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Panel on Commerce and Industry

Meeting on 16 April 2019

**Updated background brief on
the Dedicated Fund on Branding, Upgrading and Domestic Sales**

Purpose

This paper provides updated background information on the Dedicated Fund on Branding, Upgrading and Domestic Sales ("BUD Fund"), and provides a summary of views and concerns expressed by Members during previous discussions on the subject.

Dedicated Fund on Branding, Upgrading and Domestic Sales

2. The National 12th Five-Year Plan emphasizes expanding domestic demand as well as the upgrading and restructuring of industries. To help Hong Kong enterprises capture the opportunities arising from the National 12th Five-Year Plan, the then Chief Executive announced in his 2011-2012 Policy Address the proposal to set up a HK\$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.

3. Following the funding approval by the Finance Committee ("FC") in May 2012, the BUD Fund was launched on 25 June 2012. The application period was extended in 2017 for five years to 24 June 2022. As of 2018, the total approved non-recurrent commitment of the BUD Fund was HK\$2.5 billion.¹ The total funding amount approved was about

¹ The Finance Committee ("FC") approved the creation of a non-recurrent commitment of HK\$1 billion on 11 May 2012 to set up the Dedicated Fund on Branding, Upgrading and Domestic Sales ("BUD Fund"). On 1 June 2018, FC further approved the increase of the approved commitment to HK\$2.5 billion (more details in paragraphs 7 to 16 below).

HK\$679 million (as of end March 2018).

4. With the implementation of the enhancement measures to the BUD Fund in August 2018, the BUD Fund focuses on the Enterprise Support Programme,² under which there are two programmes, namely, the Mainland Programme and the ASEAN Programme. Through the two programmes, the BUD Fund provides funding support to individual non-listed Hong Kong enterprises to undertake projects for enhancing their competitiveness and furthering business development in the Mainland and the Association of Southeast Asian Nations ("ASEAN") markets. An eligible enterprise can obtain a maximum funding of HK\$1 million on a matching basis for carrying out up to 10 Mainland projects and another HK\$1 million on a matching basis for carrying out up to 10 ASEAN projects. The funding ceiling per project is HK\$1 million.

5. To support local enterprises in tiding over uncertainties under the current global and trade environment and with a view to achieving the goal of "supporting enterprises, safeguarding jobs and stabilizing the economy", the Financial Secretary proposed in the 2019-2020 Budget the injection of HK\$1 billion into the BUD Fund and the following enhancement measures:

- (a) to further extend the geographical scope of the BUD Fund to include all economies which had entered into a free trade agreement ("FTA") with Hong Kong, thereby enabling enterprises to take advantage of the FTAs to explore new markets and new business opportunities; and
- (b) to further increase the funding ceiling per enterprise under the BUD Fund to HK\$3 million, including HK\$1 million for the Mainland market and HK\$2 million for other FTA markets.

Implementation partner

6. The Administration has engaged the Hong Kong Productivity Council ("HKPC") as the implementation partner for the BUD Fund. According to the information submitted by the Administration to FC in May 2018, HKPC will receive about HK\$18 million annually from the approved commitment of the BUD Fund for meeting the staff cost of a dedicated team for programme

² As the Organisation Support Programme under the BUD Fund and the SME Development Fund have similar ambits (i.e. providing financial support to non-profit-distributing organizations for implementing projects for enhancing the competitiveness of industries in Hong Kong), the Administration had merged the two schemes into one scheme with effect from 1 October 2018. The merged scheme, renamed as the Trade and Industrial Organisation Support Fund, is funded under the SME Export Marketing and Development Funds and provides financial support to non-profit-distributing organizations for implementing projects for enhancing the competitiveness of Hong Kong enterprises in general or in specific sectors, including assisting them in developing any markets.

management, administrative support and project monitoring. Such provisions to HKPC are adjusted based on the actual number of applications received in the previous year. In addition, the Administration disburses about HK\$3.3 million per annum to HKPC for various publicity and promotional activities, and other implementation expenses. HKPC is responsible for about HK\$2.3 million per annum 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. As of end March 2018, HKPC had been provided with the total implementation fees of HK\$65.55 million.

Previous discussion

7. The Panel on Commerce and Industry ("the Panel") discussed the latest implementation progress of the BUD Fund and other funding schemes operated by the Trade and Industry Department at the meeting on 20 March 2018. FC considered and approved the injection of HK\$2.5 billion to the BUD Fund on 1 June 2018. The major views and concerns of Members are summarized below.

Supports to small and medium enterprises

8. In response to the suggestion of extending the geographical scope of BUD Fund on a worldwide basis, the Administration advised at the Panel meeting that the geographical coverage of the BUD Fund was proposed to be expanded from the Mainland to include the 10 member states of ASEAN. The Administration would adopt a cautious approach in considering the further expansion of coverage of the BUD Fund while keeping in touch with the small and medium enterprises ("SMEs") for their feedback on the schemes. The Administration would strike a balance between the extent of assistance to be rendered to applicants to address their needs and the importance of prudent use of public resources. Meanwhile, the SME Export Marketing Fund ("EMF") had already provided assistance to SMEs to expand any markets outside Hong Kong, including the markets in the Belt and Road countries. Moreover, the Trade and Industrial Organisation Support Fund could also support promotional activities targeting overseas markets. Regarding the Belt and Road Initiative, the Administration advised at the FC meeting that there were a number of programmes that might provide appropriate assistance, such as the Professional Services Advancement Support Scheme.

9. At the Panel meeting, some members considered that apart from assisting SMEs in export promotion, the Administration should put more efforts and resources to help SMEs develop electronic commerce and online business, and develop their brands locally so that they would have a solid domestic foundation to buttress their branding effort overseas. They also urged the Administration to proactively assist SMEs in developing overseas markets and

follow up with the Hong Kong Monetary Authority on the difficulties faced by SMEs (particularly those SMEs with business operations in the Mainland and Belt and Road countries) in opening bank accounts, especially in major international banks.

10. The Administration advised that the scope of funding under relevant funding schemes had been extended to helping SMEs establish corporate websites and implement their export promotion activities through the electronic platforms and media. As regards the assistance rendered to SMEs for developing overseas markets, the Administration had led delegations of investors and professional service providers from a wide spectrum of Hong Kong's businesses to different countries to expand and strengthen business networks with the other countries.

11. At the FC meeting, some Members were worried that the resources available for projects targeting at other regions (e.g. the Mainland) would be thinned out if the approved projects under the BUD Fund focused on projects within ASEAN.

12. The Administration advised that enterprises could submit separate applications for projects targeting at different regions, and having regard to the need for the market to adjust itself, there was no cap for the total amount of funding to be allocated for individual regions. The BUD Fund could provide financial assistance for manufacturers in the Mainland to facilitate the procurement of machinery required for upgrading and transformation. It was anticipated that the proposed injection, if approved, would be able to sustain its operation up to 2023-2024.

13. At the same meeting, some Members considered that instead of the current practice of setting funding ceilings per enterprise/per project, the Administration should provide financial assistance in the form of a revolving funding line. The Administration advised that the current practice was similar to a revolving funding line as an enterprise may make more than one application.

vetting and approval procedure of the funding schemes

14. At the Panel meeting, members opined that government officials were often over-rigid in the vetting and approving of funding applications under various funding schemes administered by different government bureaux/departments for fear of criticisms from the Audit Commission for mismanagement of public resources. They sought details of the Administration's improvement measures to the existing application and vetting procedures for the various SME funding schemes, including: (i) simplifying the application procedure and the information required in support of the application; (ii) shortening the vetting and approval time; and (iii) setting up a centralized

frontline office to promote the funding schemes and provide a one-stop service to assist SMEs in submitting applications for the various schemes.

15. The Administration advised that it had taken measures in the past three years to enhance the operation of various funding schemes. As an ongoing arrangement, the BUD Fund's programme secretariat (i.e. HKPC) would meet with interested SMEs and answer their questions in relation to application procedures of the BUD Fund. Sharing sessions were also organized for SMEs to share information on successful and unsuccessful applications so as to facilitate their better understanding on the requirements of successful applications. The Administration also planned to simplify the requirements on procurement procedures by reducing the number of quotations required so as to help reduce the administrative costs of enterprises, provide greater flexibility and autonomy for enterprises in the reallocation of grants among approved budget items, and render full funding support on the audit fee of approved projects, which would be capped at HK\$10,000 per audit, to further reduce the costs of enterprises in using the BUD Fund.

Expenditure of the Hong Kong Productivity Council as the programme secretariat

16. At the same meeting, noting that a funding of HK\$18 million annually would be provided to HKPC for covering the staff and other operating costs of a dedicated team for programme management, administrative support and project monitoring, some members enquired about the projected increase in manpower for processing applications to be brought by the proposed injection of HK\$1.5 billion to the BUD Fund. Members also suggested disbursing to HKPC the HK\$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. The Administration advised that the funding of HK\$18 million annually to HKPC would cover the costs of about 19 staff members for the secretariat to implement the enhanced BUD Fund.

Council questions

17. At the Council meeting of 7 November 2018, Hon Jimmy NG asked a written question on the Administration's support for SMEs. He asked whether the Administration would consider afresh extending the geographical scope for the subsidy of the BUD Fund to encompass all the countries and regions along the Belt and Road.

18. The Administration advised that to further assist enterprises in developing markets, it had advanced the launch of the enhancement measures to the BUD Fund to 1 August 2018, including the launch of the ASEAN Programme under the BUD Fund. The Administration had also advanced the

launch of enhancement measures to the Mainland Programme under the BUD Fund, including doubling the cumulative funding ceiling per enterprise to HK\$1 million, and relaxing the current restriction on the maximum number of approved projects, so as to strengthen support to SMEs.

19. The Administration would maintain liaison with the trade, learn from the operational experiences of the ASEAN Programme and review the operations of the BUD Fund from time to time, including the geographical coverage of its funding support, taking into account the changing market and economic situation as well as feedback from the trade. Besides, SMEs might make use of EMF which had no geographical limitation to conduct export promotion activities that aimed at countries along the Belt and Road.

20. At the Council meeting of 31 October 2018, Hon WONG Ting-kwong asked an oral question on the measures to mitigate impacts of the trade disputes between China and the United States on Hong Kong's economy. He sought information on the numbers of applications received and approved, the average amount of grant and average processing time taken for each approved BUD Fund application since the rolling out of the enhancement measures in August 2018.

21. The Administration advised that the trade had responded positively to the enhancement measures. As at end September 2018, the ASEAN Programme received 75 applications, with the funding amount sought in the range of about HK\$17,000 to HK\$1 million. The enhanced Mainland Programme received 273 applications in the third quarter, representing a substantial increase of 58% as compared to the preceding quarter, with the funding amount sought in the range of about HK\$6,000 to HK\$1 million. The Programme Management Committee ("PMC") approved the first application at its meeting in end September 2018 and the approved funding (about HK\$130,000) represented 100% of the amount sought. As applications for the BUD Fund were processed within 60 working days upon the quarterly application deadline, processing of the other applications would be completed by end December 2018. To expedite the vetting process under the ASEAN Programme, PMC would approve straightforward cases by circulation.

22. At the Council meeting of 11 April 2018, Hon Jimmy NG asked a written question on the Administration's support for SMEs. He asked whether the Administration would consider raising the maximum subsidy contribution percentage (i.e. 50% of the total approved project cost) applicable to the BUD Fund, so as to further alleviate the burden of SMEs.

23. The Administration advised that under the BUD Fund, funding was provided on a matching basis (i.e. the Government would cover a maximum of 50% of the total approved project cost and the enterprise had to contribute not less than 50% of the total approved project cost in cash). This was to ensure

that applicant enterprises possessed solid intentions and plans, and were willing to devote resources to developing businesses in the Mainland market, so as to safeguard the prudent use of public money and to avoid abuse. The Administration had no plan to adjust the 50% funding ratio.

Latest position

24. The Administration will brief the Panel on 16 April 2019 on the latest implementation progress of the BUD Fund and seek the Panel's support for the proposed enhancement measures.

Relevant papers

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

Council Business Division 1
Legislative Council Secretariat
10 April 2019

List of relevant papers

Date of meeting	Meeting	Paper
20/3/2018	Panel on Commerce and Industry	<p>Administration's paper on "Progress of the implementation and proposed enhancements of the Dedicated Fund on Branding, Upgrading and Domestic Sales and other funding schemes" (LC Paper No. CB(1)684/17-18(03))</p> <p>Updated background brief on support measures for small and medium enterprises prepared by the Legislative Council Secretariat (LC Paper No. CB(1)684/17-18(04))</p> <p>Administration's follow-up paper (LC Paper No. CB(1)907/17-18(01))</p> <p>Minutes of meeting (LC Paper No. CB(1)1098/17-18)</p>
11/4/2018	Council	Question No. 22 on "Measures to support small and medium enterprises" raised by Hon Jimmy NG (Hansard) (page 8449 – 8457)
1/6/2018	Finance Committee	<p>Administration's paper on "SME Export Marketing and Development Funds and Dedicated Fund on Branding, Upgrading and Domestic Sales" (FCR(2018-19)15)</p> <p>Minutes of meeting (LC Paper No. FC147/18-19)</p>
31/10/2018	Council	Question No. 5 on "Measures to mitigate the impacts of the Sino-US trade conflicts" raised by Hon WONG Ting-kwong (Hansard) (page 796 – 806)
7/11/2018	Council	Question No. 21 on "Support for small and medium enterprises" raised by Hon Jimmy NG (Hansard) (page 1384 – 1388)