

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

Item 524 Export Marketing and Trade and Industrial Organisation Support Fund

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) an increase in commitment by \$1.5 billion from \$4.5 billion to \$6 billion, and an extension of the geographical coverage to include economies with which Hong Kong has signed Investment Promotion and Protection Agreements at the time of application under the Dedicated Fund on Branding, Upgrading and Domestic Sales; and

Item 524 Export Marketing and Trade and Industrial Organisation Support Fund

- (b) an expansion of funding scope of the SME Export Marketing Fund under the Export Marketing and Trade and Industrial Organisation Support Fund to cover large-scale exhibitions targeting the local market.

/PROBLEM

PROBLEM

The Coronavirus Disease 2019 (COVID-19) has severely impacted on the global economy. Hong Kong is no exception. Our economy contracted by 6.1% in 2020, the largest annual decline on record, and the first time for Hong Kong to experience two consecutive years of negative growth. Small and medium enterprises (SMEs) are hardest hit and in dire need of support to ride out the storm.

PROPOSALS

2. The Director-General of Trade and Industry (DGTI), supported by the Secretary for Commerce and Economic Development, proposes to –

- (a) increase the approved commitment of the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) by \$1.5 billion from \$4.5 billion to \$6 billion, and extend its geographical coverage to include economies with which Hong Kong has signed Investment Promotion and Protection Agreements (IPPAs), including those to be signed in future; and
- (b) expand the funding scope of the SME Export Marketing Fund (EMF) under the Export Marketing and Trade and Industrial Organisation Support Fund (EMTSF) to cover large-scale exhibitions targeting the local market.

JUSTIFICATION

3. The Government has proposed a range of enhancement measures to support SMEs in the 2020 Policy Address and the 2021-22 Budget. Detailed proposals are set out below.

BUD Fund

4. To support enterprises in exploring more diversified markets, the Financial Secretary announced in the 2021-22 Budget a proposal to further inject \$1.5 billion into the BUD Fund so as to –

- (a) increase the cumulative funding ceiling per enterprise from \$4 million to \$6 million; and
- (b) extend its geographical coverage from all economies with which Hong Kong has signed Free Trade Agreements (FTAs) to also include all economies with which Hong Kong has signed IPPAs at the time of application under the BUD Fund.

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Encl. 1 A comparison of the current and enhanced funding scope and ceilings under the BUD Fund is at Enclosure 1.

5. The current-term Government has injected a total of \$3.5 billion into the BUD Fund, and launched rounds of enhancement measures, including –

- (a) extending the geographical coverage from the Mainland to the member states of the Association of Southeast Asian Nations (ASEAN), and then further to all economies with which Hong Kong has signed FTAs;
- (b) increasing the cumulative funding ceiling per enterprise successively, from \$0.5 million to \$2 million, and then further to \$4 million; and
- (c) increasing the ratio of initial payment from 25% to up to 75% of the approved government funding.

6. The enhancements are well received by the business community, in particular SMEs. From July 2017 to January 2021, over 6 800 applications were received, with a total funding of over \$1.33 billion approved.

Extend Geographical Coverage

7. To support enterprises in developing more diversified markets by fully utilising the better protection afforded by IPPAs¹, we propose a further injection of \$1.5 billion into the BUD Fund, thereby further extending its geographical coverage to all economies with which Hong Kong has signed IPPAs at the time of application under the BUD Fund. The proposed extension can facilitate Hong Kong enterprises in capturing the advantages offered by IPPAs, including fair and equitable treatment and better protection to their investments.

8. So far Hong Kong has signed 22 IPPAs covering 31 foreign economies. After the extension, the BUD Fund's geographical coverage will expand from the 20 FTA economies² to the 37 economies with which Hong Kong

/has

¹ An IPPA is an agreement between governments for the promotion and protection of investments made by investors of one contracting party in the area of the other contracting party.

² The 20 FTA economies are the Mainland, 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 the ASEAN (comprising Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam), Georgia and Australia.

has signed FTAs and/or IPPAs³. As our IPPA network gradually expands, we further propose extending the geographical coverage of the BUD Fund to new IPPA economies automatically upon signing of new IPPAs in future. Publicity and promotional activities will be carried out to encourage enterprises to make the best use of the BUD Fund to develop these markets.

Increase Funding Ceiling

9. The Mainland economy quickly rebounds as its epidemic situation stabilises. The Mainland is also determined to expand its domestic market and establish a new economic development pattern featuring complementary domestic and international dual circulations. Hence its domestic consumption is expected to grow. The increase in funding ceiling will facilitate enterprises to tap into the lucrative Mainland market. The extension of geographical coverage of the BUD Fund will allow Hong Kong enterprises to develop more overseas markets. Therefore, we propose increasing the cumulative funding ceiling per enterprise from \$4 million to \$6 million to provide more funding support for Hong Kong enterprises to capture the business opportunities brought about by the national dual circulation development strategy and explore more overseas markets.

10. To provide timely and flexible support to enterprises, DGTI will from time to time review and further adjust the BUD Fund's geographical coverage and funding ceilings as appropriate, having regard to the ever-changing market needs and situation, so as to enable enterprises to make the best use of the BUD Fund to develop their businesses.

EMF

11. To support enterprises in conducting local market promotion activities through both online and offline avenues, as well as to maintain Hong Kong's leading position as the hub for large-scale merchandise exhibitions, the Chief Executive announced in the 2020 Policy Address the proposed expansion of the funding scope of the EMF, for a period of two years, including –

- (a) expanding the funding scope from exhibitions specifically aiming at markets outside Hong Kong to large-scale exhibitions staged by organisers with good track record targeting the local market; as well as virtual exhibitions organised by Hong Kong Trade Development Council and reputable exhibition organisers with good track record; and

/(b)

³ The 17 newly added economies include Japan, the Republic of Korea, Austria, Belgo-Luxembourg Economic Union, Canada, Denmark, Finland, France, Germany, Italy, Mexico, the Netherlands, Sweden, the United Kingdom, Kuwait and the United Arab Emirates.

- (b) relaxing the eligibility criteria to cover non-SMEs⁴.

12. The current-term Government has injected a total of \$2 billion into the EMF, and launched rounds of enhancement measures, including –

- (a) increasing the cumulative funding ceiling per enterprise successively, from \$200,000 to \$400,000, and then further to \$800,000;
- (b) increasing the funding ceiling per application from \$50,000 to \$100,000; and
- (c) introducing an initial payment of up to 75% of the approved government funding.

13. The enhancement measures are also well received by the business community, in particular SMEs. From July 2017 to January 2021, over 45 000 applications were received, with a total funding of over \$780 million approved.

14. Due to the pandemic, the number of applications received and the funding amount approved for participating in local and overseas exhibitions in 2020 decreased by 74% and 37% year-on-year respectively. On the other hand, the number of applications received and the funding amount approved for conducting export promotion activities through electronic platforms or media respectively increased by 58% and 67% year-on-year.

15. As the pandemic lingers on, it will take more time for overseas markets to recover; and it is unlikely that overseas exhibitions can fully resume within a short period of time. At the same time, virtual exhibitions have become increasingly popular under the “new normal” brought about by the pandemic. Against the above background, expanding the funding scope of the EMF to cover large-scale exhibitions targeting the local market and virtual exhibitions held by organisations with good track record will help enterprises explore local business opportunities and utilise digital technologies to develop businesses. Relaxing the eligibility requirement to cover non-listed enterprises will enable more enterprises to benefit from the EMF.

/16.

⁴ All non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Cap. 310) with substantive business operations in Hong Kong will be eligible to apply for the EMF.

16. To cater for the ever-changing market needs, DGTI will from time to time review and adjust the funding ceilings and funding scope as appropriate so that the EMF will continue to serve its objectives effectively.

FINANCIAL IMPLICATIONS

BUD Fund

Encl. 2

17. The approved commitment of the BUD Fund will increase by \$1.5 billion from \$4.5 billion to \$6 billion. We estimate that the new injection will enable the BUD Fund to operate up to 2024 (the funding position of the BUD Fund is at Enclosure 2), on the assumption that the enhancement measures will be implemented by phases in 2021 and 2022 as set out in paragraphs 25 to 27 below. The actual annual cash flow will depend on the number of applications, as well as the funding amount approved each year.

Encl. 3

18. Hong Kong Productivity Council (HKPC), which has been administering the BUD Fund from the outset, will continue to operate it for the Government. Similar to the current funding arrangement, part of the administrative and promotion costs as well as other necessary expenses for the enhanced measures will be funded by the BUD Fund, while the remaining will be contributed by HKPC as the implementation partner. The Government will provide from the approved commitment of the BUD Fund about \$86.3 million per annum to HKPC for covering staff and other operating costs of a dedicated team for programme management, administrative support and project monitoring. HKPC will conduct on-site inspections for selected approved projects to help guard against misuse of funds or fraudulent claims. The Government will disburse about \$12.6 million per annum to HKPC for various publicity and promotional activities, and other implementation expenses⁵. 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 signing of the FTA and IPPA with Hong Kong in future. We will continue to ensure that the relevant administrative overheads are reasonable and proportionate to the total approved project funding in the same year. In addition, HKPC will contribute about \$11 million per annum in terms of expenses in relation to professional manpower support in undertaking, 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 3.

/EMF

⁵ Including the expenses for maintaining an electronic submission system and an administration system, engaging organisation(s) with local knowledge of the FTA and IPPA markets for providing advisory and support services in application vetting and project monitoring, and engaging agency staff for support services, etc.

EMF

19. Expenditure of the EMF is covered by the EMTSF⁶. The current total approved commitment of the EMTSF is \$7.25 billion. The EMTSF is expected to support the EMF and the Trade and Industrial Organisation Support Fund to operate up to 2025 after implementation of the enhancement measures. The funding position of the EMTSF is at Enclosure 4.

Encl. 4

CONTROL AND SAFEGUARD MECHANISM**BUD Fund**

20. The existing control and monitoring mechanism of the BUD Fund will continue to apply. 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, with HKPC as the implementation partner to operate the BUD Fund and provide secretariat support. For each application, HKPC will provide a preliminary assessment for consideration by IDC, which 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 after consulting IDC. HKPC will also submit annual accounts prepared by an independent auditor to PMC.

EMF

21. The existing control and monitoring mechanism of the EMF will continue to apply. Applicant enterprises will be required to provide relevant information and supporting documents to Trade and Industry Department (TID) for vetting their applications. TID is the approval authority of the applications.

22. To ensure transparency of the BUD Fund and the EMF, HKPC and TID will continue to promulgate on their websites the rules and guidelines of the two funding schemes. TID will also continue to closely monitor the operation of the BUD Fund and the EMF, and review their utilisation and effectiveness from time to time to ensure prudent use of public money.

/EXPECTED

⁶ The EMTSF covers expenditures of the EMF and the Trade and Industrial Organisation Support Fund.

EXPECTED BENEFITS**BUD Fund**

23. The proposed injection and enhancement measures will strengthen the support to Hong Kong enterprises in developing the Mainland and overseas markets. The funding provided will help enhance the overall competitiveness of Hong Kong enterprises and facilitate their business development.

EMF

24. More enterprises will benefit from the flexibility introduced by the enhancement measures to conduct promotion activities targeting the local market, thereby helping to revitalise the local economy and maintain Hong Kong's leading position as the hub for large-scale merchandise exhibitions.

IMPLEMENTATION TIMETABLE

25. Subject to Members' approval, we plan to launch the proposed enhancement measures for the EMF in April 2021, and the enhancement measures for the BUD Fund by phases as follows –

Phase 1 (July 2021)	<ul style="list-style-type: none"> • Increase the cumulative funding ceiling per enterprise from \$4 million to \$6 million • Extend the geographical coverage to Japan and the Republic of Korea
Phase 2 (Q1 2022)	<ul style="list-style-type: none"> • Extend the geographical coverage to Austria, Belgo-Luxembourg Economic Union, Canada, Denmark, Finland, France, Germany, Italy, Mexico, the Netherlands, Sweden and the United Kingdom
Phase 3 (Q2 2022)	<ul style="list-style-type: none"> • Extend the geographical coverage to Kuwait and the United Arab Emirates

26. Hong Kong is seeking to accede to the Regional Comprehensive Economic Partnership (RCEP) as soon as possible. Extending the geographical coverage to all RCEP economies can facilitate the trade's exploration of those markets early. As Japan and the Republic of Korea are the only two RCEP economies not being covered by the BUD Fund, we will therefore first extend the geographical coverage to Japan and the Republic of Korea.

27. We propose extending the geographical coverage to 13 economies in Europe and the Americas and two economies in the Middle East in the second and third phases respectively, taking into account HKPC's capacity in coping with the workload and preparatory work arising from handling additional applications and monitoring of approved projects. DGTI will from time to time review and where appropriate adjust the implementation timetable, having regard to the ever-changing market needs and situation.

PUBLIC CONSULTATION

28. We have briefed the Small and Medium Enterprises Committee and the Trade and Industry Advisory Board on the proposed enhancement measures. We receive strong support for the proposals and calls for their early implementation. We also consulted the Legislative Council Panel on Commerce and Industry on 16 March 2021, and Members supported the proposals.

BACKGROUND

BUD Fund

29. Established in 2012, the BUD Fund provides funding support to non-listed Hong Kong enterprises to enhance their competitiveness and further business development in the Mainland and other FTA markets through developing brands, upgrading and restructuring operations and promoting sales. As at end January 2021, around 3 300 applications have been approved, involving a total funding amount of \$1.68 billion and benefiting some 2 600 enterprises.

EMF

30. Established in December 2001, the EMF provides financial support to encourage SMEs to expand their markets outside Hong Kong through participation in export promotion activities. As at end January 2021, around 246 000 applications have been approved, involving a total funding amount of around \$3.98 billion and benefiting more than 50 000 enterprises.

Comparison of the current and enhanced arrangements under the Dedicated Fund on Branding, Upgrading and Domestic Sales

	Current Arrangement	The Arrangement After Full Implementation of Enhancement Measures
Total Approved Commitment	\$4.5 billion	\$6 billion
Geographical Coverage	Mainland, the Association of Southeast Asian Nations (ASEAN) and other economies with which Hong Kong has signed Free Trade Agreements ¹ (FTAs) (20 in total)	Mainland, ASEAN and other economies with which Hong Kong has signed FTAs and/or Investment Promotion and Protection Agreements ² (IPPAs) (37 in total)
Cumulative Funding Ceiling per Enterprise	\$4 million	\$6 million
Funding Ceiling per Project	\$1 million	\$1 million
Maximum Number of Approved Projects per Enterprise	40	60

¹ So far Hong Kong has signed eight FTAs covering 20 economies, namely the Mainland, 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 the ASEAN (comprising Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam), Georgia and Australia.

² So far Hong Kong has signed 22 IPPAs covering 31 foreign economies, namely the ten member states of the ASEAN, Australia, Austria, Belgo-Luxembourg Economic Union, Canada, Chile, Denmark, Finland, France, Germany, Italy, Japan, Republic of Korea, Kuwait, Mexico, the Netherlands, New Zealand, Sweden, Switzerland, Thailand (an ASEAN member state), the United Arab Emirates and the United Kingdom.

**Funding Position of the Dedicated Fund on Branding,
Upgrading and Domestic Sales (BUD Fund)
(as at end January 2021)**

Approved commitment	\$4.5 billion
Amount of project grant approved	\$1,939.7 million ^{Note}
Implementation fees provided to the Hong Kong Productivity Council (HKPC)	\$174.5 million
Remaining fund balance	\$2,385.8 million
Injection amount	\$1.5 billion
Total remaining fund balance	\$3,885.8 million
Estimated annual project grant to be approved after full implementation of enhancement measures	\$1,069.5 million
Annual funding to be provided to HKPC for staff expenditure after enhancement	\$86.3 million
Annual funding to be provided to HKPC for publicity and promotional activities, and other implementation expenses after enhancement	\$12.6 million
Estimated date of fund exhaustion	May 2024

^{Note} Amount of project grant approved include \$263 million approved under the former BUD Fund (Organisation Support Programme) (BUD(OSP)). BUD(OSP) was merged with the former SME Development Fund to form the Trade and Industrial Organisation Support Fund (TSF) in October 2018. After the merger, TSF is funded under the Export Marketing and Trade and Industrial Organisation Support Fund.

**Annual Estimate of Implementation Fees for the Dedicated Fund on Branding,
Upgrading and Domestic Sales (BUD Fund) after Further Enhancement¹**

Item	Funding by Government	Contribution by the Hong Kong Productivity Council (HKPC)	Total
	(\$'000)	(\$'000)	(\$'000)
(I) Staff expenditure			
• Programme management ²	—	548	548
• Programme administration, application handling and project monitoring ³	86,327	10,226	96,553
Sub-total	86,327	10,774	97,101
(II) Other expenditures			
• Promotion, publicity, dissemination, computerisation, other support services and audit fees ⁴	4,140	218	4,358
• Expenses for engaging organisation(s) with local knowledge under Free Trade Agreement (FTA) and Investment Promotion and Protection Agreement (IPPA) Programme; travelling expenses for project monitoring ⁵	8,468	—	8,468
Sub-total	12,608	218	12,826
Total	98,935⁶	10,992	109,927

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- ¹ The Government will continue to closely monitor the workload and expenditures of 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 ensuing 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 upon review. Suitable provisions will continue to be included in the revised service agreement to ensure that the administrative fees do not exceed 15% of the total approved project funding in the same year.

- ² HKPC will assign officer(s) at general manager grade or above to oversee the programme implementation. The costs will be contributed by HKPC. The manpower arrangements will be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.
- ³ 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 will be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.
- ⁴ 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; the maintenance and enhancement of an electronic submission system and an administration system, etc. Other support services include those related to the monitoring of approved projects, recoupment of disbursed grants and engagement of agency staff for support services. Audit fees cover the audit work for HKPC to produce annual audited accounts to 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 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 PMC. The Government will disburse to HKPC the actual expenses incurred by the latter on a reimbursement basis.

- ⁵ For the implementation of the FTA and IPPA 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 and IPPA 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.
- ⁶ The Government will provide about \$86.3 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 \$12.6 million for various publicity and promotional activities, and other implementation expenses.
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**Funding Position of the Export Marketing and
Trade and Industrial Organisation Support Fund (EMTSF)
(as at end January 2021)**

Approved commitment	\$7.25 billion
Amount of project grant approved ¹	\$4,747.2 million
Remaining fund balance	\$2,502.8 million
Estimated annual project grant to be approved after the implementation of enhancement measures under the SME Export Marketing Fund (EMF) ²	\$520.6 million (Trade and Industrial Organisation Support Fund (TSF): \$62 million EMF: \$458.6 million)
Estimated date of fund exhaustion	December 2025

¹ In calculating the approved project grant under the EMTSF, apart from the TSF and the EMF, the approved project grant of \$260.7 million under the then SME Training Fund, which was met by the approved commitment of the EMTSF, is also included. The SME Training Fund has ceased to receive application since 1 July 2005.

² The estimated annual project grant under TSF is \$62 million. It is estimated that the project grant to be approved under the EMF in 2021-22 will be \$290 million and the amount will increase progressively in 2022-23 (\$396 million) and 2023-24 (\$540 million) after the implementation of the enhancement measures and the resumption of trade exhibitions with the rescission of the epidemic. The estimated annual project grant is estimated to remain stable at \$540 million thereafter.