

**For discussion on
20 March 2018**

Legislative Council Panel on Commerce and Industry

**Progress of the implementation and proposed enhancements of the
Dedicated Fund on Branding, Upgrading and Domestic Sales and
other funding schemes**

This paper briefs Members on the implementation progress of the funding schemes operated by the Trade and Industry Department (TID), and seeks Members' views on the proposed enhancement measures; and briefs Members on the latest implementation progress and the extension of the application period of Special Concessionary Measures under the SME Financing Guarantee Scheme (SFGS) operated by The Hong Kong Mortgage Corporation Limited (HKMC).

(A) Funding schemes implemented by TID

Implementation progress

The Dedicated Fund on Branding, Upgrading and Domestic Sales (the BUD Fund)

2. The Government introduced in June 2012 the \$1 billion BUD Fund to assist enterprises in enhancing competitiveness and furthering business development in the Mainland through developing brands, upgrading and restructuring operations and promoting domestic sales. The BUD Fund comprises the "Enterprise Support Programme" (ESP) and the "Organisation Support Programme" (OSP), providing funding support to non-listed enterprises and non-profit-distributing organisations (such as trade and industrial organisations, professional bodies or research institutes) respectively. As of end January 2018, a total funding amount of around \$632 million has been approved under the BUD Fund.

BUD (ESP)

3. The BUD (ESP) provides funding support to individual Hong Kong enterprises to undertake projects to develop brands, upgrade and restructure business operations and promote domestic sales in the Mainland for enhancing their competitiveness and furthering business development in the Mainland. Successful applicant enterprises could obtain a maximum of \$500,000 funding support on a matching basis for a maximum of three projects, each to be completed within two years, for developing the Mainland market.

4. As of end January 2018, a total of 1 146 applications from 1 032 enterprises has been approved under the ESP, amounting to \$408.2 million. According to the project completion surveys and annual tracking surveys conducted, around 98% of the responded grantees considered the ESP useful in assisting in their business development. They also generally considered that the project 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.

BUD (OSP)

5. The BUD (OSP) provides financial support to non-profit-distributing organisations (such as trade and industrial organisations, professional bodies or research institutes) to implement projects that aim at assisting 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. The maximum amount of funding support for each approved project is 90% of the total approved project expenditure, capped at \$5 million. Each project should be completed within three years.

6. As of end January 2018, a total of 70 applications amounting to \$223.7 million have been approved under BUD (OSP). Through these projects, 48 organisations have implemented various activities in 32 Mainland cities, for example setting up “Hong Kong pavilions” at large-scale exhibitions or organising roadshows to showcase Hong Kong’s brands, holding seminars or workshops to enhance enterprises’ understanding on the Mainland market, etc.. Participating enterprises were generally satisfied

with the effectiveness of and benefits brought about by the projects, and considered the projects useful in enhancing the brand image and competitiveness of their products or services in the Mainland market.

SME Export Marketing Fund (EMF) and SME Development Fund (SDF)

7. Expenditures of the EMF and the SDF are met by the SME Export Marketing and Development Funds (EMDF) with an approved commitment of \$5.25 billion. As of end January 2018, around \$3.887 billion of grants have been approved under the EMDF.

EMF

8. Introduced in 2001, the EMF provides financial assistance to encourage SMEs to expand their markets outside Hong Kong through participation in export promotion activities, including local and overseas trade fairs and exhibitions, business missions, advertisements on printed trade publications, promotion through electronic platforms/media, and setting up/enhancing corporate website.

9. The amount of grant for each application is 50% of the approved expenditure of the export promotion activity concerned, capped at \$50,000. The cumulative grant ceiling per enterprises is \$200,000, and the last \$50,000 of the grants cannot be used for participation in export promotion activities previously funded by the first \$150,000 of the grants received by the enterprise. As of January 2018, over 210 000 applications have been approved, involving a total grant of over \$3.2 billion. More than 46 000 SMEs have benefitted from the EMF.

SDF

10. The SDF provides financial support to non-profit-distributing organisations (such as trade and industrial organisations, professional bodies and research institutes) to implement projects which aim at enhancing the competitiveness of Hong Kong SMEs in general or in specific sectors. The maximum amount of funding support for each approved project is 90% of the total approved project expenditure, capped at \$5 million. Each project should be completed within three years.

11. Since its launch in 2001 and up to end January 2018, a total of 284 applications amounting to \$345.6 million have been approved under the SDF, benefitting a wide range of industries. Over the past five years, the SDF has supported the trade in setting up Hong Kong Pavilions in 41 large-scale exhibitions in 11 countries to showcase Hong Kong's brands and strengths. During the same period, the SDF also funded the trade in organising 740 conferences, seminars and workshops of different scale, arranging 58 delegation visits, and publishing 50 industry guidebooks. Participating SMEs were generally satisfied with the effectiveness of and benefits brought about by the projects, which could enhance the competitiveness of their companies or the industry, and would consider implementing the suggestions provided by the projects in their operations.

SME Loan Guarantee Scheme (SGS)

12. Under the SGS, the Government provides SMEs with a total loan guarantee commitment of \$30 billion to facilitate them in securing loans from participating lending institutions for acquiring business installations and equipment or meeting working capital needs of general business uses. The maximum loan guarantee amount for each SME is \$6 million. Based on the maximum guarantee ratio at 50%, the corresponding loan amount is \$12 million. The maximum guaranteed period of each loan is five years. Each SME is allowed to recycle the guarantee once for acquiring new loan after it has fully repaid the loan backed up by the guarantee, subject to a maximum guarantee amount of \$6 million.

13. Since its launch in 2001 and up to end January 2018, over 30 900 applications involving a total guarantee amount of over \$24.9 billion were approved under the SGS. The corresponding loan amount is about \$52.1 billion, benefitting over 16 400 enterprises.

Proposed Enhancement Measures

14. The 2018-19 Budget proposes a series of measures to enhance the funding schemes so as to help SMEs, including start-ups, capture economic opportunities and boost their competitiveness. These include the tremendous business opportunities brought about by the Belt and Road (B&R) Initiative and the Development Plan for a city cluster in the Guangdong-Hong Kong-Macao Bay Area (Bay Area) to Hong Kong enterprises. With the shifting of global economic gravity to Asia and

developing economies, the HKSAR Government concluded in November 2017 a Free Trade Agreement with the Association of Southeast Asian Nations (ASEAN)², which will also help Hong Kong enterprises tap these fast-growing markets.

15. To assist Hong Kong enterprises in capturing economic opportunities, we propose to better support Hong Kong enterprises through enhancing our funding schemes. Our proposals are as follows –

For BUD(ESP) –

- (a) Increase the cumulative funding ceiling per enterprise from \$500,000 to \$1,000,000 for projects involving the Mainland market.
- (b) Extend the geographical scope of the ESP to include the ASEAN markets and provide funding with a cumulative ceiling of \$1,000,000 per enterprise for projects involving the ASEAN markets.
- (c) Relax the current restriction on the maximum number of funded projects from three to ten per enterprise.
- (d) Increase the funding ceiling per project from \$500,000 to \$1,000,000.

For EMF –

- (e) Increase the cumulative funding ceiling per SME from \$200,000 to \$400,000.
- (f) Increase the funding ceiling per application from \$50,000 to \$100,000.
- (g) Remove the current condition of use of the last \$50,000 of the grants (refers to paragraph 9 above).

² ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

For SDF and BUD (OSP) –

- (h) Merge the two schemes to simplify application procedures and enhance operation efficiency.

An overview of the above proposed enhancement measures are at **Annex I**.

16. Moreover, we have reviewed the application requirements and vetting mechanism of the funding schemes with a view to providing more flexible and convenient support to SMEs, in particular start-ups. Our initiatives in simplifying the procedures under various funding schemes are at **Annex II**.

Justifications

BUD(ESP)

Increase in funding ceiling for projects involving the Mainland market

17. The Development Plan of the Bay Area can drive Hong Kong enterprises to further develop the Mainland market. To help Hong Kong enterprises in capturing these new business opportunities, we consider it necessary to increase the funding support to Mainland projects so as to strengthen our support for Hong Kong enterprises in developing the Mainland market, particularly those which have already utilised the maximum grant of \$500,000 from the programme. Besides, we will relax the current restriction on the maximum number of approved projects from three to ten per enterprise, and increase the funding ceiling per project from \$500,000 to \$1,000,000.

Dedicated funding support for ASEAN projects

18. The ASEAN was Hong Kong's second largest trading partner in merchandise trade in 2016 and the fourth largest in services trade in 2015. Member states of the ASEAN are also important players under the B&R Initiative. The ASEAN-HK Free Trade Agreement will bring about better market access for the trade in goods and services, and offer more business opportunities for Hong Kong enterprises and service providers in ASEAN.

19. To help Hong Kong enterprises capture the new business opportunities, we see a need to provide dedicated funding support in this regard. As the successful implementation of the BUD (ESP) has proven it an effective model to assist Hong Kong enterprises in exploring new markets, we propose to extend the geographical scope of the BUD Fund and set up a dedicated Programme, so as to provide funding support for individual Hong Kong enterprises to undertake projects for enhancing their competitiveness and furthering business development in the ASEAN markets through developing brands, upgrading and restructuring business operations and promoting sales. Enterprises can obtain a maximum funding of \$1,000,000 on a matching basis for carrying out up to ten ASEAN projects, with the funding ceiling per project being \$1,000,000.

20. The Hong Kong Productivity Council (HKPC) will continue to act as the implementation partner for the enhanced BUD (ESP) (targeting Mainland market) and the new programme for ASEAN projects. The HKPC is a multi-disciplinary organisation dedicated to promoting productivity excellence of Hong Kong's industries and increasing their international competitiveness through the provision of integrated support across the value chain. Together with its experiences in operating the BUD (ESP) for over 5 years, we believe that HKPC is most suitable to continue acting as our implementation partner for the enhanced ESP and also the new programme for ASEAN projects.

21. The Government will provide about \$18 million annually to HKPC for covering the staff and other operating costs of a dedicated team for programme management, administrative support and project monitoring. The Government will also disburse about \$3.3 million for various publicity and promotional activities, and other implementation expenses. The HKPC will be responsible for about \$2.3 million related expenses 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.

EMF

22. The cumulative funding ceiling per SME of the EMF was last increased from \$150,000 to \$200,000 in 2013, together with a condition of use for the last \$50,000 of the grants to encourage SMEs to explore new markets.

23. The trade has been requesting the Government from time to time to strengthen its support for SMEs in export promotion, including raising the cumulative funding ceiling per SME and the grant ceiling per application. There are also views from the trade that the condition of use for the last \$50,000 of the grants has constrained SMEs from making the best use of the grants. In the light of these, we propose to increase the cumulative funding ceiling of the EMF from \$200,000 to \$400,000, increase the grant ceiling per application from \$50,000 to \$100,000, and to remove the condition of use of the last \$50,000 of the grants, so as to step up our support in assisting SMEs to explore new markets and new business opportunities.

SDF and BUD (OSP)

24. Both the SDF and BUD (OSP) are schemes providing financial support to non-profit-distributing organisations for implementing projects for enhancing the competitiveness of industries in Hong Kong. The SDF aims to enhance the competitiveness of Hong Kong SMEs with no market restrictions (i.e. SDF projects can target any markets), while the BUD (OSP) aims to assist non-listed Hong Kong enterprises in developing the Mainland market through branding, upgrading and restructuring business operations, and promoting domestic sales (i.e. BUD (OSP) projects can only target the Mainland market). The two schemes are the same in terms of other operational details including funding ceiling, project period, vetting and monitoring mechanism.

25. To simplify application procedures and enhance operation efficiency, we see the merit of merging the SDF and BUD (OSP) into one scheme. The merged scheme will provide funding support to non-profit-distributing organisations for implementing projects for enhancing the competitiveness of non-listed Hong Kong enterprises in general or in specific sectors, including assisting them in developing any markets. We will rename the merged scheme as “Trade and Industrial Organisation Support Fund (TSF)” for a clearer identification.

Funding proposals

BUD Fund

26. We propose to inject \$1.5 billion to the BUD Fund to implement the above-mentioned enhancement measures and maintain the operation of the Fund. We estimate that the injection could enable the BUD Fund to operate up to 2023-24 on the assumption that the enhancement measures are implemented in the fourth quarter of 2018.

EMDF

27. Expenditures on the EMF and the SDF are met by the EMDF. We propose to inject \$1 billion to the EMDF to implement the above-mentioned enhancement measures and maintain the operation of the funds (including the above TSF). The EMDF will be renamed as “Export Marketing and Trade and Industrial Organisation Support Fund (EMTSF)” in the light of the changes in the funds it supports (from EMF and SDF to EMF and TSF). We estimate that the injection will allow the EMTSF to operate up to 2023-24 on the assumption that the enhancement measures are implemented in the fourth quarter of 2018.

28. TID will absorb the additional manpower and administrative expenses arising from the implementation of the enhancement measures through existing resources, and will continue to closely monitor the operation and the effectiveness of the various funding schemes.

Public Consultation

29. We have conducted a briefing on 5 March 2018 to brief members of Trade and Industry Advisory Board, Small and Medium Enterprises Committee, representatives of local major trade and industrial organisations, SME associations, professional bodies and trade associations, on the proposed enhancement measures. The trade supported our proposals in general.

Implementation Timetable

30. Subject to Members’ support of the proposals, we will follow the established mechanism to seek the funding approval of the Legislative

Council with a view to implementing the enhancement measures in the fourth quarter of 2018.

(B) Special Concessionary Measures under the SFGS operated by the HKMC

31. The HKMC launched the market-based self-financing SFGS on 1 January 2011, with a view to helping Hong Kong enterprises to obtain financing to meet their needs. To tide enterprises over a possible credit crunch as a result of credit tightening under the uncertain external economic environment, the Government provided a total loan guarantee commitment of \$100 billion for the HKMC to launch time-limited special concessionary measures under the SFGS on 31 May 2012. In accordance with the special concessionary measures, 80% guarantee is provided at a substantially reduced guarantee fee. The maximum loan amount to be guaranteed under the special concessionary measures for each enterprise and its group of related enterprises at any one time is \$12 million (including revolving loans), and the maximum guarantee period for each approved loan is five years.

32. As at 31 January 2018, the HKMC had approved 13 000 applications under the special concessionary measures. The total loan amount involved is around \$51.9 billion and the total loan guarantee amount is around \$41.5 billion, benefiting 7 663 enterprises. To continue to help SMEs tide over their liquidity needs and to assist them in better capturing economic opportunities, the Financial Secretary announced in the 2018-19 Budget the sixth extension of the application period for the special concessionary measures under the SFGS to the end of February 2019.

33. In addition, we would like to take the opportunity to brief Members on the HKMC's plan to transfer the SFGS business to a newly established wholly-owned subsidiary of the HKMC, HKMC Insurance Limited (HKMCI), subject to the approval of the Insurance Authority (IA). The HKMC is now holding a general business authorisation for operating general insurance business, including the SFGS. To introduce the Life Annuity Scheme (LAS) announced in April 2017, the HKMC has to apply for a long term business authorisation from the IA. Since insurance companies other than professional reinsurer cannot operate these two businesses at the same time, the HKMC therefore has established two subsidiaries, one to apply for long term business authorisation to operate the LAS business, and another

one (i.e. HKMCI) to apply for general business authorisation for taking over from the HKMC all its existing general insurance business, including the SFGS. The HKMC has guaranteed the Government that it would transfer all its rights and obligations in connection with the special concessionary measures under the SFGS to HKMCI, and the proposed transfer would not affect the operation of the special concessionary measures, enterprises benefitted and the interest of the Government. IA granted general business authorisation to HKMCI on 14 February 2018 and is expected to grant the approval to the proposed transfer in April 2018. We are following up with the HKMC on the necessary legal procedures to effect the proposed transfer on 1 May 2018.

Advice sought

34. Members are invited to note this paper and offer comments on the proposals set out above.

Commerce and Economic Development Bureau
Trade and Industry Department
March 2018

An overview of the proposed enhancement measures

● **BUD (ESP)**

	Before enhancement	After enhancement
Geographical scope	Mainland	Mainland and ASEAN
Cumulative funding ceiling per enterprise	\$500,000	\$1,000,000 each for the Mainland programme and the ASEAN Programme
Funding ceiling per project	\$500,000	\$1,000,000
Maximum number of approved projects	3	10

● **EMF**

	Before Enhancement	After Enhancement
Cumulative funding ceiling per enterprise	\$200,000	\$400,000
Funding ceiling per application	\$50,000	\$100,000
Condition of use	The last \$50,000 of the grants cannot be used for participation in export promotion activities previously funded by the first \$150,000 of the grants	None

● **BUD (OSP) and SDF**

	Before enhancement	After enhancement
Objective	<p>BUD (OSP):</p> <ul style="list-style-type: none"> enhance the competitiveness of non-listed Hong Kong enterprises in general or in specific sectors in the Mainland market <p>SDF</p> <ul style="list-style-type: none"> enhance the competitiveness of Hong Kong SMEs in general or in specific sectors (can target any market) 	<p>Merge as TSF :</p> <ul style="list-style-type: none"> enhance the competitiveness of non-listed Hong Kong enterprises in general or in specific sectors (can target any market)

Simplified procedures under various funding schemes

● **BUD (ESP)**

- Waive the requirement on enterprises' number of year of substantive business operations in Hong Kong to provide greater facilitation for start-ups.
- Consolidate the various application tracks and application forms under the existing programme to simplify the application procedures, so that enterprises only need to complete a unified application form.
- Simplify the requirements on procurement procedures by reducing the number of quotations required to reduce the administrative costs of enterprises.
- Provide full funding support for the audit fee of approved projects, capped at \$10,000 per audit, to reduce the costs of enterprises in using the BUD Fund.
- Provide greater flexibility and autonomy for enterprises in the reallocation of grant amongst approved budget items.

● **EMF**

- Relax the double funding rule to allow SMEs to apply funding for individual expenditure items of an export promotion activity as long as the items are not receiving direct funding support from other funding schemes.
- Relax the condition on transportation expenses to allow transportation expenses incurred 5 days before the start and 5 days after the end of an export promotion activity to be eligible for EMF grant, so as to enable SMEs to discuss businesses and network with partners when participating in exhibitions outside Hong Kong.

● **TSF**

- Allow organisations to use the fund to engage existing staff for implementing projects, so as to provide organisations with greater flexibility in project implementation.
- Simplify the requirements on procurement procedures by reducing the number of quotations required to reduce the administrative costs of organisations.

- Provide greater flexibility and autonomy for enterprises in the reallocation of grant amongst approved budget items.
- Allow organisations to source in-kind sponsorships by phases to facilitate project implementation.
- Remove the restriction of funding only two projects of the same nature to provide greater flexibility for organisations in formulating projects.