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Panel on Commerce and Industry

Meeting on 21 May 2013

**Background brief on the dedicated fund
on branding, upgrading and domestic sales**

Purpose

This paper provides background information on the dedicated fund on branding, upgrading and domestic sales (the BUD fund). It also provides a summary of views and concerns expressed by Members on the subject in previous discussions.

Background

2. The National 12th Five-Year Plan emphasizes expanding domestic demand as well as upgrading and restructuring of industries. In August 2011, the then Vice-Premier of the State Council, Mr LI Keqiang, reiterated during his visit to Hong Kong that the Central People's Government supported the stable development and upgrading and restructuring of Hong Kong enterprises engaged in processing trade¹ in the Mainland. To help Hong Kong enterprises capture the opportunities arising from the National 12th Five-Year Plan, the Chief Executive announced in the 2011-2012 Policy Address the proposal to set up a \$1 billion BUD fund to assist enterprises in exploring and developing the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland.

¹ Processing trade generally refers to those manufacturing operations in the Mainland which are involved in processes of importing raw materials, parts and components, accessories, etc from outside the Mainland and re-exporting the finished products after processing or assembly in the Mainland.

3. The funding proposal for the BUD fund was approved by the Finance Committee on 11 May 2012 and the BUD fund was launched on 25 June 2012.

4. Subject to the funding balance, the BUD fund will be open for applications for five years, which may be reviewed and extended, if necessary. The BUD fund comprises two programmes, namely Enterprise Support Programme and Organization Support Programme.

Enterprise Support Programme

5. The Enterprise Support Programme of the BUD fund provides funding support to individual Hong Kong enterprises in undertaking projects to develop brands, upgrade and restructure their business operations and promote sales in the Mainland market, so as to enhance their competitiveness and facilitate their business development in the Mainland market. All non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Cap. 310) with substantive business operations² in Hong Kong are eligible to apply, irrespective of whether they belong to the manufacturing or service sector and whether they already have any business operations in the Mainland. Applicant enterprises have to show, in a holistic business plan, how the proposed project can enhance their competitiveness and facilitate their business development in the Mainland. If necessary, an enterprise may also apply for funding under the BUD fund to engage a qualified service provider to help develop a business plan.

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 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 accounts by the Government.

8. All applications are vetted by a Programme Management Committee (PMC) chaired by a government official with members drawn from the government, the trade and those with expertise or experience in branding, upgrading & restructuring and domestic sales.

² For example, a shell company will not be regarded as having substantive business operations in Hong Kong.

9. As developing brands, upgrading and restructuring business operations and promoting domestic sales in the Mainland are specialized subjects requiring professional knowledge, in order to effectively handle project applications from enterprises and monitor the implementation progress of approved projects, the Administration has engaged the Hong Kong Productivity Council (HKPC) as a partner to implement the Enterprise Support Programme of the BUD fund. HKPC acts as the secretariat to the PMC. Its work includes planning and organizing publicity and promotional activities, receiving and undertaking initial vetting of applications, co-ordinating the further vetting of applications by the PMC, monitoring the progress of the approved projects, disbursing funds for approved projects, and providing general advice on the application procedures, etc to enterprises.

Organization Support Programme

10. The Organization Support Programme of the BUD fund provides funding support to non-profit-distributing organizations (e.g. trade and industrial organizations, 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 and restructuring their business operations, and promoting domestic sales in the Mainland so as to enhance their overall competitiveness in the Mainland market. All non-profit-distributing organizations in Hong Kong³ are eligible to apply.

11. In view that brand building and developing the Mainland domestic market will require relatively long-term and sustainable efforts, the objective of the Organization Support Programme is to meet the needs of conducting larger-scale projects of longer duration. 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 accounts. The applicant will be required to share the results and deliverables of the project widely with the industry.

12. The Trade and Industry Department provides secretariat services to implement the Organization Support Programme of the BUD fund. Applications are considered by a vetting committee chaired by the Director-General of Trade and Industry and comprises members from different disciplines and sectors.

³ The applicant should either be a statutory organization or an organization registered under the laws of the Hong Kong Special Administrative Region.

Previous discussions

13. The Panel on Commerce and Industry (the Panel) has discussed the Administration's proposal to set up the BUD fund at its meetings on 20 March and 17 April 2012. Panel members in general supported the proposal in recognition that it would assist local small and medium enterprises (SMEs) to enhance their competitiveness and expand their businesses in Hong Kong, thereby creating more employment opportunities for Hong Kong people.

14. On the Enterprise Support Programme, some members expressed concern about the time frame of 24 months allowed for the completion of each project, the vetting mechanism of applications and the role of HKPC, and enquired about the details of the disbursement to HKPC for providing the secretariat services.

15. Some members further expressed concern on whether the BUD fund would give rise to "transfer of benefits" to a small group of enterprises. To safeguard the interests of SMEs in Hong Kong, some members considered that the application for BUD fund should be open to SMEs only, but not those large non-listed enterprises. Concern was also raised about the difficulties faced by SMEs in preparing a holistic business plan when applying for the BUD fund. Members opined that the Administration should simplify the application procedures to facilitate application by SMEs, provide other non-financial support to help SMEs in developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland, and consider raising the cumulative funding ceiling of \$500,000 per enterprise.

16. Panel members were particularly concerned about the economic benefits expected to be brought about by the BUD fund to the overall economy of Hong Kong, especially the industrial sector and local workforce. Some members suggested that the Administration should compile statistics by requiring the applicant enterprises to provide the requisite information (such as the number of offices and job opportunities to be created in Hong Kong) to facilitate the evaluation of the effectiveness and economic benefits to be brought about by the BUD fund to the overall economy of Hong Kong.

17. At the Council meeting on 24 October 2012, as well as the special meeting of the Finance Committee to examine the Estimates of Expenditure 2013-2014 on 10 April 2013, Members raised questions on the progress of implementation of the BUD fund. Members noted that up to the end of February 2013, the Administration had processed 297 and 37 applications under the Enterprise Support Programme and the Organization Support Programme respectively, and 54 and 17 applications were approved, with an average amount of grants of \$394,000 and \$3.57 million respectively. The total amount of funding approved was about \$81.9 million since the launch of the BUD fund in

June 2012.

Latest position

18. The Administration will brief the Panel on the progress of implementation of the BUD fund at its meeting on 21 May 2013.

Relevant papers

19. A list of relevant papers is in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
16 May 2013

Appendix

Dedicated fund on branding, upgrading and domestic sales

List of relevant papers

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
20/3/2012	Panel on Commerce and Industry	Administration's paper Background brief Minutes of meeting	CB(1)1298/11-12(03) http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0320cb1-1298-3-e.pdf CB(1)1298/11-12(04) http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0320cb1-1298-4-e.pdf CB(1)1787/11-12 http://www.legco.gov.hk/yr11-12/english/panels/ci/minutes/ci20120320.pdf
17/4/2012	Panel on Commerce and Industry	Administration's paper Minutes of meeting	CB(1)1549/11-12(05) http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0417cb1-1549-5-e.pdf CB(1)1809/11-12 http://www.legco.gov.hk/yr11-12/english/panels/ci/minutes/ci20120417.pdf
11/5/2012	Finance Committee	Administration's paper	FCR(2012-13)22 http://www.legco.gov.hk/yr11-12/english/fc/fc/papers/f12-22e.pdf

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
		Minutes of meeting	FC183/11-12 http://www.legco.gov.hk/yr11-12/english/fc/fc/minutes/fc20120511.pdf
24/10/2012	Council meeting	Question No. 17 raised by Hon WONG Ting-kwong	Hansard (Page 645-651) http://www.legco.gov.hk/yr12-13/english/counmtg/hansard/cm1024-translate-e.pdf
10/4/2013	Special meeting of the Finance Committee to examine the Estimates of Expenditure 2013-2014 (Commerce, Industry and Tourism)	Administration's replies to Members initial written question	Reply Serial Nos. CEDB(CIT)027, 072, 097, 127, 195, 316, 318, 319, 320 and 321 http://www.legco.gov.hk/yr12-13/english/fc/fc/w_q/cedb-cit-e.pdf