

# **DEDICATED FUND ON BRANDING, UPGRADING AND DOMESTIC SALES**

## **Executive Summary**

1. The Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) was established in June 2012 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. It has a non-recurrent commitment of \$1,000 million and is open for applications for five years. The application period may be reviewed and extended, if necessary. The Commerce and Economic Development Bureau (CEDB) and the Trade and Industry Department (TID) are responsible for administering the BUD Fund.

2. The BUD Fund comprises two programmes: (a) the Organisation Support Programme (OSP), which provides funding support to non-profit-distributing organisations (e.g. trade and industrial organisations) to undertake projects in relevant areas which can assist Hong Kong enterprises in general or in specific sectors; and (b) the Enterprise Support Programme (ESP), which provides funding support to individual Hong Kong non-listed enterprises to assist them in undertaking projects. The CEDB has engaged the Hong Kong Productivity Council (HKPC) as a partner to implement the ESP and to act as the ESP Secretariat. The Government would disburse a total of \$60 million over a period of 7.5 years to the HKPC for the implementation of the ESP. The HKPC would contribute \$17 million in terms of professional manpower support and other support services. The Audit Commission (Audit) has recently conducted a review of the BUD Fund.

## **Overall management**

3. *Performance of the BUD Fund.* According to the funding paper submitted to the Finance Committee (FC) of the Legislative Council in May 2012, the Government estimated that about 1,000 enterprises could directly benefit from the ESP and around 90 projects could be undertaken under the OSP by non-profit-distributing organisations. Audit noted that, as at October 2015 (more than three years after the commencement of the BUD Fund), the number of

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approved OSP and ESP projects (45 and 349 respectively), and the amount of approved funding for the OSP and ESP (\$147 million and \$157 million respectively) were lower than estimated. Audit also noted that, during the period June 2012 to June 2015: (a) the number of applications received for both the OSP and ESP showed a downward trend; and (b) the overall success rates of OSP and ESP applications were 38% and 33% respectively. The TID and the HKPC need to encourage more applications and to improve the application success rates (paras. 2.2, 2.3, 2.5, 2.9 and 2.18).

4. ***Engagement of the HKPC as implementation partner and Secretariat of the ESP.*** In response to the Financial Services and the Treasury Bureau's concerns on the selection of the HKPC as the implementation partner, the CEDB explained that it considered the HKPC as a partner in implementing the ESP and the engagement was not a procurement of services. The implementation fee charged by the HKPC was calculated at the HKPC's highest staff cost rates. According to the CEDB, there were discussions and negotiations between the Government and the HKPC on the overall level of charge. However, Audit noted that there was no documentation indicating whether the CEDB had discussed with the HKPC on the feasibility of using lower charging rates and why lower rates were not applicable. Up to October 2015, the cost for administering the ESP had amounted to some \$55.3 million, representing about 35% of the \$157 million approved project funding. According to the FC paper, the total cost of administering the \$500 million of the ESP was estimated to be \$77 million (15%). Furthermore, notwithstanding that the numbers of applications and approved projects were low and were decreasing, the actual number of full-time staff of the ESP Secretariat remained at about 15 to 16 (except for the first year of operation, i.e. 2012-13), which was some 50% more than that estimated in the FC paper (paras. 2.26, 2.28, 2.29, 2.33, 2.35, 2.37, 2.42, 2.43 and 2.45).

## Management of Organisation Support Programme projects

5. ***Use of implementation agents.*** It was common for the grantees to engage implementation agents for carrying out OSP projects. Of the 45 approved projects, 30 (67%) had engaged seven implementation agents in total. The total approved consultancy fee paid to these seven implementation agents amounted to \$29.4 million, or 31% of the approved funding of \$96.2 million for these 30 projects. Audit examined 6 completed projects which had engaged implementation agents and noted that: (a) for 3 (50%) projects, the proposed

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consultancy fees were lump sum fees without detailed breakdown; and (b) for 3 (50%) projects, details were not provided regarding what services had been provided by the implementation agents (paras. 3.5 and 3.8).

6. ***In-kind contribution.*** OSP grantees are required to contribute at least 10% of the total project expenditure by themselves or in the form of sponsorship from any third parties other than the Government, which may be in cash or in-kind (in-kind contribution). Of the 45 approved projects, in-kind contribution amounted to \$10.8 million (64% of total contribution from the grantees and third parties). The OSP Secretariat requires the grantee to provide a letter listing out the nature and the amount of in-kind contribution as documentary proof. Apart from this requirement, the grantee does not need to provide other documents to support the valuation of the in-kind contribution. Audit examined six completed projects with in-kind contribution and noted that the OSP Secretariat had not raised queries on the value of in-kind contribution or required the grantees to provide documentary proof of the value (paras. 3.14 to 3.17).

7. ***Monitoring of project progress.*** The OSP Secretariat monitors project progress mainly by reviewing the reports and audited accounts submitted by the grantees, clarifying ambiguities, raising queries and conducting site visits for events held in Hong Kong to observe the conduct of project activities. Audit examined three completed projects and noted that: (a) for two projects, recruitment records could not be obtained by the OSP Secretariat for Audit's examination; and (b) for one project, non-allowable costs amounting to \$160,000 charged to the project were not discovered by the OSP Secretariat until some eight months after the submission of final report and accounts (paras. 3.21 to 3.23, 3.25 and 3.27).

## Management of Enterprise Support Programme projects

8. ***Monitoring of project progress.*** To facilitate the monitoring and evaluation of approved ESP projects, grantees are required to submit progress reports, final reports and audited accounts to the ESP Secretariat. Audit examined 20 completed projects (involving 11 progress reports and 20 final reports) and noted that: (a) 9 (82%) of the 11 progress reports and all the 20 final reports required resubmissions; and (b) based on the final submission date, 9 (82%) progress reports and 4 (20%) final reports were submitted more than 3 months late (paras. 4.11 and 4.13).

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9. ***Termination of projects.*** As of October 2015, 45 (13%) of the 349 approved ESP projects were terminated before completion. Audit's analysis of the terminated projects by batch (13 batches in total up to October 2015) indicated that the termination rates (i.e. number of terminated projects ÷ number of approved projects × 100%) were higher in earlier batches (e.g. 26.5% and 30.2% for Batch 1 and Batch 2 respectively). As time progresses, more projects may become unsuccessful, hence the overall termination rate may also increase (paras. 4.23 and 4.24).

### Way forward

10. As at February 2016, the BUD Fund has been in operation for over three years. The Fund has provided over \$300 million to support about 400 projects under the OSP and ESP. Some 100 projects have been completed. Audit considers that it is an opportune time for the Government to conduct a comprehensive review of the BUD Fund to assess the performance of the Fund in meeting its objectives, analyse benefits brought by the Fund, identify improvement areas and decide the way forward (paras. 5.2 and 5.3).

### Audit recommendations

11. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council where appropriate:**

#### ***Overall management***

- (a) **take measures to improve the utilisation of the BUD Fund (para. 2.22(a));**
- (b) **for future engagements of non-government partners to administer projects, ensure that records relating to the compliance with relevant Financial Circulars are properly kept and the pertinent approvals are properly documented (para. 2.39(a));**

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- (c) **closely monitor the manpower deployment of the ESP Secretariat and take effective action to improve the economy in administering the ESP (para. 2.56(a));**

### ***Management of Organisation Support Programme projects***

- (d) **step up control over the payment of fees to implementation agents of OSP projects (para. 3.12);**
- (e) **tighten control on in-kind contribution of OSP projects (para. 3.19);**
- (f) **strengthen the monitoring of OSP projects, particularly on the checking of books and records and grantees' compliance with project agreements and guidelines (para. 3.29);**

### ***Management of Enterprise Support Programme projects***

- (g) **take measures to facilitate ESP grantees in the submission of reports with a view to improving the monitoring process (para. 4.20(a));**
- (h) **closely monitor the termination rate of ESP projects and consider conducting a review on the terminated projects with a view to identifying ways to minimise the termination rate as far as possible (para. 4.25); and**

### ***Way forward***

- (i) **consider conducting a review on the BUD Fund, taking on board the audit findings in this Audit Report (para. 5.6).**

## **Response from the Government**

12. The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendations.