

Legislative Council Panel on Commerce and Industry

Progress Report on the Four Funding Schemes for Small and Medium Enterprises

INTRODUCTION

This paper informs Members of the progress of the implementation of the four funding schemes for small and medium enterprises (SMEs), namely the SME Business Installations and Equipment Loan Guarantee Scheme (BIG), the SME Export Marketing Fund (EMF), the SME Training Fund (STF), and the SME Development Fund (SDF). BIG, EMF and SDF were launched on 14 December 2001, and STF on 16 January 2002. A brief description of the scope and intended beneficiaries of the four schemes are at Annex I.

PROGRESS

Overview

2. As at 30 April 2002, BIG, STF and EMF received 4 578 applications. 3 803 applications were approved; another 327 were being processed. The total amount of Government guarantee and subsidy approved was about \$351 million. Details are shown in the following table:

	BIG	STF	EMF	Total
No. of applications received	972	2 250	1 356	4 578
No. of applications approved	848	1 731	1 224	3 803
No. of applications rejected	11	151	53	215
No. of applications withdrawn	44	153	36	233
No. of applications being processed	69	215	43	327
Amount of guarantee/grant approved	about \$335 million	about \$4.30 million	about \$11.87 million	about \$351 million
No. of beneficiaries	703	1 178	1 224	3 105

3. Also, in the first tranche of invitation, SDF received 291 applications. The SDF Vetting Committee will very shortly complete deliberation on these applications. Applicants will soon be informed of the outcome.

4. Progress of individual funding schemes, and some initial observations, are set out in the following paragraphs.

SME Business Installations and Equipment Loan Guarantee Scheme

(A) Participation of lending institutions

5. The Trade and Industry Department (TID) has invited all authorised lending institutions under the Banking Ordinance, Chapter 155, to join the BIG. As at 30 April 2002, 48 lending institutions have joined the Scheme, of which 33 have submitted applications for Government's guarantee.

(B) Number of applications received and approved

6. As at 30 April 2002, 972 applications were received, involving 791 SMEs. 848 applications were approved, involving 703 SMEs. The total amount of Government guarantee provided to the approved applications was about \$335 million, and the total loan amount involved was \$744 million. Another 69 applications were being processed. So far, only 11 applications were rejected.

7. Annex II shows the number of applications received on a monthly basis. Members will note that, overall, the figures are on a rising trend (with the exception of February which was a quiet month because of Chinese New Year). We expect that the number of applications will increase as the economy improves and as more enterprises actively plan for business expansion.

(C) Nature of applications

8. Of the 972 applications, 690 cases (71%) involve lending to SMEs in the manufacturing industries, and 282 cases involve lending to SMEs in non-manufacturing sectors.

(D) Loan purposes

9. In most cases, the loans are used to procure machinery. This accounts for 857 applications (about 88% of total applications). The procurement of computer hardware and software comes next, accounting for 51 applications (about 5% of total applications).

(E) *Geographical distribution of the installations and equipment*

10. About 72% of the applications are for business installations and equipment located in the Mainland. As regards the remaining 28%, the business installations and equipment will be used in Hong Kong.

(F) *Amount of loan facilities and interest rate*

11. Of the 848 approved applications, 580 cases (68%) involve loan facilities of under \$1 million, 215 cases (25%) involve loan facilities ranging from \$1 - 2 million, and 53 cases (6%) involve loan facilities of over \$ 2 million.

12. Interest charged by lending institutions on the guaranteed loans may broadly be classified into two types, namely fixed rates and floating rates. On average, the annual interest rate for fixed rate lending is 8%, whereas the floating interest rate is pitched at P + 1%. There are however cases where the interest rates are lower than the prime rate. Our understanding is that, in general, the interest rates under the BIG are more favourable than the prevailing market rates.

(G) *Application procedure*

13. An underlying principle of the BIG is that it should be market-driven and that the risks should be shared between the Government and the lending institutions. Under this principle, all loan applications must first be vetted by the participating lending institutions in accordance with their professional judgement. The Government would then decide whether guarantees should be provided for the loan facilities which the lending institutions intend to provide.

14. So far, TID has been able to process all applications within three working days after receiving all required documents from the lending institutions, as specified in the Department's performance pledge.

SME Training Fund

(A) Number of applications received and processed

15. As at 30 April 2002, the STF received 2 250 applications. About 34% of the applications were for employers' training, and about 66% for employees' training. 1 731 applications were approved, involving 1 178 SMEs and 1 818 employers/employees. The total amount of STF funds involved is about \$4.3 million, and the total amount of training expenses involved is \$10.6 million. 151 applications were rejected.

(B) Nature of applications

16. Most of the SMEs applying for the STF are from the non-manufacturing sector (76%). Industry-specific courses (28%), information technology courses (27%), and management courses (25%) are the most popular choices for these SMEs. The amount applied for ranges from less than \$100 to \$10 000 per application, and the average amount of grant per application is \$2 500. The relevant training courses are mainly provided by commercial training organisations (about 33%), subvented organisations (about 26%) and higher education institutes (about 22%).

(C) Application procedure

17. Any SME wishing to apply for funding under the STF has to obtain an in-principle approval from TID prior to sending their employers or employees to attend the training courses. The approved amount will be reimbursed to the SME afterwards. TID has thus far been able to complete processing most applications within 12 working days as specified in the Department's performance pledge. Only 16 applications have taken longer than 12 working days to process, due to the need to clarify their eligibility.

SME Export Marketing Fund

(A) Number of applications received and processed

18. As at 30 April 2002, 1 356 applications were received. 1 224 applications were approved, 53 were rejected, and 36 were withdrawn by the applicants.

(B) Nature of applications

19. Of the 1 356 applications received, 233 (17% of total applications received) were submitted by SMEs that so far have not participated in any export promotional activities. This shows that EMF is providing incentive for local SMEs to explore new markets overseas.

20. 95 of the applicants intend to use the EMF funds to participate in trade fairs/exhibitions held either locally or overseas. Most of these export promotion activities take place in the Mainland (22% of total applications), Germany (8%), and USA (5%). The approved applications cover 210 export promotion activities provided by 122 organisers.

21. Most of the applications were submitted by SMEs in the import and export sector (28% of total applications). Applications submitted by the jewellery sector account for another 14%.

(C) Application procedure

22. Any SME wishing to apply for funding under the EMF has to obtain an in-principle approval from TID prior to participating in the promotional activities. The approved amount will be reimbursed to the SME afterwards. Almost all applications were processed within the time specified in the Department's performance pledge (i.e. seven working days for providing approval-in-principle, and 30 working days for reimbursement of grant).

SME Development Fund

(A) Number of applications received

23. Trade and industry associations, industry support organisations, professional bodies and local higher education institutes were invited to submit applications to the SDF between 14 December 2001 and 18 February 2002. During this period, 291 applications were received. The total amount of SDF funds sought is \$493 million.

(B) Nature of applications

24. Most of the applications are related to information technology application (30%), management development (17%), promotional activities/competitions/awards (13%), and information services (13%). They aim to benefit a wide range of manufacturing and services sectors.

(C) Assessment of applications

25. A Vetting Committee, chaired by the Director-General of Trade and Industry (DGTI) and comprising 15 members drawn from a wide spectrum of industrial, services and professional sectors, was set up to assess the applications, as well as to advise and make recommendations to DGTI on matters relating to the assessment of applications and funded projects under the SDF.

26. The Vetting Committee has examined all the 291 applications. Applicants will shortly be informed individually in writing of the results. For some of the applications which the Vetting Committee has in principle agreed to provide funding, TID will have to further work with the applicants to fine-tune the proposals, to ensure effective use of resources and optimal results. Thus, the total number of applications that will be funded and the exact amount involved is not yet available at this stage.

THE WAY FORWARD

27. We will continue to monitor the operation of the four funding schemes together with the SME Committee closely. In this connection, Members may wish to note that a Roundtable on SME Financing has been set up under the SME Committee to review the operation of BIG, as well as to consider further measures to facilitate SMEs in raising capital. The Roundtable comprises SME Committee members, SME operators, and representatives from the financial and accounting sectors, the Hong Kong Monetary Authority, and relevant Government bureaux and departments. It aims to put its recommendations to the SME Committee by September 2002.

28. We will conduct a comprehensive review on the cost-effectiveness, funding levels and the modus operandi of the four funding schemes one year after they started operating. We will report the findings of the review to this Panel in due course.

Commerce and Industry Bureau
13 May 2002

Annex I

The four SME funding schemes

	SME Business Installations and Equipment Loan Guarantee Scheme	SME Development Fund	SME Training Fund	SME Export Marketing Fund	Total
Objectives	To help SMEs secure loans from lending institutions to procure business installations and equipment, by Government acting as loan guarantor.	To help SMEs enhance competitiveness through financing projects that are conducive to the further development of SMEs. These projects will be implemented by trade and industry associations, industry support organisations, professional bodies, and higher education institutions. Applications will be invited two times a year.	To encourage SMEs to upgrade human resources by providing financial incentive to individual SMEs to send their employers/employees to attend training courses.	To encourage SMEs to expand overseas market by providing financial incentive to individual SMEs to participate in export promotion activities.	
Capital amount	\$1 billion ¹	\$200 million	Employees' training: \$300 million Employers' training : \$100 million	\$300 million	\$1.9 billion
Maximum amount per SME	\$1 million, or 50% of the approved loan amount, whichever is the less	\$2 million per project	Employees' training : \$10,000 Employers' training : \$5,000	\$10,000	—
Minimum no. of SMEs likely to benefit	6 600 SMEs	20 000 SMEs ²	Employees' training : 30 000 SMEs Employers' training : 20 000 SMEs	30 000 SMEs	106 600 SMEs ³

¹ On the assumption that the overall default rate of the Scheme will be 15%, we can leverage on the capital amount of \$1 billion to provide guarantees up to an amount of \$6.6 billion. If so, the total amount of loan facilities available will be at least \$13.2 billion. About 6 600 SMEs will benefit from the Scheme.

² If each successful applicant receives the maximum subsidy amount of \$2 million, then 100 projects will be funded. On the assumption that a funded project would on average benefit 200 SMEs, 20 000 SMEs would benefit from the Scheme.

³ The figure is based on the assumption that there is no overlapping of SMEs as beneficiaries among the various funding schemes.

SME Business Installations and Equipment Loan Guarantee Scheme
- Number of applications received per month

Annex II

