

For Discussion
on 9 June 2003

Legislative Council Panel on Commerce and Industry

Further Support to SMEs under the SME Funding Schemes

Introduction

This paper seeks Members' endorsement to introduce further improvement measures to the SME Export Marketing Fund (EMF) and the SME Training Fund (STF), and to enhance the Administration's flexibility in managing the resources available for the EMF, STF and the SME Development Fund (SDF) according to demand, with a view to further helping SMEs rise to the challenges brought about by the Severe Acute Respiratory Syndrome (SARS) outbreak.

Proposals

2. Having consulted the Small and Medium Enterprises Committee (SMEC), we recommend that the following improvement measures be made:

- (a) for EMF, increase the maximum amount of grant an SME may receive from \$40,000 to \$80,000. The maximum amount of grant for each successful application will be the lesser of \$30,000 (instead of \$20,000) or 50% of the total expenditure on fundable items;

- (b) for STF, increase the subsidy level per successful application from 50% to 70% of the training expenses, subject to the existing ceiling of \$10,000 per SME for employers' training and \$20,000 per SME for employees' training (i.e. a maximum amount of grant of \$30 000 per SME); and
 - (c) to provide for full discretion and flexibility for the Director-General of Trade and Industry in deploying funds among the EMF, STF, and SDF, subject to the total expenditure for the three funding schemes not exceeding \$900 million. In this regard, we will cease capping Government's commitment under the EMF to \$300 million, STF to \$400 million, and SDF to \$200 million. This flexibility would enable us to better utilize resources to meet the needs of SMEs according to actual demand and take up rate.
3. A table summarising the changes to the EMF, STF and SDF before and after the implementation of the aforementioned proposals is at Annex.

Justifications

4. Hong Kong's economy has suffered a major blow as a result of the SARS outbreak. As an export-oriented economy, the businesses of many of our SMEs in the past few months have been hard hit by the disruption caused by SARS on export promotional activities, including trade fairs, exhibitions, study missions and business travels. Many foreign businessmen and buyers are avoiding travel to this region. In the aftermath of SARS, SMEs will have to step up efforts in export

promotion, to reach new customers, regain the confidence of existing customers, and re-establish their overseas network. The proposal to increase the maximum amount of grant an SME may receive under the EMF will encourage SMEs to more proactively take part in export promotional activities. The proposal to increase the sub-ceiling per application under the EMF will make it more affordable for SMEs to participate in such activities.

5. SMEs have limited resources. Their priorities in the aftermath of the SARS outbreak will be on soliciting new businesses and maintaining the smooth operation of their businesses. Training needs of their employers and employees will possibly be superseded by other competing calls. The proposal to increase Government's subsidy for each successful application under the STF will make SMEs more willing to provide training to their employers and employees.

6. The proposal to pool the resources available for the EMF, STF and SDF together will provide greater flexibility for the Administration to deploy resources to the three areas according to actual demand and needs. For information, as at 24 May 2003, the utilisation rate of the EMF, STF and SDF is 23% (about \$70 million), 9% (about \$37 million), and 31% (about \$61 million) respectively.

Implementation Timetable

7. We aim to seek the approval of the Finance Committee (FC) of the Legislative Council for the proposed improvement measures and changes on 13 June 2003. With FC's approval, the improvement measures and changes will be implemented shortly afterwards.

Background

8. The Government set up the EMF, STF, SDF and the SME Loan Guarantee Scheme (SGS) (formerly known as the SME Business Installations and Equipment Loan Guarantee Scheme) in December 2001/January 2002 to help SMEs rise to new challenges and opportunities. Following a comprehensive review of the schemes by the SMEC, improvement measures were introduced to the EMF, STF and SGS in February/March 2003.

9. EMF aims to help SMEs expand overseas and Mainland businesses through active participation in export promotional activities.

10. STF aims to encourage SMEs to provide training to their employers and employees with a view to enhancing the quality of human resources.

11. SDF aims to encourage and assist trade and industrial organisations, industry support organisations, professional bodies and research institutes to come up with and implement projects which are conducive to enhancing the competitiveness of SMEs in general or in specific sectors.

Commerce, Industry and Technology Bureau
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EMF, STF and SDF before and after the proposed changes

	Before	After
EMF		
maximum amount of grant per SME	\$40,000	\$80,000
sub-ceiling per successful application	\$20,000 (or 50% of the total expenditure on fundable items)	\$30,000 (or 50% of the total expenditure on fundable items)
capital amount	\$300 million	Co-use the \$900 million with STF and SDF
STF		
maximum amount of grant per SME	\$30,000 (employers' training: \$10,000 employees' training: \$20,000)	No change
subsidy level per successful application	50% of the training expenses	70% of the training expenses
capital amount	\$400 million (employers' training: \$100 million employees' training \$300 million)	Co-use the \$900 million with EMF and SDF. No specific cap between employers and employees training.
SDF		
maximum amount of grant per successful application	\$2 million (or 90% of the project costs)	No change
capital amount	\$200 million	Co-use the \$900 million with EMF and STF.