

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 181 – TRADE AND INDUSTRY DEPARTMENT**

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

#### **Item 836 Dedicated Fund on Branding, Upgrading and Domestic Sales**

Members are invited to approve the following changes to Head 181 Trade and Industry Department Subhead 700 General non-recurrent Item 836 Dedicated Fund on Branding, Upgrading and Domestic Sales –

- (a) increase the approved commitment from \$2.5 billion by \$1 billion to \$3.5 billion; and
- (b) extend the coverage of the funding support to economies with which Hong Kong has signed Free Trade Agreements at the time of application under the Dedicated Fund on Branding, Upgrading and Domestic Sales.

### **PROBLEM**

Recent changes in the global economic and trade environment, including the trade conflict initiated by the US, have impacted on the operation of Hong Kong enterprises, especially those engaging in external trade. The trade has called on the Government to help them diversify markets while the widening network of Free Trade Agreements (FTAs) Hong Kong has signed with our trading partners help provide more market access opportunities and legal certainty for our businesses. We need to increase the commitment of the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) to provide financial support to local enterprises in developing new markets and diversifying risks, and to further extend its geographical coverage to include all economies with which Hong Kong has signed FTAs, including those to be signed in future.

**/PROPOSAL .....**

## PROPOSAL

2. The Director-General of Trade and Industry, supported by the Secretary for Commerce and Economic Development, proposes to increase the approved commitment of the BUD Fund from \$2.5 billion by \$1 billion to \$3.5 billion and extend the coverage of the Fund so that it can provide financial support to Hong Kong enterprises in exploring and developing the Mainland, the Association of Southeast Asian Nations (ASEAN)<sup>1</sup> and any other economy with which Hong Kong has signed FTAs, including those to be signed in future, through developing brands, upgrading and restructuring their operations and promoting sales in these markets.

## JUSTIFICATION

3. Introduced in 2012, the original BUD Fund provides funding support, on a matching basis, to enterprises to enhance their competitiveness and further business development in the Mainland through developing brands, upgrading and restructuring operations and promoting domestic sales. Enhancement measures to the BUD Fund have been introduced from 1 August 2018, including doubling the cumulative funding ceiling per enterprise from \$500,000 to \$1 million and relaxing the restriction on the maximum number of funded projects from three to ten per enterprise under the Mainland Programme; and launching the ASEAN Programme and providing a cumulative funding ceiling of \$1 million for each enterprise for carrying out up to ten ASEAN projects.

4. The trade has responded positively to the enhancement measures. In the eight-month period upon the implementation of the enhancement measures in August 2018 and up to the end of March 2019, the enhanced Mainland Programme received 857 applications, representing an increase of 100% compared to the same period in 2017-2018, whereas the ASEAN Programme received 289 applications. During the same period, the funding approved under the enhanced Mainland Programme and ASEAN Programme amounted to \$183.5 million and \$68.4 million respectively. Details are as follows –

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<sup>1</sup> ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

	<b>Enhanced Mainland Programme</b>	<b>ASEAN Programme</b>
(a) No. of applications received <i>including –</i> <i>( ) being processed</i> <i>[ ] withdrawn by applicants</i>	857 <i>(302)</i> <i>[147]</i>	289 <i>(113)</i> <i>[51]</i>
(b) No. of applications approved	318	102
(c) No. of applications rejected	90	23
(d) Success rate <sup>2</sup> [(d) = (b) / (b + c)]	77.9%	81.6%
(e) Approved funding amount	\$183.5 million	\$68.4 million
(f) Average funding amount [(f) = (e) / (b)]	\$0.58 million	\$0.67 million

5. We have conducted project completion surveys and annual tracking surveys to keep track of the effectiveness of the BUD Fund. Around 99% of the responded grantees considered the BUD Fund useful in supporting their business development. Enterprises also generally considered that the funded projects had helped them in various areas, including enhancing their overall competitiveness, corporate image and awareness of their brands/projects/services, and increasing sales turnover, etc. Around 97% of the responded grantees considered the BUD Fund useful to their long-term development and they generally continued to find the projects helpful in various areas one year after project completion. For the Mainland Programme, around 64% of the responded grantees indicated that they had recruited additional staff in Hong Kong or the Mainland during the period of project implementation. Around 70% of the responded grantees indicated that their projects could benefit other industry sectors in Hong Kong, such as printing, advertising, legal and accounting services. For the ASEAN Programme, some approved projects have commenced, such as establishing offices in ASEAN economies and participating in local exhibitions, etc. Funded enterprises have generally indicated that the ASEAN Programme has enabled them to allocate more resources to develop the ASEAN markets and enhance their competitive advantages in promoting their ASEAN business.

6. The US-China trade conflict and other external economic factors have increased market uncertainties in the global economy and impacted on the operation of Hong Kong enterprises, especially those engaging in external trade. Through regular meetings and other communication channels with the various industrial and trade organisations, we have been maintaining close contact with

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<sup>2</sup> Success rate = No. of applications approved / (no. of applications approved + no. of applications rejected).

the trade to share information and to devise appropriate measures to support Hong Kong enterprises. The trade has expressed concern over the business prospects of Hong Kong enterprises and call for further expansion of the geographical coverage of the BUD Fund to help them diversify markets, while the widening network of FTAs Hong Kong has signed with our trading partners help provide more market access opportunities and legal certainty for our businesses. The trade has also asked for more flexibility in the deployment of approved funds.

7. It is the policy objective of the Government to forge closer economic ties with our trading partners in order to provide more opportunities for Hong Kong enterprises. In this regard, as of March 2019, Hong Kong has signed eight FTAs with 20 economies<sup>3</sup>. We propose to further extend the geographical support of the BUD Fund to include all economies with which Hong Kong has signed FTAs, including those to be signed in future, such that Hong Kong enterprises can take full advantage of Hong Kong's growing FTA network, including enhanced legal certainty and better market access for trade in goods and services, in exploring new markets and new business opportunities. We also propose to further increase the cumulative funding ceiling for each enterprise by 50% to \$3 million, including \$1 million for the Mainland and \$2 million for ASEAN and other FTA economies. An overview of the proposed enhancement measures is at Enclosure 1.

Encl. 1

8. In tandem, Hong Kong will continue our efforts to expand the FTA network. To help our enterprises fully capitalise on the business opportunities with our new FTA partners, we further propose to extend the geographical coverage of the BUD Fund automatically to our new FTA partners upon their signing of FTAs with Hong Kong in future. Eligible Hong Kong enterprises can apply for the BUD Fund to undertake projects to develop brands, upgrade and restructure business operations and promote sales in those new FTA economies on and after the date of signing of the relevant FTAs. Publicity and promotional activities will be carried out as and when there is geographical extension of the BUD Fund as a result of new FTAs being signed by Hong Kong.

9. The Hong Kong Productivity Council (HKPC) will continue to act as the implementation partner for the further enhanced BUD Fund. HKPC is a multi-disciplinary organisation dedicated to promoting productivity excellence of Hong Kong's industries and increasing their international competitiveness through

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<sup>3</sup> Mainland China, New Zealand, the four member states of the European Free Trade Association (i.e. Iceland, Liechtenstein, Norway and Switzerland), Chile, Macao, the ten member states of ASEAN, Georgia and Australia.

the provision of integrated support across the value chain. Coupled with its experience in operating the BUD Fund for over six years, we believe that HKPC is most suitable to continue acting as our implementation partner for the further enhanced BUD Fund.

10. With the implementation of the above proposed further enhancements, we anticipate that the proposed injection of \$1 billion to the BUD Fund will be able to sustain its operation up to 2022-23.

### **CONTROL AND REVIEW MECHANISM**

Encls. 2 & 3

11. The control and monitoring mechanism established for the current BUD Fund will apply to the further enhanced BUD Fund. The Government has established a Programme Management Committee (PMC) and an Inter-departmental Committee (IDC) to consider applications and monitor the progress of approved projects under the BUD Fund (the respective membership lists are at Enclosures 2 and 3), and engaged HKPC to provide support to the programme. For each BUD Fund application, HKPC will provide a preliminary assessment for consideration by IDC. IDC will then make a recommendation to PMC for consideration and approval. HKPC will monitor and evaluate the progress and effectiveness of the approved projects, and submit progress reports and final reports of the approved projects to PMC. HKPC will also submit annual accounts for the operation of the BUD Fund as prepared by an independent auditor.

12. To ensure transparency, all the rules and guidelines governing the operation of the existing BUD Fund are promulgated on the website of HKPC. This practice will continue with the implementation of the above proposed further enhancements. Trade and Industry Department will continue to closely monitor the operation of the BUD Fund, and conduct reviews on its utilisation and effectiveness from time to time, so as to ensure the prudent use of public money.

### **EXPECTED BENEFITS**

13. The further increase in the overall funding ceiling per enterprise and extension of the geographical coverage to include all economies with which Hong Kong has signed FTAs, including those to be signed in future, will enable enterprises to develop new markets and diversify risks amid the uncertainties in the global economy and capture opportunities brought about by Hong Kong's growing FTA network. Since all non-listed enterprises registered in Hong Kong

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under the Business Registration Ordinance (Cap. 310) and having substantive business operations in Hong Kong are eligible to apply for the BUD Fund, regardless of whether they are engaged in manufacturing or service industries, we expect that the BUD Fund will be able to benefit many local enterprises, including small and medium enterprises, in developing their business.

## FINANCIAL IMPLICATIONS

14. The approved commitment of the BUD Fund will increase by \$1 billion to \$3.5 billion. We expect that the number of applications received will rise after the proposed enhancement measures are implemented.

15. As mentioned in paragraph 9 above, HKPC will continue to act as the implementation partner for the further enhanced BUD Fund. Similar to the current funding arrangement<sup>4</sup>, part of the administrative and promotion costs, and other necessary expenses for the further enhanced programme will be funded by the BUD Fund while the remaining will be contributed by HKPC as implementation partner. Drawing from the experience in implementing the enhanced BUD Fund since August 2018, the Government will provide from the approved commitment of the BUD Fund about \$36.9 million annually to HKPC for covering staff and other operating costs of a dedicated team for programme management, administrative support and project monitoring. Same as the arrangement for the current Mainland/ ASEAN projects, on-site inspections for selected approved projects will be arranged to help guard against misuse of funds or fraudulent claims. In addition, the Government will disburse about \$8.5 million per annum to HKPC for various publicity and promotional activities, and other implementation expenses, including those for the development and maintenance of an electronic application and administration system, and engaging organisation(s) with local knowledge of the FTA markets for providing advisory and support services in application vetting and project monitoring. Such provisions to HKPC may be adjusted based on the actual number of applications received and when new markets are covered under the BUD Fund upon their signing of FTAs with Hong Kong in future. We will continue to ensure that the relevant administrative overheads will be reasonable and proportionate to the total

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<sup>4</sup> When the Finance Committee (FC) of the Legislative Council (LegCo) approved in June 2018 the geographical coverage of the BUD Fund to be extended to the ASEAN markets, as set out in FCR(2018-19)15, we estimate that the Government will provide to HKPC from the uncommitted balance of the approved BUD Fund about \$18 million annually for meeting the staff cost of a dedicated team for implementing the BUD Fund, and about \$3.3 million annually for publicity and promotional activities, and other implementation expenses. The HKPC will be responsible for about \$2.3 million per annum related expenses in terms of professional manpower support to supervise, monitor and review the work of the dedicated team, venue rentals and other ancillary technical and support services.

Encl. 4 approved project funding in the same year. HKPC will contribute about \$4.8 million per annum to provide professional support in supervising, monitoring and reviewing the work of the dedicated team, venue rentals and other ancillary technical and support services. The annual estimate of implementation fees for the further enhanced BUD Fund is at Enclosure 4.

Encl. 5 16. While we estimate that the proposed injection of \$1 billion will enable the BUD Fund to operate up to 2022-23 (see Enclosure 5), the actual annual cashflow will depend on the number of applications received and approved as well as the amount of grants provided each year.

### **IMPLEMENTATION TIMETABLE**

17. Subject to Members' approval of the proposal, we will implement the enhancement measures in the third quarter of 2019.

### **PUBLIC CONSULTATION**

18. We have briefed the Trade and Industry Advisory Board, Small and Medium Enterprises Committee and the trade, including major trade and industrial organisations, on the enhancement proposals. They support our proposals in general. We also consulted the LegCo Panel on Commerce and Industry on the proposal on 16 April 2019, and Members were supportive.

### **BACKGROUND**

19. The BUD Fund was launched in 2012, with a total commitment of \$1 billion (FCR(2012-13)22). In 2017, the Government extended the application period of the BUD Fund for five years to June 2022 (FCRI(2017-18)7). The BUD Fund, originally comprised the Enterprise Support Programme and the Organisation Support Programme (OSP), provides funding support to non-listed Hong Kong enterprises and non-profit-distributing organisations (such as trade and industrial organisations, professional bodies or research institutes) respectively. The BUD(OSP) was merged with the former SME Development Fund to form the Trade and Industrial Organisation Support Fund in October 2018.

20. To help Hong Kong enterprises capture the economic opportunities brought about by the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, as well as to tap the

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fast-growing ASEAN markets with the signing of a FTA between Hong Kong and ASEAN, the FC of LegCo approved in June 2018 a funding injection of \$1.5 billion into the BUD Fund, thereby increasing the approved commitment of the Fund from \$1 billion to \$2.5 billion, and extending the geographical scope of the BUD Fund to provide financial support to Hong Kong enterprises in exploring and developing the ASEAN markets, in addition to the Mainland (FCR(2018-19)15).

Encl. 6 21. We have also simplified the BUD Fund's application and utilisation procedures to provide more flexible and effective support to enterprises. The simplified procedures are at Enclosure 6.

22. Up to the end of March 2019, we received a total of 4 288 applications under the BUD Fund. Excluding applications being processed or withdrawn by applicants, 1 851 were approved as at end March 2019 and the total amount of approved funding was \$767.8 million.

23. The 2019-20 Budget proposes to inject another \$1 billion into the BUD Fund and to implement further enhancement measures to the Fund so as to support local enterprises in developing new markets and diversifying risks.

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Commerce and Economic Development Bureau  
Trade and Industry Department  
May 2019



**An overview of the proposed enhancement measures of the  
Dedicated Fund on Branding, Upgrading and Domestic Sales  
in 2019-20**

	<b>Before enhancement</b>	<b>After enhancement</b>
<b>Geographical scope</b>	Mainland and Association of Southeast Asian Nations (ASEAN)	Mainland, ASEAN and other economies which have signed Free Trade Agreements (FTAs) <sup>Note</sup> with Hong Kong
<b>Cumulative funding ceiling per enterprise</b>	Mainland: \$1 million ASEAN: \$1 million	Mainland: \$1 million ASEAN and other FTA economies: \$2 million
<b>Funding ceiling per project</b>	\$1 million	\$1 million
<b>Maximum number of approved projects</b>	Mainland: Ten ASEAN: Ten	Mainland: Ten ASEAN and other FTA economies: 20

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<sup>Note</sup> To be further extended to cover new FTA economies automatically upon their signing of the FTAs with Hong Kong.

**Programme Management Committee of the  
Dedicated Fund on Branding, Upgrading and Domestic Sales**

**Membership List  
(as at April 2019)**

<b>Name</b>	<b>Background</b>
<u>Chairman</u> Director-General of Trade and Industry	
<u>Members</u>	
Mr Choy Chi-fai	Industry and Business
Mr Michael Hui Wah-kit	Industry and Business
Dr Edward Lam Kwok-hung	Industry and Business
Ms Edith Law Ho-yan	Industry and Business
Ms Michelle Leung Oi-pui	Industry and Business
Mr Paul Leung Yuk-hung	Industry and Business
Mr Gerry Ma Kwai-yung	Industry and Business
Mr Raymond Mak Ka-chun	Industry and Business
Mr William Shum Wai-lam	Industry and Business
Mr Benedict Sin Nga-yan	Industry and Business
Mr Sunny Tan	Industry and Business
Miss Jennifer Tsui	Industry and Business
Mr Wong Lok-tak	Industry and Business
Ms Angela Yeung Pui-yan	Professional
Dr Yip Chung-yin	Industry and Business
Representative of Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau	Official Member
Representative of Trade and Industry Department	Official Member

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**Inter-Departmental Committee of the  
Dedicated Fund on Branding, Upgrading and Domestic Sales**

**Membership List  
(as at April 2019)**

Chairman

Deputy Director-General of Trade and Industry (Bilateral Trade, Controls and Industries Support)

Members

Principal Assistant Secretary for Commerce and Economic Development  
(Commerce and Industry)

Assistant Head of Create Hong Kong

Principal Environmental Protection Officer (Cross-Boundary and International)

Assistant Commissioner for Innovation and Technology (Funding Schemes)

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**Annual Estimate of Implementation Fees for the  
Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund)  
after Further Enhancement<sup>1</sup>**

Item	Funding by Government (\$'000)	Contribution by the Hong Kong Productivity Council (HKPC) (\$'000)	Total (\$'000)
<b>(I) Staff expenditure</b>			
• Programme management <sup>2</sup>	-	2,800	2,800
• Programme administration, application handling and project monitoring <sup>3</sup>	36,870	1,000	37,870
<b>Sub-total</b>	<b>36,870</b>	<b>3,800</b>	<b>40,670</b>
<b>(II) Other expenditures</b>			
• Promotion, publicity, dissemination, computerisation and audit fees <sup>4</sup>	3,000	1,000	4,000
• Expenses for engaging organisation(s) with local knowledge under the Free Trade Agreement (FTA) programme; travelling expenses for project monitoring <sup>5</sup>	5,500	-	5,500
<b>Sub-total</b>	<b>8,500</b>	<b>1,000</b>	<b>9,500</b>
<b>Total</b>	<b>45,370<sup>6</sup></b>	<b>4,800</b>	<b>50,170</b>

/Remarks –

**Remarks –**

- <sup>1</sup> The Government will continue to closely monitor the workload and expenditures of the HKPC as the implementation partner of the BUD Fund after the further enhancement. To ensure its reasonable allocation of manpower, HKPC submits every year its Annual Implementation Plan (AIP) to the Programme Management Committee (PMC), setting out its work in the following year and the relevant manpower arrangement. Besides, to allow timely monitoring of the overall operation progress and resource utilisation of the programme, HKPC is also required to submit quarterly operational reports to the PMC for endorsement regularly.

Furthermore, we will continue to maintain a cost management and control mechanism in the service agreement to be drawn up with HKPC for implementing the further enhanced programme to ensure that the fees for programme implementation are cost effective. Under the mechanism, the implementation fees to be provided for HKPC can be adjusted based on the actual number of applications received. In summary, if the actual number of applications received exceeds or falls short of the originally estimated number by 10%, either the Government or HKPC may trigger the mechanism and initiate corresponding adjustment to the implementation fees to be provided by the Government to HKPC. Suitable provisions would continue to be included in the revised service agreement to ensure the administrative fees do not exceed 15% of the total approved project funding in the same year.

- <sup>2</sup> HKPC will assign officer(s) at general manager grade or above to oversee the programme implementation. The costs would be contributed by HKPC. The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.

- <sup>3</sup> HKPC will engage a team comprising officers at consultant/assistant consultant and project officer grades to assist in the programme administration, application handling and project monitoring under the lead of dedicated officer(s) at senior consultant grade. Part of the manpower costs will be contributed by HKPC. The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.

- <sup>4</sup> Promotion and publicity expenditures include those for organising seminars, placing advertisements, production of promotion materials, digital marketing and promotional videos and other related expenses. Expenditures for dissemination and computerisation include those for maintenance of a website on the BUD Fund, organisation of symposia, production and distribution of guidebooks for sharing of experience and success stories, development and maintenance of an electronic application and administration system, etc. Audit fees cover the audit work for HKPC to produce annual audited accounts to the PMC in relation to its provision of services for the BUD Fund. To safeguard the proper use of public money, HKPC will be required to submit audited accounts to the PMC annually.

Part of the above expenditures will be contributed by HKPC. HKPC will include the activities planned to be organised in the coming year and provide estimates for these activities in the AIP for prior approval by the PMC. The Government will disburse to HKPC the actual expenses incurred by the latter on a reimbursement basis.

- <sup>5</sup> For the implementation of the FTA programme, HKPC will engage organisation(s) with local knowledge to serve as its collaboration partner(s) for providing advisory and support services in application vetting and project monitoring. HKPC will also send staff to FTA markets as necessary to monitor the work progress of the above mentioned local partner(s), and to the Mainland for conducting on-site checks of the on-going projects. The Government will disburse to HKPC the actual expenses incurred by the latter on a reimbursement basis.

- <sup>6</sup> The Government will provide about \$36.87 million annually to HKPC for covering the staff cost of a dedicated team for programme management, administrative support and project monitoring. The Government will also disburse about \$8.5 million for various publicity and promotional activities, and other implementation expenses. The above costs are estimated on the basis of the annual implementation fees to be provided by the Government to HKPC for implementing the BUD Fund upon its enhancement in 2018 and also the actual implementation situation during August 2018 to March 2019 as well as the expected operation situation upon the proposed further enhancement.

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**Enclosure 5 to FCR(2019-20)24**

**Funding Position of the  
Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund)  
(as at end March 2019)**

Approved commitment	\$2.5 billion
Amount of project grant approved	\$1,030.81 million (BUD (Enterprise Support Programme)(ESP): \$767.78 million BUD (Organisation Support Programme)(OSP) <sup>Note</sup> : \$263.03 million)
Implementation fees provided to The Hong Kong Productivity Council (HKPC)	\$82.54 million
Remaining fund balance	\$1,386.65 million
Injection amount	\$1 billion
Total remaining fund balance	\$2,386.65 million
Estimated annual project grant to be approved after enhancement	\$572 million
Annual implementation fees to be provided to HKPC after enhancement	\$45.37 million
Estimated date of fund exhaustion	September 2022

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<sup>Note</sup> The BUD(OSP) was merged with the former SME Development Fund to form the Trade and Industrial Organisation Support Fund (TSF) in October 2018. The amount of project grant approved under BUD(OSP) before the merger was \$263.03 million. After the merger, TSF is funded under the Export Marketing and Trade and Industrial Organisation Support Fund and the BUD Fund is focused on the BUD(ESP).

**Simplified Procedures of the  
Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund)**

- (a) Waive the requirement on enterprises' number of year of substantive business operations in Hong Kong to provide greater facilitation to start-ups.
- (b) Consolidate the various application tracks and application forms under the BUD Fund to simplify the application procedures, so that enterprises only need to complete a unified application form.
- (c) Simplify the requirements on procurement procedures by reducing the number of quotations required to reduce the administrative costs of enterprises.
- (d) Provide full funding support for the audit fee of approved projects under the enterprises' funding ceiling, capped at \$10,000 per audit, to reduce the costs of enterprises in using the BUD Fund.
- (e) Allow cross-region implementation of project measures within the geographical scope of BUD Fund to provide flexibility to enterprises in devising measures that best suit their business plans having regard to the location of their existing production base and other resource considerations.
- (f) Provide greater flexibility and autonomy for enterprises in the reallocation of grant amongst approved budget items.

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