

## **Paper for Legco Panel on Commerce and Industry**

### **The Small and Medium Enterprises Committee : Progress Report and Consultation**

#### **Purpose**

This paper informs members of the progress made by the new Small and Medium Enterprises Committee (SMEC) in exploring feasible and concrete support measures for Small and Medium Enterprises (SMEs) and seeks members' views on the work of the SMEC.

#### **Background**

2. As at September 2000, there are around 300,000 SMEs in Hong Kong. They account for more than 98% of all local enterprises and employ more than 60% of private sector employees.

3. In his Policy Address in October last year, the Chief Executive reaffirmed the importance of SMEs as a pillar of Hong Kong's economy and the Administration's commitment to helping SMEs tackle problems encountered at different stages of their development, enhancing their overall capacity and ensuring their sustainable development. The status of the SMEC was strengthened and its representation widened. The SMEC was also charged with the responsibility to explore new measures to support SMEs under the themes of helping SMEs to "start, build, and expand" their businesses and to come up with a set of practical recommendations before mid-June.

4. The membership list and terms of reference of the new SMEC are at Annex I and II.

## **Work Progress**

### **Establishment of Working Groups**

5. The new SMEC became operational on 15 December 2000 and has since held two meetings. At its first meeting, SMEC set up five working groups to identify the problems as well as solutions in five major areas of concern to SMEs: SME financing, business environment, human resources, technology applications, and market access. These are identified as the major areas which SMEs, having survived the Asian financial crisis, need to address in order to cope with the challenges brought by globalization of the world economy, the advent of knowledge-based new economy and the Mainland's accession to World Trade Organisation.

### **Consultation**

6. The Committee is aware that its work has an important bearing on the long term development of SMEs. It has therefore put a special emphasis on stepping up communication with representatives of various trade sectors on the development of SMEs. This is to ensure that different views can be taken into account when recommendations for supporting SMEs are drawn up. To this end, the Committee has conducted two major discussion sessions with representatives from over 50 trade and industrial organisations, SME associations, and representatives from the service sector, banks, financial institutions and academia, to solicit their opinions on the development of SMEs. Also, the working groups have invited individuals and organisations concerned for in-depth discussions and exchange of views.

7. To further expand its scope of consultation, SMEC has launched a three-week public consultation exercise in early March. Business chambers, industrial organisations, SMEs and the public from various trades and sectors are invited to give their views on the SMEC's five major areas of work. This will enable the SMEC to benefit from a full breadth of public opinion in the course of drawing up their proposals to the Chief Executive on the supportive measures to help SMEs start, build and expand their businesses.

### **Research Work**

8. The SMEC believes that it is necessary to analyse the characteristics and background of our SMEs before any support proposals or roadmaps regarding their development can be drawn up. In order to have a fuller understanding of local SMEs, the Committee and its five working groups have analysed and studied the following over the past two months or so –

- (a) The sectoral distribution of the 300,000 SMEs, their market orientation (local, overseas or the Mainland), level of employment provision, value-added capability and contribution to the GDP, with a view to deciding whether it is necessary to provide different support measures for different SMEs;
- (b) the strengths and weaknesses of Hong Kong's business environment and the solutions required. In this regard, the SMEC has taken reference from various local and overseas studies comparing Hong Kong's business environment,

competitiveness and attractiveness as an investment location with other cities of similar status;

- (c) our SME's level of receptiveness to information technology (IT) and the reasons behind; their IT utilisation level and how it compares with cities of similar status. Such analysis is to facilitate the SMEC to come up with specific targets in raising the IT utilisation rate among SMEs.
- (d) whether the training courses provided by tertiary institutions and subvented support organisations are adequate in terms of variety, quantity and substance in meeting SMEs' needs; the awareness of SME owners and employees of the importance of continued learning in enhancing their own competitiveness well as that of the enterprises; their knowledge about existing training courses; and whether the existing support programmes provide adequate incentive for training;
- (e) the liquidity of the banking/financing sectors and criteria of loan vetting by local banks and financial institutions as an indicator of whether the problems encountered by SMEs in financing are related to market liquidity; the reasons for the gap in the demand and supply of loans and how, through short term and long term measures to be taken by SMEs, banks/financial institutions and the Government, the gap can be narrowed; and, lastly, ways to help SMEs gain knowledge of and access to more diversified channels of finance;

- (f) the difficulties faced by SMEs in local, overseas and the Mainland markets, their causes and solutions; whether or not it is appropriate to draw on overseas experiences in helping SMEs to expand their access to overseas markets; the challenges and opportunities brought by the Mainland's accession to WTO and how the Government can help SMEs understand their roles and potential for development in-order to get a head-start in the Mainland market.

### **Preliminary Observation**

9. Having taken into account the views from various sectors and the discussions among members, the SMEC has arrived at some preliminary observations regarding the principles to be adopted in exploring further support measures to SMEs.

10. First of all, in view of the disparities in the size and mode of operations among the more than 300,000 SMEs in Hong Kong, the SMEC believes that no single package of support measures can be expected to achieve the same level of success for all SMEs. On the other hand, resource constraints also make it difficult to provide tailor-made support measures for SMEs of different trade and size. In any case, it will be against the principle of equity for the Government to provide support to only a few selected sectors. The SMEC therefore considers it prudent to focus on advancing the general interests of SMEs as well as addressing their common concerns and to propose support measures accordingly. Hence, sector-specific support measures would not be the main thrust of the SMEC's work. Instead, the SMEC would strive to come up with measures that would help SMEs tackle their problems

in the areas of financing, business environment, human resources development, technology applications and market access, in line with the Chief Executive's stated objective of helping SMEs to start, build and expand their businesses in his Policy Address last year.

11. The SMEC is of the view that the Government must be clear about its role in supporting SMEs. In keeping with the market-oriented economic policies of the Government, the SMEC acknowledges that the Government should refrain from meddling with the self-adjusting process of the market by picking winners or subsidising losers. The Committee shares the view that, in order to facilitate SMEs' development in the long term, it is crucial to motivate and assist SMEs to enhance their competitiveness. The Government should encourage SMEs to strive to excel through self-enhancement, and assist by providing a business-friendly environment and appropriate incentives or support measures.

12. On support services to SMEs in Hong Kong, as these are delivered by both government departments and non-government organisations, it is understandable that some SMEs may be under the wrong impression that our services are less comprehensive than that of other economies. The truth is that, contrary to such misconceptions, various Government departments and support organisations to SMEs are already providing a wide range of services to SMEs. The problem in perception highlights the need to improve the coordination and interface among the support measures offered by various agencies, and to ensure that they are made known in a user-friendly fashion to SMEs. The SMEC is therefore looking into ways to further publicise Government's support services to SMEs and the scope for further rationalising the provision of services among different agencies.

13. The SMEC notes that certain problems encountered by SMEs in the aforementioned five major areas have much to do with their business culture and management capability. For example, the financing problems encountered by SMEs are, to a considerable extent, attributable to the fact that many enterprises do not normally maintain an acceptable degree of transparency with their accounts and are therefore unable to provide the documentary proof of sound business and financial conditions required by banks/financing institutions for loans. Indeed this is why some of them have not been able to secure loans even amidst the changes currently taking place in the enterprise loan market, i.e. a gradual shift from asset-based financing that is prevalent in Hong Kong before the Asian financial crisis to non-collateral and credit-based financing. Similarly, apart from insufficient capital and short-handedness, the problems encountered by SMEs in human resources development and information technology applications are also partly due to a lack of interest or understanding about the importance of training on the part of the SME owners and their staff. To help SMEs tackle these problems and keep up with the times, it is essential to start with helping them adjust their business culture and mindset, alerting them to the need for good corporate governance and developing a corporate culture conducive to their long-term competitiveness

14. That said, SMEC acknowledges that such efforts alone cannot help SMEs solve all their problems. While encouraging SMEs to help themselves through self-enhancement, it is also necessary for the SMEC to take a serious look at the current support services and market opportunities available as well as the needs of SMEs, identify the gaps left unfilled, including information gaps and mis-match of resources, and then come up with

the needed solutions. At its consultation sessions and working group meetings, the SMEC has also discussed at length the question of how best to make use of the money to be recouped from the Special Finance Scheme for SMEs to ensure that effective support proposals are provided in the five key areas of concern to SMEs.

### **Way Forward**

15. The SMEC is currently inviting suggestions from the community on feasible concrete support measures for SMEs in these five major areas in accordance with the line of thinking described above. Upon completion of the public consultation at the end of March, the SMEC will deliberate on the views collected, including the advice of Members, before finalising the proposals for submission to the Chief Executive.

### **Advice Sought**

16. The Chairman of SMEC and the convenors of its Working Groups will attend the Panel meeting on 12 March to brief Members and consult them on measures to further support the development of SMEs.

Commerce and Industry Bureau

March 2001

**Small and Medium Enterprises Committee**

**Membership List**

Mr CHAN Wing-kee (Chairman)	陳永棋先生 (主席)
Mr AU Wai-hung, Anthony	區煒洪先生
Mr CHAN Tze-ching	陳子政先生
Mr CHU Kar-wing, Kelvin	朱嘉榮先生
Mr CHU Kwan-lam, Locky	朱鈞林先生
Professor HO Yan-ki, Richard	何焯基教授
The Hon HUI Cheung-ching	許長青議員
Mr HUI Ho-ming, Herbert	許浩明先生
Mr Lam Wai-chun	林偉駿先生
Mr LAU Wai-kwong, Gilbert	劉偉光先生
Mr LO Foo-cheung	羅富昌先生
Mr LO Man-tuen	盧文端先生
Mr NG Wang-pun, Dennis	吳宏斌先生
Mr NGAI Kam-fai, Danny	倪錦輝先生
Mr SO Hoi-pan, Edinson	蘇開鵬先生
Mr SUN Kwok-wah, Peter	孫國華先生
Mr TAM Ping-cheong, James	譚炳昌先生
Mr YEUNG Kwok-ki, Anthony	楊國琦先生
Mr YU Pang-chun	余鵬春先生
Professor YU Siu-hung, Eden	俞肇熊教授
Mr Edmund SUNG	宋兆麟先生
Mrs Anna LAI	黎黃靄玲女士
Mr Alfred HO	何世栢先生
Director-General of Trade and Industry	工業貿易署署長
Deputy Secretary for Commerce and Industry	工商局副局長
Assistant Director-General of Trade and Industry	工業貿易署助理署長(秘書)

**Small and Medium Enterprises Committee**

**Terms of Reference**

To advise the Chief Executive on issues affecting the development of small and medium enterprises in Hong Kong and to suggest measures to support and facilitate their development and growth.