Chairperson**

Mr. Jimmy KWOK

**Members**

- Ms. Carmen CHAN
- Mr. CHOI Kam-wah
- Mr. Roger HO
- Ms. Jessica JOOK
- Dr. Evelyn LAM
- Professor Irene LO
- Professor POON Chi-sun
- Ms. Kelly WONG
- Mr. YEUNG Man-yui
- Mr. YIP Hing-kwok
- Mr. YIP Man-pan
- Mr. Edward CHAN (Representative of the Business Environment Council)
- Mr. Andrew CHAN (Representative of the Hong Kong Chinese Importers' & Exporters' Association)
- Mr. CHAN Wing-hong (Representative of the Hong Kong General Chamber of Commerce)
- Professor Daniel CHENG (Representative of the Federation of Hong Kong Industries)
- Mr. Teddy CHEUNG (Representative of the Hong Kong Association of Property Management Companies)
- Mr. Marvin HSU (Representative of the Chinese Manufacturers' Association of Hong Kong)
- Dr. Raymond LEUNG (Representative of the Chinese General Chamber of Commerce)

## Annex C

### **Types of Recyclable Processed by Approved Projects under ESP including SP (as of end March 2019)**

<b>Recyclable Type</b>	<b>No. of Approved Projects</b>
Waste paper	58
Waste metals	43
Waste plastics	35
Waste Electrical and Electronic Equipment	16
Food waste/Waste cooking oil	7
Waste tyres	6
Waste wood	6
Construction waste	4
Used furniture	3
Used clothes	2
Others (including used/waste compact discs, toner cartridges, beverage cartons and lubrication oil)	4

- Some projects handle more than one type of recyclables. Thus, the sum of approved projects in the table does not equal to the funded ESP projects have been or will soon be commenced (i.e. 168 projects).

## Annex D

### Types of Recyclable Processed by Approved Projects Respective Recyclables Quantity (as of end March 2019)

Recyclable Type	Quantity (tonnes)
Construction waste	55 300
Waste metals	36 000
Food waste/Waste cooking oil	23 400
Waste Electrical and Electronic Equipment	9 600
Waste wood	9 000
Waste plastics	8 800
Waste tyres	2 800
Waste paper	2 800
Used furniture	1 000
Used clothes	400
Others (including used/waste compact discs, toner cartridges, beverage cartons and lubrication oil)	1 400
<b>Total</b>	<b>150 500</b>

- Figures to the nearest hundred

**Key Enhancement and Facilitation Measures prior to  
the Mid-term Review**

Year	Key Enhancement and Facilitation Measures
2016	<ul style="list-style-type: none"> <li>• Streamlined the application and vetting procedure (e.g. documentary proof of substantive business operation)</li> <li>• Set up “Standard Projects (“SP”)” programme under the Enterprise Support Programme (“ESP”), in which applicants can apply for funding support through simplified procedures and implement simpler projects<sup>1</sup> with simplified requirements<sup>2</sup></li> <li>• Relaxed the application requirements (e.g. waiving the requirement for designated bank account for SP applicants)</li> </ul>
2017	<ul style="list-style-type: none"> <li>• Launched new categories under the SP, which assist recyclers to fulfill the tightened Mainland’s import requirement<sup>3</sup> and enhance recyclers’ operation efficiency<sup>4</sup></li> <li>• Expanded the list of fundable items of the ESP projects (e.g. rental expense arising from the project proponents’ new recycling business, third party liability insurance for project related activities, etc.)</li> <li>• Expanded the prescribed list of equipment eligible for funding support under the SP</li> </ul>

<sup>1</sup> supports and encourages applicants to procure prescribed equipment/machinery, attend training courses, join accreditations/registration schemes, conduct occupational and safety audits, implement prescribed promotional and image-building activities, etc.

<sup>2</sup> compared to the ESP projects, applicants applying for the SP will not be required to fulfill some key requirements such as achieving additional operational throughput, conducting waste audits (before and during the project period) and submitting progress reports, etc.

<sup>3</sup> adding equipment/machinery handling waste paper and plastic into the prescribed list eligible for funding support, so as to support and encourage applicants to upgrade their capability in handling waste paper and plastic

<sup>4</sup> supports and encourages applicants to use compactor trucks to address the problem of high transportation costs for recyclables

Year	Key Enhancement and Facilitation Measures
2018	<ul style="list-style-type: none"> <li>• Raised the funding support cap for the rental expense arising from the project's new recycling business</li> <li>• Launched solicitation theme<sup>5</sup> for projects related to food waste</li> <li>• Increased the earmarked amount for the SP and expanded the prescribed list of equipment<sup>6</sup> eligible for funding support under the SP</li> </ul>
2019	<ul style="list-style-type: none"> <li>• Expanded the scope of the SP to cover food waste and the use of utensils arising from school lunch boxes<sup>7</sup></li> <li>• Introduced a new scheme designated for start-up enterprises which could promote innovative ideas for the recycling industry</li> </ul>

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<sup>5</sup> supports and encourages applicants to initiate business on food waste collection, delivery and treatment at any local food waste treatment facilities

<sup>6</sup> adding equipment/machinery handling waste metal and food waste into the prescribed list eligible for funding support, so as to support and encourage applicants to upgrade their capability in handling waste metal and food waste

<sup>7</sup> supports and encourages school lunch suppliers to adopt reusable school lunch boxes and utensils, so as to reduce disposal of single use lunch boxes and utensils as well as to implement food waste collection practice in production process of school lunch boxes

**Key Enhancement Measures Launched in January 2019**

(i) Rental Subsidies

1. To provide rental subsidies to recyclers for relocating their operations from the existing premises to a more suitable locations (i.e. relocating existing street-corner shops to industrial buildings, relocating existing recycling sites located in non-industrial zones to industrial buildings or land zoned for industrial purpose). Amount of subsidies is capped at 50% of market rent as assessed by Rating and Valuation Department. *(apply to the Enterprise Support Programme (“ESP”) projects only).*
2. To provide rental subsidies for recyclers’ existing premises if they commit to achieve a considerable increase in their operational throughput. Amount of subsidies will be either capped at HK\$40,000 per month or 20% of the total approved funding amount, whichever is lower. *(apply to the ESP projects only).*

(ii) Audit and Reporting Requirements

3. To reduce the grantee’s administrative workload in carrying out baseline surveys, the period of such surveys is shortened from 12 months to three months *(apply to the ESP projects only).*
4. To relax the requirement for submitting progress reports *(apply to both the ESP and the Industry Support Programme projects)*
  - for projects of less than 18 months, submission of progress report is not required;
  - for projects of 18 to 24 months, submission of one progress report after the twelfth month is required;
  - for projects of longer than 24 months, submission of annual progress report is required



(iii) Disbursement

5. To improve grantees' cash flow during the early phase of the projects by increasing the maximum approved amount of the upfront payment applied for from 15% to 30% (*apply to the ESP projects only*).
6. To expedite payment of the approved funding amount to grantees (i.e. in around two weeks after submission of sufficient records and evidence to the Secretariat (*apply to the Standard Projects only*)).

**Proposed Further Enhancement Measures  
(On the Design of the Actual Operation of the Fund)**

- (i) Proposed further enhancements to the arrangement of the Fund (For the Enterprise Support Programme projects only)

<b>Items</b>	<b>Existing arrangement</b>	<b>After enhancement</b>	<b>Justification</b>
● <b>Cumulative funding cap per enterprise</b>	\$5 million	\$15 million	To strengthen support for recyclers with keen interest to develop/ upgrade their recycling operations
● <b>Maximum number of approved projects</b>	3 projects	10 projects	To strengthen support for recyclers with keen interest to develop/ upgrade their recycling operations
● <b>Maximum Project period</b>	2 years	4 years	To encourage and facilitate projects requiring substantial infrastructure and a longer lead time to develop

- (ii) Proposed extension of the operation of the Fund

<b>Items</b>	<b>Existing arrangement</b>	<b>After enhancement</b>
● <b>Operational period of the Fund (i.e. application and progress monitoring)</b>	Total: 7 years (from 2015 to 2022) - 5 years (application period) - 2 years (progress monitoring period)	Total: 11 years (from 2015 to 2026) - 7 years (application period) - 4 years (progress monitoring period)