

**For discussion
on 20 March 2012**

Legislative Council Panel on Commerce and Industry

Dedicated Fund on Branding, Upgrading and Domestic Sales

This paper seeks Members' support for the Administration's proposal to set up a time-limited dedicated fund of \$1 billion to assist Hong Kong enterprises in exploring and developing the Mainland market through developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland (the BUD fund).

Background

2. The National 12th Five-Year Plan places emphasis on expanding domestic demand as well as upgrading and restructuring of enterprises. During his visit to Hong Kong last August, Vice-Premier LI Ke-qiang also reiterated that the Central Government supported the stable development and upgrading and restructuring of Hong Kong enterprises engaged in processing trade in the Mainland. To help Hong Kong enterprises capture the opportunities arising from the National 12th Five-Year Plan and tap the Mainland market, the Chief Executive announced in the 2011-12 Policy Address the proposal to set up a dedicated fund of \$1 billion to assist them in exploring and developing the Mainland market through developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland.

3. We have since then consulted various trade and industrial organisations, small and medium enterprise (SME) associations and related parties¹ on the operation of the BUD fund. The trade welcomes the setting up of the fund and has offered views on the operational details. Having taken into account the trade's views, we now set out the main parameters of the proposed BUD fund in the ensuing paragraphs.

¹ They included The Chinese General Chamber of Commerce, The Chinese Manufacturers' Association of Hong Kong, Federation of Hong Kong Industries, Hong Kong Brand Development Council, Hong Kong Brand for China Market Association, The Hong Kong Chinese Importers' & Exporters' Association, Hong Kong Design Centre, Hong Kong General Chamber of Commerce, Hong Kong Q-Mark Council, Hong Kong Science and Technology Parks Corporation, Hong Kong Trade Development Council, and various SME associations and sector-specific trade and industrial organisations.

Funding Scope and Principles

4. The objective of the BUD fund is to assist Hong Kong enterprises in developing their brands, upgrading and restructuring their business operations, and promoting domestic sales in the Mainland, so as to enhance their competitiveness and facilitate their business development in the Mainland. We propose that the BUD fund should comprise two parts: to provide funding support to individual Hong Kong enterprises and to non-profit-distributing organisations respectively.

I. Funding for Individual Enterprises

5. This part of the BUD fund provides funding support to individual Hong Kong enterprises² to carry out specific BUD measures. Applicant enterprises have to show, in a holistic business plan, how the proposed measures can enhance their competitiveness and facilitate their business development in the Mainland. Some examples that fall within the scope of the BUD fund are set out at the **Annex**. If the enterprise requires external expertise to help develop the plan, the enterprise may also apply for funding under the BUD fund to engage a qualified service provider³ for this purpose.

6. Funding would be provided on a matching basis, i.e. the Government will cover a maximum of 50% of the total approved project cost and the enterprise has to contribute no less than 50% of the total approved project cost in cash. During the tenure of the BUD fund, each enterprise may obtain funding for a maximum of three approved projects. Each project should be completed within a maximum of 24 months. The cumulative funding ceiling per enterprise under the BUD fund is \$500,000.

7. To assist enterprises in meeting the financing needs at the start-up of the project, an initial payment may be payable. Subsequent payment(s) will be effected on a reimbursement basis upon the acceptance of the required progress/final report(s) and audited account(s) by the Government.

² All non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Chapter 310) with substantive business operations in Hong Kong are eligible to apply.

³ The current plan is that a qualified service provider should comply with the following requirements at the time of project application:

- (i) having registered in Hong Kong under the Business Registration Ordinance (Chapter 310) for at least one year;
- (ii) having at least one principal possessing five years or more practical experience of providing consultancy services related to branding, upgrading and restructuring and/or domestic sales for enterprises in Hong Kong or the Mainland. The principal must be actively engaged in the consultancy study throughout the whole study period; and
- (iii) having completed at least five projects in branding, upgrading and restructuring and/or domestic sales.

The above requirements would be subject to review and revision from time to time.

II. Funding for Non-profit-distributing Organisations

8. This part of the BUD fund provides funding support to non-profit-distributing organisations (e.g. trade and industrial organisations, professional bodies or research institutes) to undertake projects which can assist Hong Kong enterprises in general or in specific sectors in developing their brands, upgrading/restructuring their business operations, and promoting domestic sales in the Mainland so as to enhance their competitiveness in the Mainland market.

9. The design and operation of this part of the fund is largely based on the existing SME Development Fund⁴ of the Trade and Industry Department (TID). All non-profit-distributing organisations in Hong Kong⁵ are eligible.

10. The maximum duration of a project will be three years. The maximum amount of funding support for each approved project is \$5 million, or 90% of the approved project expenditure, whichever is the less. The applicant has to contribute the remaining 10% of the project expenditure, which may be in cash, in kind or in the form of sponsorship. An initial payment would be made to facilitate the start-up of the project. Subsequent payment(s) will be effected upon the acceptance of progress report(s) and audited account(s). The applicant will be required to share the results and deliverables of the project widely with the industry.

Programme Implementation

11. The BUD fund is intended to be open for applications by enterprises and non-profit-distributing organisations for five years, subject to the availability of funding.

I. Funding for Individual Enterprises

12. All applications will be considered by a newly formed Programme Management Committee (PMC) to be set up to oversee the implementation of this part of the BUD fund. The PMC will be chaired by a government official. Membership of the committee will be drawn from, *inter alia*, the trade, SME associations, and those with expertise or experience in BUD. An Inter-departmental Committee (IDC), comprising members from relevant government departments, will be set up to support the PMC. The IDC will vet all project applications before submitting its recommendations to the PMC for consideration and approval.

⁴ The SME Development Fund was launched in 2001 with the aim to provide financial support to projects carried out by non-profit-distributing organisations to enhance the competitiveness of SMEs in general or SMEs in specific sectors. The maximum duration for each approved project is 2 years and the maximum amount of funding support to an approved project is \$2 million, or 90% of the approved project expenditure, whichever is the less.

⁵ The applicant should either be a statutory organisation or an organisation registered under the laws of the Hong Kong Special Administrative Region.

HKPC as the Implementation Partner of the Enterprise Part of the BUD Fund

13. Developing brands, restructuring and upgrading business operations and promoting domestic sales in the Mainland market are specialised subjects requiring professional knowledge. In order to effectively handle project applications from enterprises and monitor the implementation progress of approved projects, we intend to engage the Hong Kong Productivity Council (HKPC) to implement the enterprise part of the BUD fund. The HKPC will act as the secretariat. Its work will include planning and organising publicity and promotional activities, receiving and undertaking initial vetting of applications, coordinating the further vetting of project applications by the IDC and PMC, monitoring the progress of the approved projects, disbursing funds for approved projects and providing general guidance on the application procedures, etc to enterprises. The Government will disburse the HKPC the bulk of the expenses incurred in providing the secretariat services, while the HKPC would be responsible for the rest of the relevant expenditures (including assigning officers to supervise, monitor and review the work of the secretariat, providing part of the manpower requirement for the secretariat, and providing venues for activities).

14. The HKPC is best placed to implement the enterprise part of the BUD fund in the light of its mission, expertise and experience. 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. Its work includes assisting local manufacturers in industrial upgrading, business transformation or relocating their operations; assisting Hong Kong enterprises and industries to leverage on the business opportunities arising from the Mainland and Hong Kong Closer Economic Partnership Arrangement; and enhancing its support to Hong Kong enterprises operating in Pearl River Delta through its subsidiary consulting firms set up in Guangzhou, Shenzhen and Dongguan. Examples of relevant initiatives in recent years include – (i) partnering with an SME association, the HKPC conducted case studies on Hong Kong enterprises, provided expert advice to them on how to develop the domestic market in Mainland; and published a guidebook, entitled “The Practical Guidebook for Smart Domestic Sales in China”, for the trade’s reference; (ii) through providing professional evaluation and improvement proposals in programmes such as “Transformation, Upgrade and Relocation to Unveil a New Horizon” (TURN) and DG-TURN (a project collaborated with Dongguan Bureau of Foreign Trade and Economic Cooperation), the HKPC has facilitated the business enhancement and transformation of Hong Kong manufacturers in the region; and (iii) starting from 2008, the HKPC has been engaged as the Secretariat for “Cleaner Production Partnership Programme” introduced by the Environmental Protection Department, responsible for receiving and vetting applications, monitoring the project progress, etc.

II. Funding for Non-profit-distributing Organisations

15. Applications will be considered by a vetting committee to be chaired by a government official, with members drawn from different disciplines of the trade and industry. The vetting committee will meet regularly to consider applications received. TID will be the implementation agent for this part of the BUD fund.

Control and Review Mechanism

16. For the enterprise part of the BUD fund, as mentioned in paragraph 12 above, a PMC supported by IDC will be set up to oversee the implementation. As the secretariat, the HKPC will be required to work out annual implementation plans and budgets for prior approval by the PMC. Funding from the Government will be disbursed to the HKPC annually, and the disbursement will be contingent upon submission and acceptance of the annual implementation plan and budget. The HKPC will also be required to submit regular progress reports to the PMC, which should provide information such as implementation progress, any problem encountered and remedial measures taken, and evaluation of this part of the BUD fund, etc. It will need to submit annual and final audited accounts for the operation of this part of the BUD fund audited by an independent auditor.

17. Regarding approved projects undertaken by individual enterprises, suitable measures will be put in place to guard against duplication in the source of funding and possible abuse (e.g. enterprises will not be eligible for funding under the BUD fund in respect of projects that they have already obtained other sources of government funding support; funding provided must not be used to subsidise the normal operating expenses of the enterprise; and certain expenditures, like external audit fees, may be subject to caps). Project completion reports and audited accounts will be required upon project completion. Depending on the duration of the projects, interim progress reports and annual audited accounts may be required. To enhance monitoring of the approved projects, the HKPC will conduct on-site checking of selected projects, apart from reviewing progress and final reports submitted by the enterprises.

18. On the organisation part of the BUD fund, TID as the implementation agent would consider progress and/or final reports submitted by the non-profit-distributing organisations and evaluate the effectiveness of this part of the BUD fund.

Financial Implications

19. The total commitment of the \$1 billion BUD fund will cover funding support for projects of individual enterprises, projects undertaken by non-profit-distributing organisations, as well as disbursement to the HKPC for providing the

secretariat services for the enterprise part of the BUD fund. To maximise the flexibility of the use of the fund, we propose not to set separate funding ceilings for the two parts of the fund.

20. The actual annual funding allocation to enterprises and non-profit-distributing organisations would depend on the number of applications approved, as well as the amount of funding approved for each application. Nevertheless, assuming that half of the commitment of the BUD fund, i.e. \$500 million, will be provided to enterprises, the total cost of the enterprise part of the BUD fund is estimated to be around \$576 million for seven to eight years⁶ from 2012-13. This includes (i) \$500 million of funding support to be provided to enterprises; (ii) \$55 million to be provided to the HKPC to set up a dedicated team for programme management, administrative support and project monitoring; (iii) \$4 million to be provided to the HKPC to conduct various publicity and promotional activities, organise seminars and symposia, publish guidebooks for education and experience sharing, and meet other necessary expenses such as audit fees; and (iv) \$17 million to be contributed by the HKPC as the implementation partner in terms of professional manpower support, venue rentals and other ancillary, technical and support services.

21. Taking into account the estimated funding requirement for individual enterprises' projects as set out in paragraph 20 above, it is estimated that around 90 projects undertaken by non-profit-distributing organisations can be funded, on the assumption that each project will receive a maximum funding of \$5 million. The Commerce and Economic Development Bureau and TID will handle work relating to the BUD fund with existing resources.

Expected Benefits

22. Successful implementation of the BUD fund would assist Hong Kong enterprises in enhancing competitiveness and exploring and developing the Mainland market. This will enable them to capture the business opportunities arising from the National 12th Five-Year Plan to expand domestic consumption, and benefit from the Mainland's policy of encouraging the upgrading and restructuring of processing trade. Through experience sharing seminars and guidebooks, etc, Hong Kong enterprises can learn how they may enhance competitiveness and further expand their businesses in the Mainland through developing brands, upgrading and restructuring business operations and promoting domestic sales in the Mainland. The BUD fund would also foster closer economic

⁶ Assuming that the BUD fund is open for applications for five years, as the maximum project duration of an approved project submitted by an enterprise is two years, the project monitoring work of those projects approved towards the close of the application period may be extended to two to three years after the five-year application period, and hence the Government's expenditure of \$59 million to HKPC is the estimated expenditure to be incurred over seven to eight years from the commencement of the BUD fund.

co-operation between the Mainland and Hong Kong which will bring benefit to the economic development of Hong Kong in the long run.

23. Assuming that each enterprise will receive the maximum amount of funding support of \$500,000, around 1 000 enterprises would directly benefit from the BUD fund. This has not included the number of enterprises which would indirectly benefit from projects undertaken by non-profit-making organisations which are supported by the other part of the BUD fund.

Public Consultation

24. We have consulted various trade and industrial organisations, SME associations and related parties in drawing up the operational details of the BUD fund. Taking into account the trade's views, we have finalised the operational details of the BUD fund and consulted the Small and Medium Enterprises Committee (SMEC), the Trade and Industry Advisory Board (TIAB) and the Textiles Advisory Board (TEXTAB) of TID in February 2012. Members of SMEC, TIAB and TEXTAB welcomed the proposal.

Implementation Timetable

25. Subject to Members' views, we plan to seek funding approval of the BUD fund from the Finance Committee of the Legislative Council in April 2012, and launch the fund by mid 2012.

Commerce and Economic Development Bureau
Trade and Industry Department
March 2012

Some Examples of BUD

1. Branding

- Brand Strategy and Positioning – corporate brand visioning, product and service planning
- Brand Building, Design and Communication – brand identity development, rebranding
- Brand Management – brand protection
- Brand Tracking – brand equity research and brand sustainability study

2. Upgrading & Restructuring

- Business Model Upgrading & Restructuring - from Original Equipment Manufacturing (OEM) to Original Design Manufacturing (ODM) and/or Own Branding & Manufacturing (OBM)
- Product Innovation and Repositioning – product strategy, new product development and design
- Materials Management – supply chain planning and execution
- Technology Upgrading – manufacturing technology upgrading, manufacturing automation
- Management Upgrading – management system, process re-engineering, quality improvement
- Logistics Management – warehouse management, distribution management

3. Promoting Domestic Sales

- Domestic Sales Strategic Planning - visioning process and strategy formulation
- Domestic Sales Business Operation Management - operation transformation
- Domestic Sales Distribution Management - marketing strategy research, sales and distribution development
- Domestic Sales Team Management - staff training and development