

**For discussion on
16 April 2019**

Legislative Council Panel on Commerce and Industry

**Further Enhancements to the
Dedicated Fund on Branding, Upgrading and Domestic Sales**

Purpose

This paper briefs Members on the progress of implementation of the enhancement measures introduced in August 2018 to the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund). This paper also consults Members on the 2019-20 Budget initiative of a further injection of \$1 billion into the BUD Fund with further proposed enhancements.

Enhancement Measures to the BUD Fund Introduced in 2018

2. The original BUD Fund provides funding support, on a matching basis, to enterprises in enhancing competitiveness and furthering business development in the Mainland through developing brands, upgrading and restructuring operations and promoting domestic sales. 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 fast-growing ASEAN markets with the signing of a Free Trade Agreement (FTA) between Hong Kong and the Association of Southeast Asian Nations (ASEAN)¹, we obtained the approval of the Finance Committee (FC) of the Legislative Council (LegCo) in June 2018 for 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 coverage of the Fund to provide financial support to assist Hong Kong enterprises in exploring and developing the ASEAN markets, in addition to the Mainland.

3. The following enhancement measures to the BUD Fund have been introduced from 1 August 2018 –

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

Mainland Programme

- (a) Doubling the cumulative funding ceiling per enterprise from \$500,000 to \$1 million;
- (b) relaxing the restriction on the maximum number of funded projects from 3 to 10 per enterprise; and

New ASEAN Programme

- (c) launching the ASEAN Programme, and providing a cumulative funding ceiling of \$1 million for each enterprise for carrying out up to ten ASEAN projects.

We have also simplified the procedures with a view to providing more flexible and effective support to enterprises, in particular start-ups. The simplified procedures are at **Annex I**.

4. The trade responded positively to the enhancement measures. The progress in the eight-month period upon the implementation of the enhancement measures in August 2018 and up to the end of March 2019 is as follows –

	Enhanced Mainland Programme	ASEAN Programme
No. of applications received ²	857 (an increase of 100% as compared to the same period in 2017-2018)	289
No. of applications approved	318	102
Approved funding amount	\$183.5 million	\$68.4 million

5. According to the results of the project completion surveys and annual

² Including 284 Mainland applications and 112 ASEAN applications received in January to March 2019 that are under processing. The figures also include applications subsequently withdrawn.

tracking surveys, 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/products/services, and increasing sales turnover, etc.

Further Enhancement Measures Proposed in the 2019-20 Budget

6. Recent changes in the global economic and trade environment have impacted on the operation of Hong Kong enterprises, especially those engaging in external trade. To support local enterprises to rise up to the challenges facing Hong Kong's economy, the 2019-20 Budget proposes to -

- (a) inject a further \$1 billion into the BUD Fund to support local enterprises in developing new markets and diversifying risks;
- (b) further extend the scope of the Fund to include all economies with which Hong Kong has signed FTAs, now and in future, i.e. to launch the FTA Programme (subsuming thereunder the ASEAN programme), thereby enabling enterprises to take advantage of the legal certainty and more favourable market access terms offered under the FTAs to explore new markets and new business opportunities; and
- (c) further increase the funding ceiling for each enterprise by 50% to \$3 million, including \$1 million for the Mainland Programme and \$2 million for the FTA Programme.

7. An overview of the proposed enhancement measures is at **Annex II**.

Justifications

8. The China-US trade dispute and other external economic factors have increased market uncertainties in the global economy. Through regular meetings with the various industrial and trade organisations, we have been maintaining close contact with 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. The trade has also asked for more flexibility in the deployment of approved funds.

9. It is the policy objective of the Government to forge closer bilateral and multilateral ties with our trading partners to explore more opportunities for Hong Kong and promote our strengths. In this regard, as of March 2019, Hong Kong has signed eight FTAs with 20 economies³. We propose to extend the geographical coverage of the BUD Fund to all the economies with which Hong Kong has signed FTAs, such that Hong Kong enterprises can take full advantage of the FTAs, including the legal certainty and better market access for trade in goods and services, in exploring new markets and new business opportunities.

10. 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.

Implementation/Funding Arrangements

11. The Hong Kong Productivity Council (HKPC) will continue to act as our implementation partner for the new FTA Programme under the BUD Fund. 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. 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 new FTA Programme.

12. The Government will provide about \$36.9 million annually to HKPC for covering the staff and other operating costs of a dedicated team for

³ Mainland China, New Zealand, the four member states of the European Free Trade Association (including Iceland, Liechtenstein, Norway and Switzerland), Chile, Macao, the ten member states of the ASEAN (including Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam), Georgia and Australia.

programme management, administrative support and project monitoring. Same as the arrangement for the current Mainland/ASEAN projects, on-site inspections for selected approved projects would be arranged to help guard against misuse of funds or fraudulent claims. The Government will also disburse about \$8.5 million per annum to HKPC for various publicity and promotional activities, and other implementation expenses. HKPC will contribute about \$4.8 million per annum in terms of expenses in relation to professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services.

13. It is estimated that the injection as proposed in paragraph 6(a) above would enable the BUD Fund to operate up to 2022-23, on the assumption that the enhancement measures are implemented in the fourth quarter of 2019.

Public Consultation

14. We have briefed the Small and Medium Enterprises Committee and the trade, including major trade and industrial organisations, on the proposed enhancement measures. They support our proposals in general.

Implementation Timetable

15. Subject to Members' support of the proposals, we will follow the established mechanism to seek funding approval of the FC of LegCo with a view to implementing the enhancement measures in the fourth quarter of 2019.

Background

16. To support the development and enhance the competitiveness of local enterprises, TID administers the following funding schemes.

BUD Fund

17. The BUD Fund, introduced in June 2012, originally comprised the Enterprise Support Programme (ESP) and the Organisation Support Programme (OSP), providing 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 (SDF) to form the Trade and Industrial Organisation Support Fund (TSF) in October 2018 (see paragraph 22).

18. Since the launch of the BUD(ESP) in 2012 and up to the end of March 2019, its implementation progress was as follows –

	Mainland Programme	ASEAN Programme (since August 2018)
No. of applications received ⁴	3 999	289
No. of applications approved	1 749	102
Approved funding	\$699.4 million	\$68.4 million

19. Since the launch of the BUD(OSP) in 2012 till the merger in October 2018, its implementation progress was as follows -

No. of applications received ⁴	214
No. of applications approved	84
Approved funding	\$263.0 million

SME Export Marketing Fund

20. The SME Export Marketing Fund (EMF), introduced in December 2001, provides financial assistance to encourage SMEs to expand their markets outside Hong Kong through participation in export promotion activities. The implementation progress since inception and up to the end of March 2019 was as follows -

No. of applications received ⁴	268 651
No. of applications approved	225 362
Approved funding	\$3.5 billion

⁴ Including applications subsequently withdrawn.

SME Loan Guarantee Scheme

21. Under the SME Loan Guarantee Scheme (SGS), the Government provides up to 50% loan guarantee to SMEs to help them secure loans from the participating lending institutions for acquiring business installations and equipment or as general working capital. Since the launch of the SGS in 2001 and up to the end of March 2019, its implementation progress was as follows –

No. of applications received ⁴	34 820
No. of applications approved	31 737
Approved guarantee	\$26.0 billion

TSF

22. Introduced in October 2018, the TSF 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 non-listed Hong Kong enterprises in general or in specific sectors. Up to the end of March 2019, we have approved 7 applications and the total amount of approved funding amount is \$18.2 million.

Advice sought

23. Members are invited to note this paper and offer comments on the proposals as set out above. The Panel's support is sought on the above proposals.

**Commerce and Economic Development Bureau
Trade and Industry Department
April 2019**

Simplified Procedures of the BUD Fund

- Waive the requirement on enterprises' number of year of substantive business operations in Hong Kong to provide greater facilitation to start-ups.
- 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.
- 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 under the enterprises' funding ceiling, capped at \$10,000 per audit, to reduce the costs of enterprises in using the BUD Fund.
- 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.
- Provide greater flexibility and autonomy for enterprises in the reallocation of grant amongst approved budget items.

Annex II

An overview of the proposed enhancement measures of the BUD Fund in 2019-20

	Before enhancement	After enhancement
Geographical scope	Mainland and ASEAN	Mainland, ASEAN and other economies which have signed FTAs ¹ with Hong Kong
Cumulative funding ceiling per enterprise	Mainland: \$1 million ASEAN: \$1 million	Mainland: \$1 million FTA economies: \$2 million
Funding ceiling per project	\$1 million	\$1 million
Maximum number of approved projects	Mainland: 10 ASEAN: 10	Mainland: 10 FTA economies: 20

¹ To be further extended to cover new FTA economies automatically upon their signing of the FTAs with Hong Kong.