

Paper for LegCo Panel on Commerce and Industry

A Report on the Review of the SME Funding Schemes

In June 2001, the Small and Medium Enterprises Committee (SMEC) submitted to the Chief Executive (CE) a report on SME support. In his Policy Address in October 2001, the CE announced the Administration's acceptance of the SMEC's recommendations, including the setting up of the four SME funding schemes. The funding schemes were set up in December 2001/January 2002, with a total Government commitment of \$7.5 billion and an expected expenditure of \$1.9 billion. The SMEC started a comprehensive review of the schemes in August 2002. The review was recently completed, and the SMEC has subsequently submitted to the CE a report that comprises a number of recommendations to further enhance the effectiveness of the schemes. A copy of the review report is at Annex A for Members' reference.

2. In brief, the SMEC is of the view that the schemes are of practical use to SMEs, and are effective in helping SMEs equip themselves for new challenges and opportunities. At the same time, the SMEC considers that by suitably raising the ceilings of the guarantee/grant for individual SMEs, broadening the scope of individual schemes, and rationalising the application procedures, the funding schemes would be able to address the needs of SMEs more fully and effectively, as well as benefit more SMEs. A summary of these recommendations is at Annex B. A table summarising the implications of the SMEC's recommendations on the

maximum amount of guarantee/grant an individual SME may receive under the schemes is at Annex C.

3. The Chief Executive has announced on 14 December his acceptance of the SMEC's recommendations in view of the need to provide greater support to our SMEs at a time when Hong Kong is undergoing a challenging period of economic restructuring. Representatives from the Commerce, Industry and Technology Bureau, the Trade and Industry Department, as well as the convenors of the SMEC Working Groups will attend the meeting of the LegCo Panel on Commerce and Industry on 16 December to introduce the report and to listen to Members' views.

Commerce, Industry and Technology Bureau

14 December 2002

Small and Medium Enterprises Committee

**A Report on the
Review of the SME Funding Schemes**

December 2002

12 December 2002

The Honourable Tung Chee Hwa
Chief Executive
Hong Kong Special Administrative Region
Central Government Offices
Lower Albert Road
Hong Kong

Dear Chief Executive,

On behalf of the Small and Medium Enterprises Committee (the Committee), I would like to express our gratitude to you for accepting the Committee's recommendations on SME support, as contained in the report to you in June 2001. We are particularly pleased that the Government has set aside \$1.9 billion to establish the four SME funding schemes with a total commitment of \$7.5 billion. The funding schemes have gone a long way towards encouraging SMEs to strive for continuous self-improvement, and to take further efforts to enhance productivity, upgrade human resources and explore overseas markets, with a view to enhancing overall competitiveness.

The Committee has been closely monitoring the operation of the funding schemes since their implementation. In response to an earlier

suggestion by the Secretary for Commerce, Industry and Technology, the Committee has brought forward the comprehensive review of the four funding schemes to August this year. The review has now been completed. I would like to report to you the results of the review and the Committee's recommendations.

The Committee is of the view that the four funding schemes are of practical use to SMEs, and are effective in helping SMEs equip themselves for new challenges and opportunities. This is demonstrated by the fact that about 9 330 SMEs have benefited from the schemes since they were launched about 11 months ago, and that the amount of guarantee/grant has reached about \$1.05 billion. The SME Business Installations and Equipment Loan Guarantee Scheme alone has helped SMEs obtain about \$2.2 billion loans from lending institutions for procuring business installations and equipment.

After a careful review of the operation of the funding schemes, and taking into account suggestions and feedback made by various parties, the Committee comes to the view that by suitably raising the ceilings of the guarantee/grant for individual SMEs, broadening the scope of individual schemes, and rationalising the application procedures, the funding schemes would more comprehensively address the needs of SMEs and benefit more SMEs.

In this regard, the Committee has made the following recommendations:

SME Business Installations and Equipment Loan Guarantee Scheme

Use of loans

Recommendation 1: To provide SMEs with two types of guarantee when they purchase business installations and equipment, namely a business installations and equipment loan guarantee and a conditional working capital loan guarantee. The provision of the latter would be conditional on the provision of the former. The objective is to help SMEs which want to purchase business installations and equipment secure loans for, respectively, purchasing installations and equipment, and working capital.

Recommendation 2: To provide SMEs with guarantee for loans based on accounts receivable. All SMEs should be eligible for the guarantee, regardless of whether they are recipients of the conditional working capital loan guarantee.

Guarantee amount

Recommendation 3: To increase the maximum amount of business installations and equipment loan guarantee for an SME from \$1 million to \$2 million. (However, the existing condition that the amount of

guarantee must not exceed 50% of the loans approved by lending institutions would still apply.)

Recommendation 4: The amount of guarantee for the conditional working capital loan should not exceed 50% of the guarantee an SME would obtain for business installations and equipment loan, viz \$1 million or 50% of the conditional working capital loan approved by lending institution (whichever is the less). For example, if an SME receives \$2 million Government guarantee for business installations and equipment loan, it may at the same time receive up to \$1 million Government guarantee for the conditional working capital loan.

Recommendation 5: The maximum amount of guarantee for loan based on accounts receivable an SME may receive should be \$1 million or 50% of the loan approved by lending institution (whichever is the less).

Guarantee period

Recommendation 6: To extend the guarantee period for business installations and equipment loans from three years to five years.

Recommendation 7: The guarantee period for the conditional working capital loans, and for loans based on accounts receivable, should be two years at the maximum.

In sum, the implications of the aforementioned seven recommendations are as thus. An SME which wants to purchase business installations and equipment, and has accounts receivable in hand, may obtain up to \$4 million guarantee from the Government (\$2 million for business installations and equipment loans, \$1 million for conditional working capital loans, and another \$1 million for loans based on accounts receivable). With the \$4 million guarantee, the SME may raise loans of not less than \$8 million from lending institutions, for purchasing business installations and equipment (\$4 million) and for working capital (\$4 million).

SMEs which do not purchase business installations and equipment may, provided that they have accounts receivable in hand, obtain up to \$1 million Government guarantee for loans based on accounts receivable. This maximum amount of guarantee would enable them to raise loans of not less than \$2 million from lending institutions to improve cash flow.

SME Export Marketing Fund

Recommendation: To increase the maximum amount of grant per SME from \$10,000 to \$40,000. There should be no limit on the number of export promotion

activities an SME may apply for EMF, as long as the ceiling of \$40,000 is not exceeded. The maximum amount of grant for each successful application would be \$20,000 or 50% of the total expenditure on fundable items of the approved export promotion activity (whichever is the less).

SME Training Fund

Recommendation 1: To increase the maximum amount of grant an SME may obtain, on a cumulative basis, for employers' training from \$5,000 to \$10,000, and that for employees' training from \$10,000 to \$20,000. In other words, the total maximum amount of grant an SME may obtain would be increased from \$15,000 to \$30,000.

Recommendation 2: To do away with the requirement that applications have to be submitted prior to the commencement of the training courses, and to allow SMEs to submit applications either before or after the commencement of the training courses. In the case of the latter, applications have to be submitted not later than the thirtieth calendar day after the completion of the training courses.

SME Development Fund

Having taken into account feedback made by various parties, the Committee comes to the view that the current arrangements of the SME Development Fund (including the maximum amount of funding support, assessment procedures, and vetting criteria) are appropriate and effective in achieving its objective. The Committee therefore considers it not necessary to revise the scheme for the time being.

We have the pleasure to submit the review report to you for persual and consideration. Should the various recommendations be accepted by the Government, the Committee stands ready to assist in their implementation to ensure that they generate the best results.

(CHAN Wing-kee)
Chairman
Small and Medium Enterprises Committee

The Report

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Chapter 1

Introduction

1.1 In June 2001, the Small and Medium Enterprises Committee (the Committee) submitted to the Chief Executive (CE) a report on SME support. The recommendations in the report were accepted by the Government for implementation. These include the establishment of four SME funding schemes ^(Note 1) with a total commitment of \$7.5 billion. The Committee is pleased to note that the funding schemes have gone a long way towards encouraging SMEs to strive for continuous self-improvement, and to take further efforts to enhance productivity, upgrade human resources and explore overseas markets, with a view to enhancing overall competitiveness.

1.2 When the Government launched the four funding schemes in late 2001/early 2002, it undertook to conduct a comprehensive review about one year after their implementation. The Committee has been closely monitoring the operation of the schemes since their implementation, and has been providing feedback to the Trade and Industry Department (TID). In response to an earlier suggestion by the Secretary for Commerce, Industry and Technology, the Committee has brought forward the comprehensive review to August 2002.

^(Note 1) The four SME funding schemes are –

- ✧ SME Business Installations and Equipment Loan Guarantee Scheme (BIG)
- ✧ SME Export Marketing Fund (EMF)
- ✧ SME Training Fund (STF)
- ✧ SME Development Fund (SDF)

1.3 The review aims to assess :

- (a) whether the funding schemes have achieved their objectives; and
- (b) whether it is necessary to improve the schemes and, if so, how.

1.4 The review covers the following aspects :

- (a) progress of individual funding schemes;
- (b) awareness of the schemes among SMEs;
- (c) effectiveness of the schemes;
- (d) major features of individual schemes, including the guarantee amount, use of loans and the guarantee period in respect of the BIG, as well as the amount of grant, the cost-sharing ratio, and the scope of the other three schemes; and
- (e) proposals to further improve the effectiveness of individual schemes.

1.5 The Committee conducted two surveys on the funding schemes. One was a continuous survey, commenced since March 2002, to ascertain how the BIG and the EMF have facilitated successful applicants to expand businesses. Another survey, which was one-off in nature, was conducted in August 2002 to collect feedback from the following enterprises and organisations, which were randomly selected, on the four funding schemes :

- (a) 50% of the SMEs which have applied for the funding schemes;
- (b) about 8 000 SMEs which have not yet applied for the BIG, the EMF and the STF (they were either randomly selected from the database of the Census and Statistics Department, or accessed through trade and industrial organisations), and 100 trade and

- industrial organisations which have not yet applied for the SDF;
- (c) the 48 lending institutions which have participated in the BIG at the time of the survey; and
- (d) 56 professional organisers of export promotion activities.

1.6 In August 2002, the Committee invited various trade and industrial organisations and other relevant parties to a consultation meeting to exchange views on the funding schemes.

1.7 After a careful review of the operation of the funding schemes, the Committee is of the view that the schemes are of practical use to SMEs, and are effective in helping SMEs equip themselves for new challenges and opportunities. This is demonstrated by the fact that about 9 330 SMEs have benefited from the schemes since they were launched about 11 months ago, and that the amount of guarantee/grant has reached about \$1.05 billion. The BIG alone has helped SMEs obtain about \$2.2 billion loans from lending institutions for procuring business installations and equipment. Having said that, the Committee considers that by suitably raising the ceilings of the guarantee/grant for individual SMEs, broadening the scope of individual schemes, and rationalising the application procedures, the funding schemes would more comprehensively address the needs of SMEs and benefit more SMEs. To this end, the Committee has come up with a number of recommendations for the Government's consideration. Details of these recommendations are set out in Chapters 2 to 5.

1.8 Should the various recommendations be accepted by the Government, the Committee stands ready to assist in their implementation to ensure that they generate the best results.

Chapter 2

SME Business Installations and Equipment Loan Guarantee Scheme

2.1 The BIG came into operation in mid December 2001. By providing Government guarantee to SMEs, the BIG helps individual SMEs secure loans from participating lending institutions to acquire new or second-hand business installations and equipment. The maximum amount of Government guarantee for an SME is \$1 million or 50% of the approved loans, whichever is the less. The guarantee period is three years. The objective of the scheme is to help SMEs enhance productivity and competitiveness.

2.2 As at end October 2002, about 2 700 applications were approved. The amount of Government guarantee involved was about \$960 million, and the amount of loans provided by the participating lending institutions was about \$2.2 billion. About 1 990 SMEs have so far benefited from the scheme. Detailed statistics are at Annex 1.

Recommendations

Government to provide guarantee for working capital loans

2.3 The Committee notes that the economy of Hong Kong has not recovered as fast as the Committee has assumed in June 2001, when it submitted the report on SME support to the CE. The September 11 incident has further aggravated the situation. At present, many local SMEs

are suffering from insufficient orders, reduction in trade volume, and prolonged credit term for buyers. All these have in turn created cash flow problems for SMEs. At the same time, the prevailing economic climate has made it difficult for SMEs to obtain loans from lending institutions to meet their operational needs. The Committee has therefore come to the view that, in addition to providing SMEs with business installations and equipment loan guarantee, the Government should also consider providing SMEs with guarantee for working capital loans.

2.4 The Committee further considers that, when providing SMEs with working capital loan guarantee and business installations and equipment loan guarantee, the Government should continue to follow the fundamental principle of helping only enterprises which have the potential and prospects to further grow and develop. On this premise, the Committee recommends that the Government provide guarantee to SMEs through the following two means:

Recommendation 1: To provide SMEs with two types of guarantee when they purchase business installations and equipment, namely a business installations and equipment loan guarantee and a conditional working capital loan guarantee. The provision of the latter would be conditional on the provision of the former. The objective is to help SMEs which want to purchase business installations and equipment secure loans for, respectively, purchasing installations and equipment, and working capital.

✧ The Committee reckons that SMEs which require

installations and equipment financing may also require working capital financing, as the two needs are often inter-related. This is because as SMEs add equipment or upgrade existing ones to enhance productivity, their operating expenses will often increase correspondingly.

- ❖ Under the present economic climate, SMEs may have hesitation in investing in business installations and equipment, even though they have practical need to buy new ones or replace existing ones. Concerns about the future cash flow position of their companies may discourage SMEs from making long-term investment. The Committee considers that if the Government could, in addition to providing guarantee for installations and equipment loans, provide guarantee for SMEs to secure working capital loans from lending institutions, it would further encourage and help SMEs upgrade their installations and equipment.

- ❖ On ground of equity, the Committee proposes that, should the Government accept this recommendation, SMEs which have already obtained Government guarantee for installations and equipment loans prior to this recommendation coming into effect should also be eligible for the conditional working capital loan guarantee, provided that the lending institutions concerned are willing to provide working capital loans to the

SMEs.

Recommendation 2: To provide SMEs with guarantee for loans based on accounts receivable. All SMEs should be eligible for the guarantee, regardless of whether they are recipients of the conditional working capital loan guarantee.

✧ The Committee is aware that SMEs in general do not have too much cash in hand. As they extend credit to buyers, their liquidity would be further tightened. To ease their cash flow problem, the Committee considers that SMEs should be encouraged to make use of accounts receivable to obtain short-term working capital loans from lending institutions. At present, not many local lending institutions are providing accounts receivable financing to SMEs. Compared with other forms of working capital financing, the risk of accounts receivable financing is more manageable. This is because unless the buyers are unable to pay due to financial difficulties, or unless they refuse to pay due to business dispute, it can be quite safely expected that payments on accounts receivable would materialise on or before a given date. The Committee believes that if the Government provides guarantee on loans based on accounts receivable, lending institutions would be more willing to provide accounts receivable financing to SMEs.

Guarantee amount

Recommendation 3: To increase the maximum amount of business installations and equipment loan guarantee for an SME from \$1 million to \$2 million. (However, the existing condition that the amount of guarantee will not exceed 50% of the loans approved by lending institutions will still apply.)

- ❖ The Committee is of the view that SMEs should be encouraged to make use of the scheme to acquire more advanced installations and equipment, with a view to enhancing productivity and competitiveness. As the purchase of advanced installations and equipment involves higher investment, the Committee recommends that the maximum amount of guarantee for business installations and equipment loans be increased to \$2 million.

Recommendation 4: The amount of guarantee for the conditional working capital loan should not exceed 50% of the guarantee an SME would obtain for business installations and equipment loan, viz \$1 million or 50% of the conditional working capital loan approved by lending institution (whichever is the less).

- ❖ For example, if an SME receives \$2 million

Government guarantee for business installations and equipment loans, and at the same time secures another working capital loan from the same lending institution, the Government may provide working capital loan guarantee up to \$1 million to that SME. The actual amount of guarantee would depend on the amount of working capital loan approved by the lending institution.

Recommendation 5: The maximum amount of guarantee for loans based on accounts receivable an SME may receive should be \$1 million or 50% of the loans approved by lending institutions (whichever is the less).

- ✧ The Committee considers that this arrangement could address the cash flow needs of SMEs when extending credit to buyers. It provides a financing channel for SMEs which do not procure installations and equipment and therefore cannot benefit from the conditional working capital loan guarantee (see recommendation 4).

Guarantee period

Recommendation 6: To extend the guarantee period for business installations and equipment loans from three years to five years.

- ✧ The Committee is of the view that, in tandem with an increase in the maximum amount of guarantee for business installations and equipment loans (see recommendation 3), the Government should also extend the guarantee period. This would help relieve SMEs' repayment burden.

Recommendation 7: The guarantee period for the conditional working capital loans, and for loans based on accounts receivable, should be two years at the maximum.

- ✧ As working capital loan is of short-term nature, the Committee considers that a two year guarantee period would be sufficient.

2.5 In sum, the implications of the aforementioned seven recommendations are as thus. An SME which wants to purchase business installations and equipment, and has accounts receivable in hand, may obtain up to \$4 million guarantee from the Government (\$2 million for business installations and equipment loans, \$1 million for conditional working capital loans, and another \$1 million for loans based on accounts receivable). With the \$4 million guarantee, the SME may raise loans of not less than \$8 million from lending institutions, for purchasing business installations and equipment (\$4 million) and for working capital (\$4 million).

2.6 SMEs which do not purchase business installations and equipment may, provided that they have accounts receivable in hand, obtain up to \$1 million Government guarantee for loans based on accounts

receivable. This maximum amount of guarantee would enable them to raise loans of not less than \$2 million from lending institutions to improve cash flow.

Chapter 3

SME Export Marketing Fund

3.1 Launched in mid December 2001, the EMF encourages SMEs to expand businesses through participating in export promotion activities. The scheme covers activities such as trade fairs, exhibitions and study missions held outside Hong Kong, as well as local trade fairs and exhibitions which are export-oriented. For each successful application, the maximum amount of grant would be 50% of SME's total expenditure on fundable items of the approved export promotion activity, or \$10,000 (whichever is the less). An SME may only receive the grant once under the EMF, even if the amount of grant approved is less than \$10,000.

3.2 As at end October 2002, about 2 800 applications were approved, and the amount of grant involved was about \$28 million. Of these 2 800 or so SMEs, 25% of them have not participated in export promotion activities before. Detailed statistics are at Annex 2.

Recommendation

3.3 The Committee is of the view that the EMF is conducive to encouraging SMEs to explore markets outside Hong Kong. In view of the present economic climate, the Committee considers that the Government should make greater use of the EMF to further encourage SMEs to develop overseas markets. The Committee has therefore come up with the following recommendation :

Recommendation : To increase the maximum amount of grant per SME

from \$10,000 to \$40,000. There should be no limit on the number of export promotion activities an SME may apply for EMF, as long as the ceiling of \$40,000 is not exceeded. The maximum amount of grant for each successful application would be \$20,000 or 50% of the total expenditure on fundable items of the approved export promotion activity (whichever is the less).

- ✧ The Committee considers that this recommendation would encourage SMEs to further expand markets, and make continuous efforts to participate in export promotion activities, with a view to building a long-term customer network.

- ✧ The Committee recommends that the revised ceiling should also apply to SMEs which have already received grant under the EMF prior to the revised ceiling coming into effect.

Chapter 4

SME Training Fund

4.1 Launched in mid January 2002, the STF encourages SMEs to enhance human resources by providing them with financial assistance when they send employers or employees to training which is relevant to their businesses. The STF is divided into two parts, i.e. “employers’ training” and “employees’ training”. For each successful application, the STF may provide up to 50% of the training expenses incurred or the non-committed balance of an individual SME’s funding ceiling for employers’ or employees’ training, whichever is the less. The maximum amount of grant that an SME could obtain, on a cumulative basis, for employers’ training is \$5,000, and that for employees’ training is \$10,000.

4.2 As at end October 2002, more than 7 800 applications were approved. The amount of grant involved was about \$19 million. This has triggered a spending of over \$48 million from SMEs on employers/employees training. About 4 500 SMEs and 7 200 employers/employees have so far benefited from the scheme. Detailed statistics are at Annex 3.

Recommendations

4.3 The Committee is of the view that while the current level of grant is effective in encouraging SMEs to provide training to their employers/employees, it is not sufficient to facilitate more comprehensive training, or training activities which are more expensive (e.g. tailor-made programmes). The Committee has therefore come up with the following

recommendations :

Recommendation 1: To increase the maximum amount of grant an SME may obtain, on a cumulative basis, for employers' training from \$5,000 to \$10,000, and that for employees' training from \$10,000 to \$20,000. In other words, the total maximum amount of grant an SME may obtain would be increased from \$15,000 to \$30,000.

- ✧ The Committee recommends that the revised ceiling should also apply to SMEs which have received grant under the STF prior to the new ceiling coming into effect.

Recommendation 2: To do away with the requirement that applications have to be submitted prior to the commencement of the training courses, and to allow SMEs to submit applications either before or after the commencement of the training courses. In the case of the latter, applications have to be submitted not later than the thirtieth calendar day after the completion of the training courses.

- ✧ The Committee is aware that it is not uncommon for employers/employees of SMEs to decide to enroll in a training course just shortly before the course commences. Also, some may only come to realise that they could apply for the STF after the course has commenced. In both

circumstances, the SMEs will have missed the deadline for submitting applications to the STF. As a facilitating measure, the Committee recommends that the current requirement that applications must be submitted prior to the commencement of training courses be removed.

Chapter 5

SME Development Fund

5.1 Launched in mid December 2001, the SDF provides funding support to non-profit-distributing organisations, such as industrial support organisations, trade and industrial organisations, professional bodies or research institutes, to implement projects which are conducive to enhancing the competitiveness of SMEs in general or SMEs in specific sectors. The maximum amount of funding support for each approved project is \$2 million or 90% of the total project expenditure (whichever is the less). The applicant will have to contribute the balance of the approved budget, which may be in cash, in kind, or in the form of third-party sponsorship. Applications are normally invited twice a year. Each organisation may submit up to four applications in each tranche.

5.2 As at end October 2002, the SDF has approved 39 applications received under the first tranche. The amount of funding support involved was about \$44 million. In addition, the SDF Vetting Committee are revisiting a few applications which the applicants have revised, with a view to deciding whether funding support may be granted to them as well. The SDF is now inviting applications for the second tranche. Detailed statistics relating to the first tranche are at Annex 4.

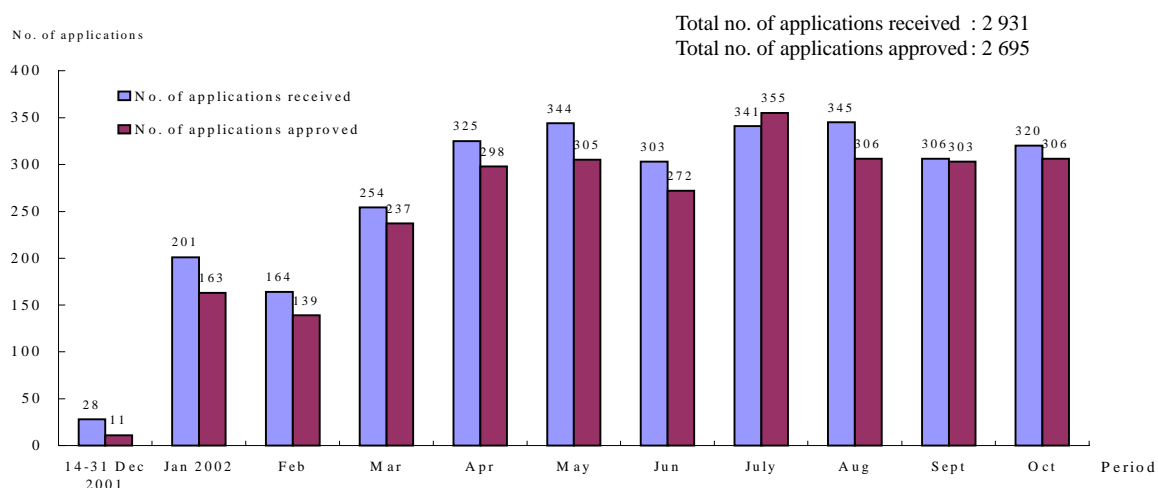
Conclusion

5.3 Having taken into account the feedback of various parties so far, the Committee is of the view that the current arrangements of the SDF (including the maximum amount of funding support, assessment procedures,

and vetting criteria) are appropriate and effective in achieving its objective. The Committee considers it not necessary to revise the scheme for the time being. The Committee will further review the scheme when processing for the second tranche of applications has been completed. The Committee considers that a thorough assessment on the effectiveness of the scheme is possible only when the funded projects from the first one or two tranches have been implemented.

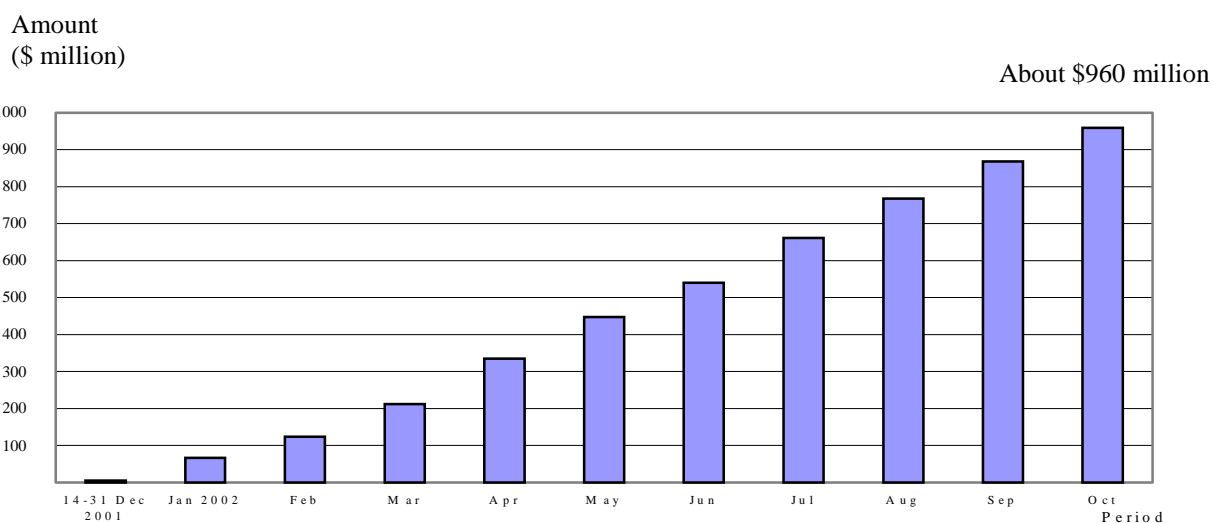
**Progress of the SME
Business Installations and Equipment Loan Guarantee Scheme
(as at 31 October 2002)**

(I) Monthly distribution of applications received and approved



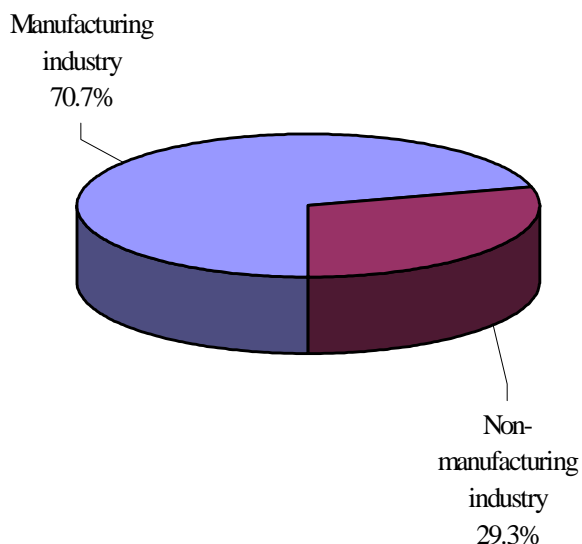
Remarks: Applications approved in a particular month include applications received prior to but approved in that month.

(II) Cumulative amount of guarantee



(III) Business nature of beneficiaries

Total no. of beneficiaries : 1 988



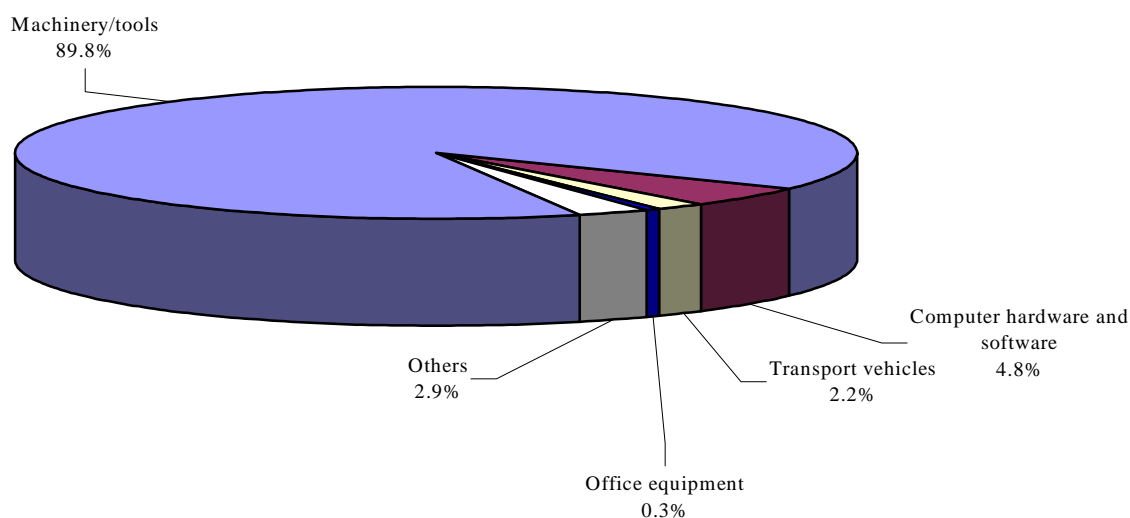
Manufacturing Industry

- * Top three business sectors :
- Printing and publishing (11.6%)
 - Textiles and clothing (11.4%)
 - Metal products (11.2%)

Non- manufacturing Industry

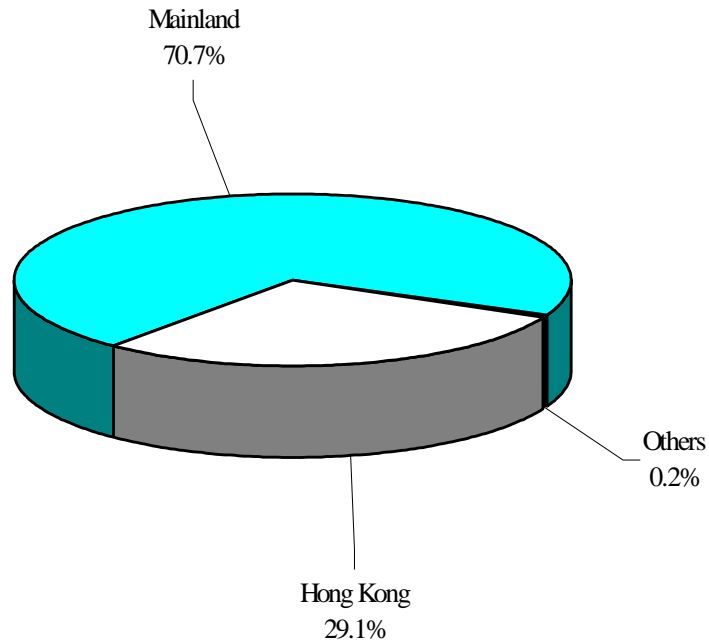
- * Top three business sectors :
- Import and export trade (9.2%)
 - Construction (5%)
 - Wholesale and retail (2.3%)

(IV) Type of business installations and equipment involved in the approved applications



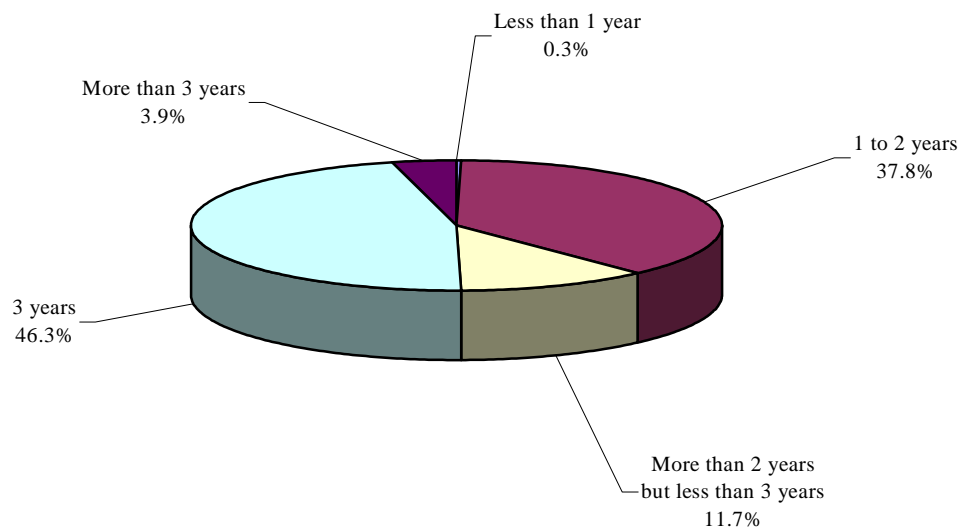
Total no. of applications approved : 2 695

(V) Locations of business installations and equipment covered by approved applications



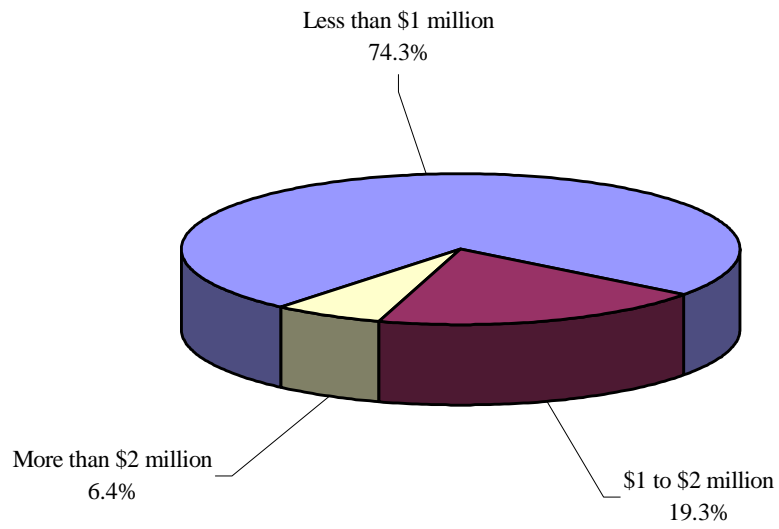
Total no. of applications approved : 2 695

(VI) Loan period of approved applications



Total no. of applications approved : 2 695

(VII) Loan amount of approved applications



Total no. of applications approved : 2 695

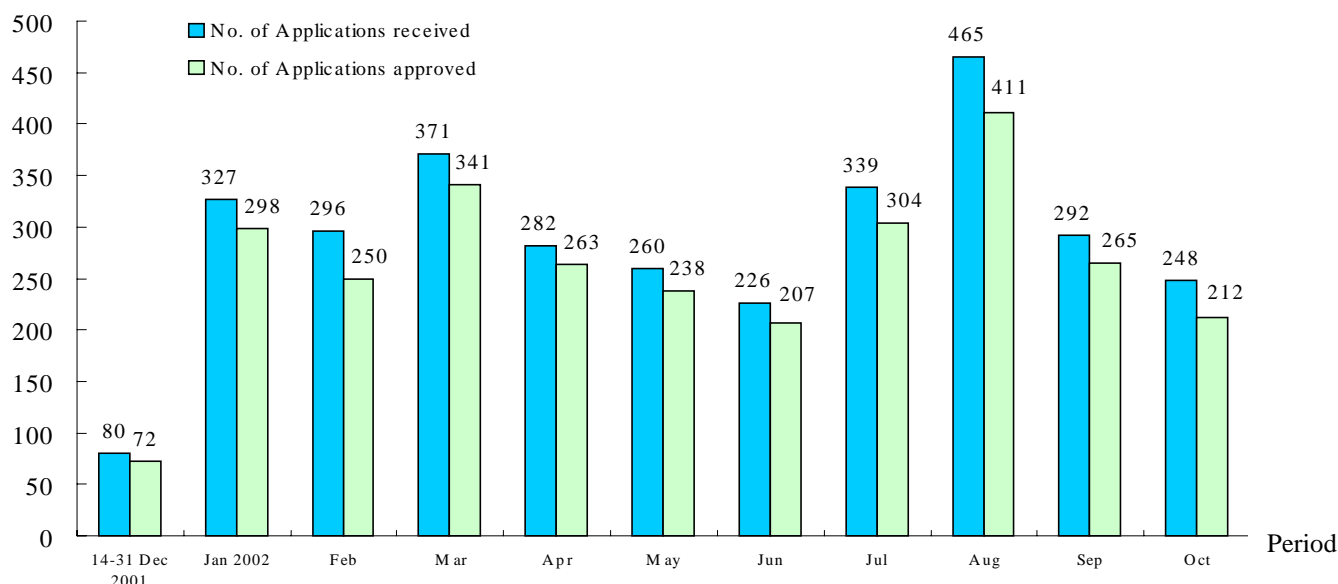
**Progress of the SME Export Marketing Fund
(as at 31 October 2002)**

(I) Monthly distribution of applications received and approved

No. of applications

Total no. of applications received : 3 186

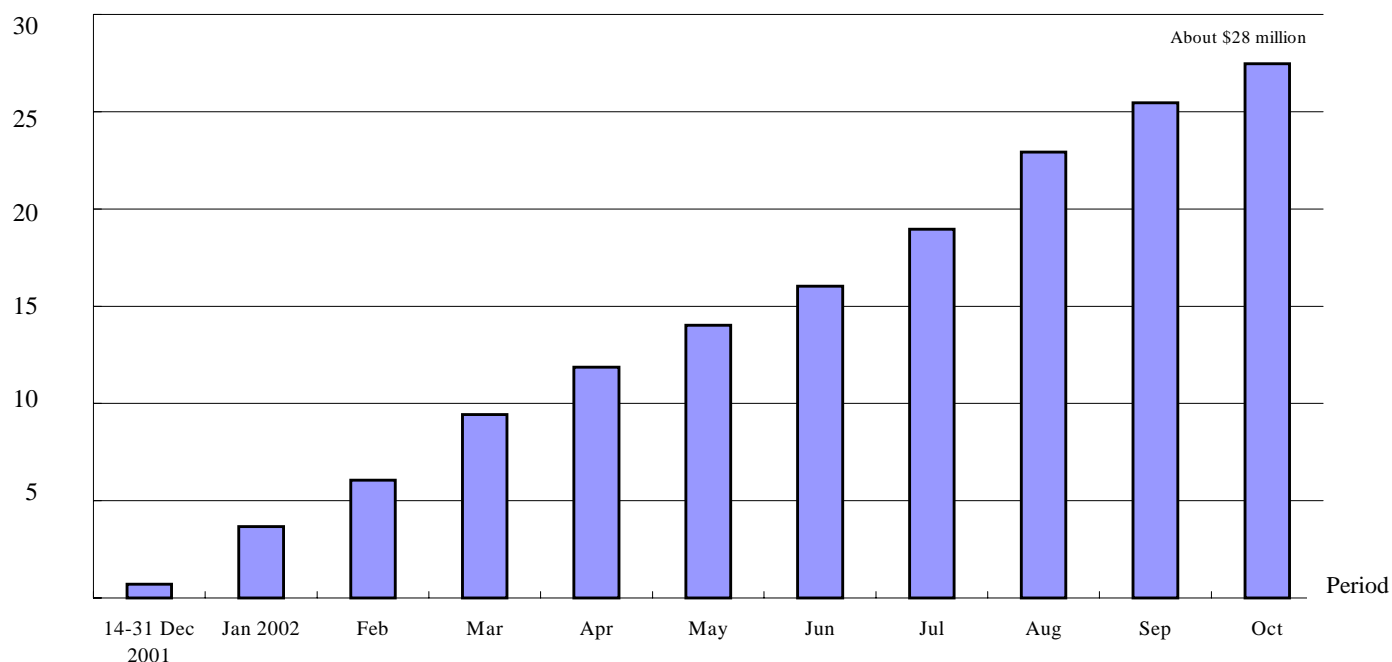
Total no. of applications approved : 2 861



Remarks: Applications approved in a particular month include applications received prior to but approved in that month.

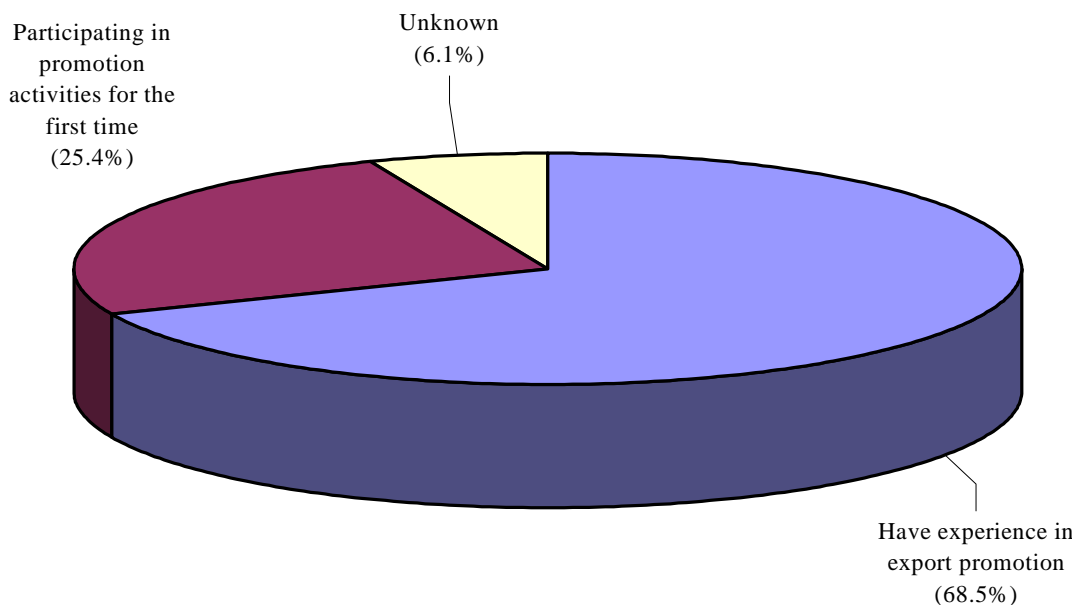
(II) Cumulative amount of grant

Amount
(\$ million)



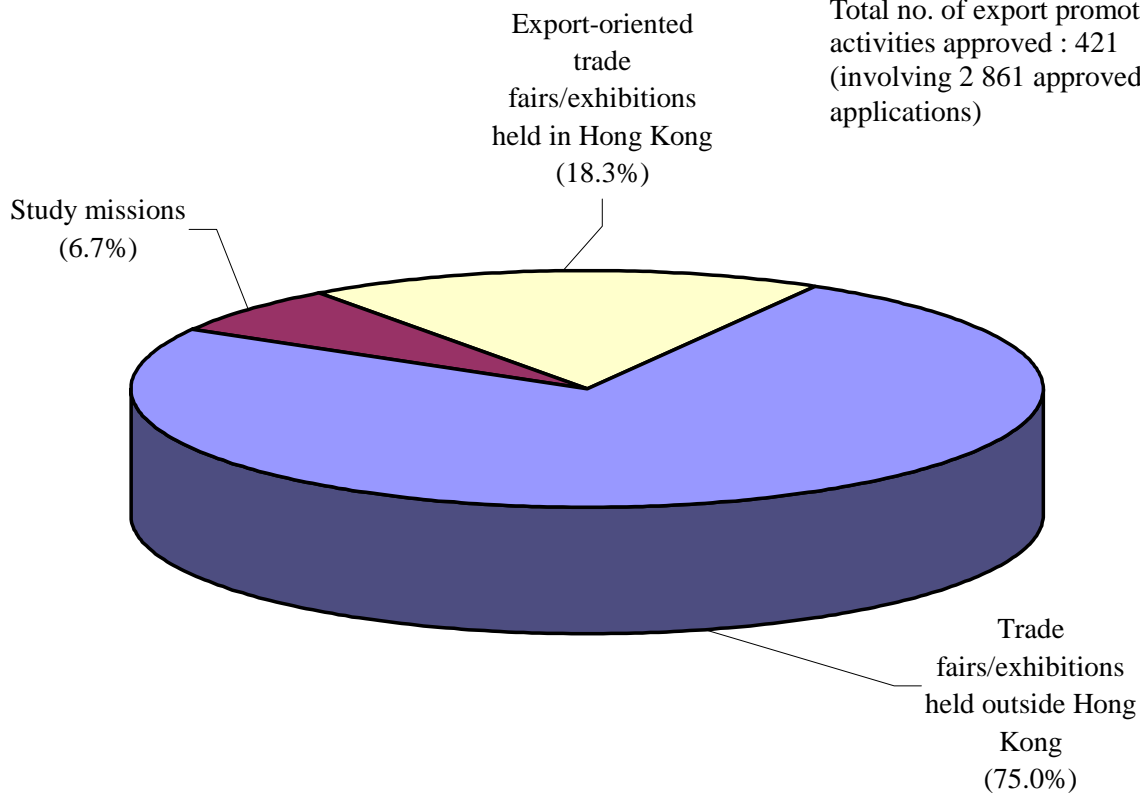
(III) Export promotion experience of successful applicants

Total no. of successful applicants : 2 861

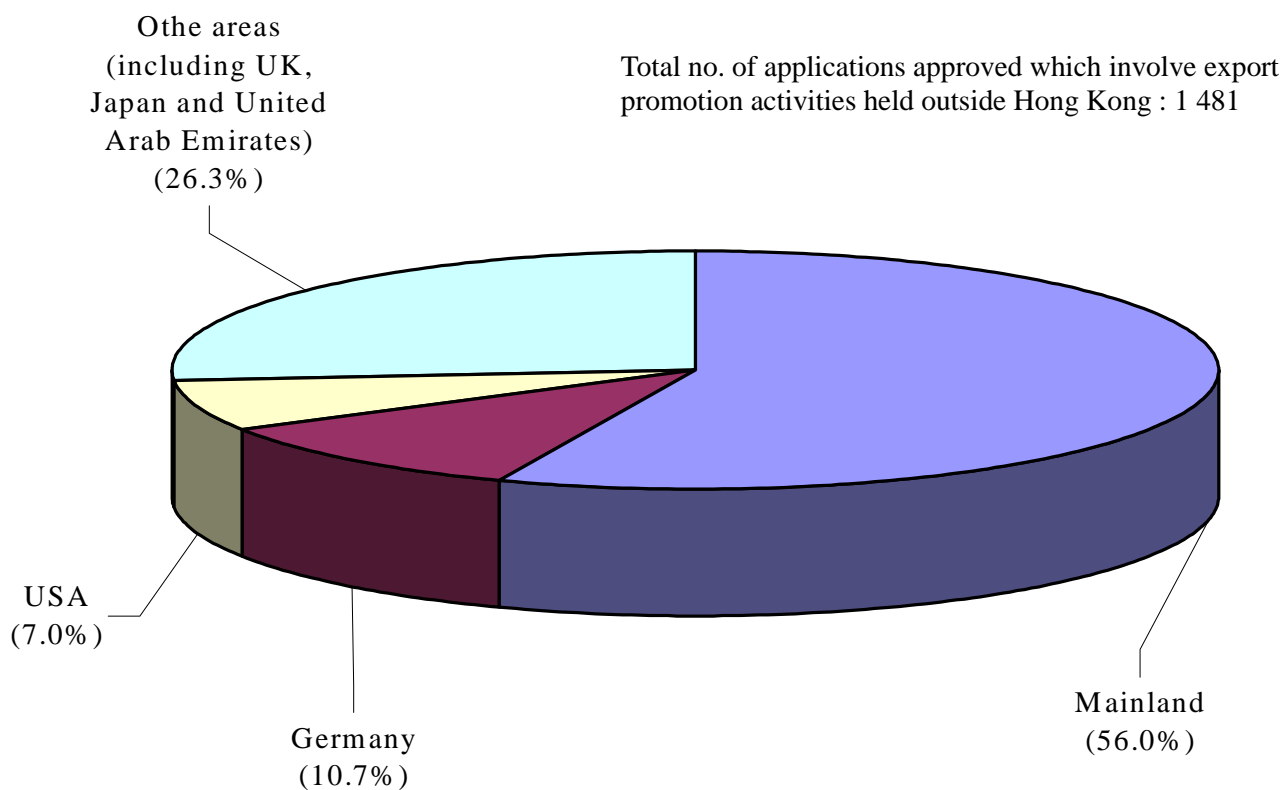


(IV) Types of export promotion activities approved

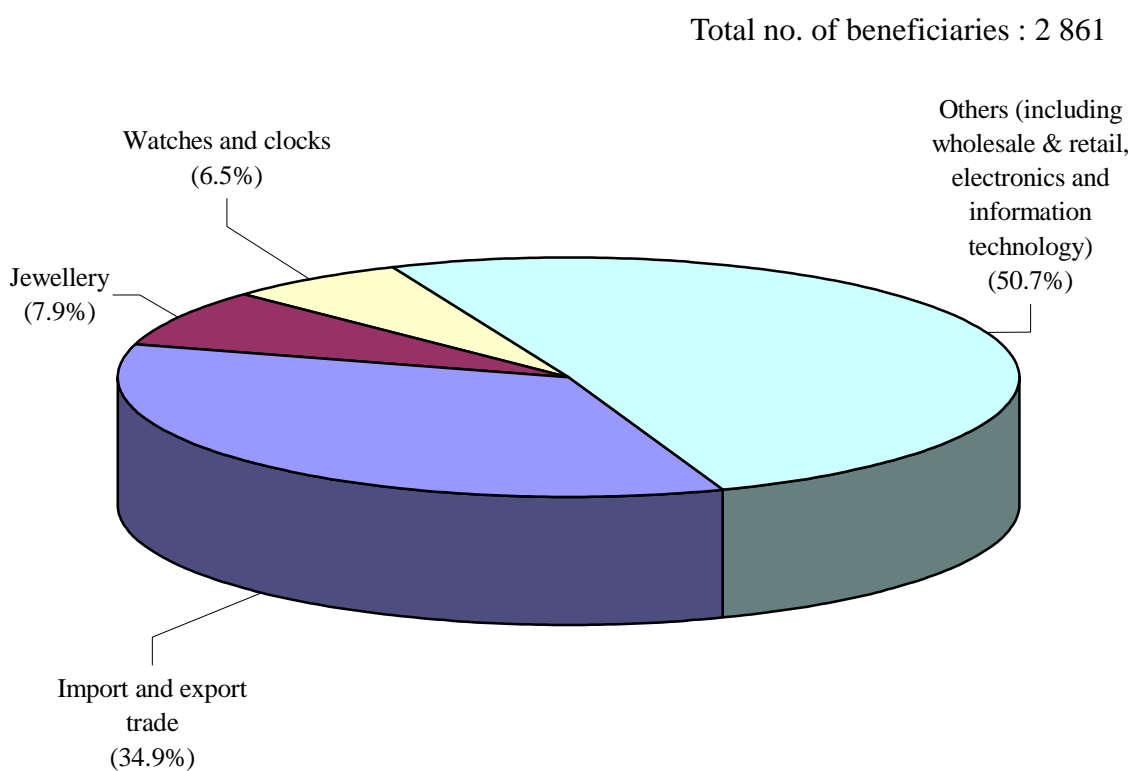
Total no. of export promotion activities approved : 421 (involving 2 861 approved applications)



(V) Locations of approved export promotion activities held outside Hong Kong

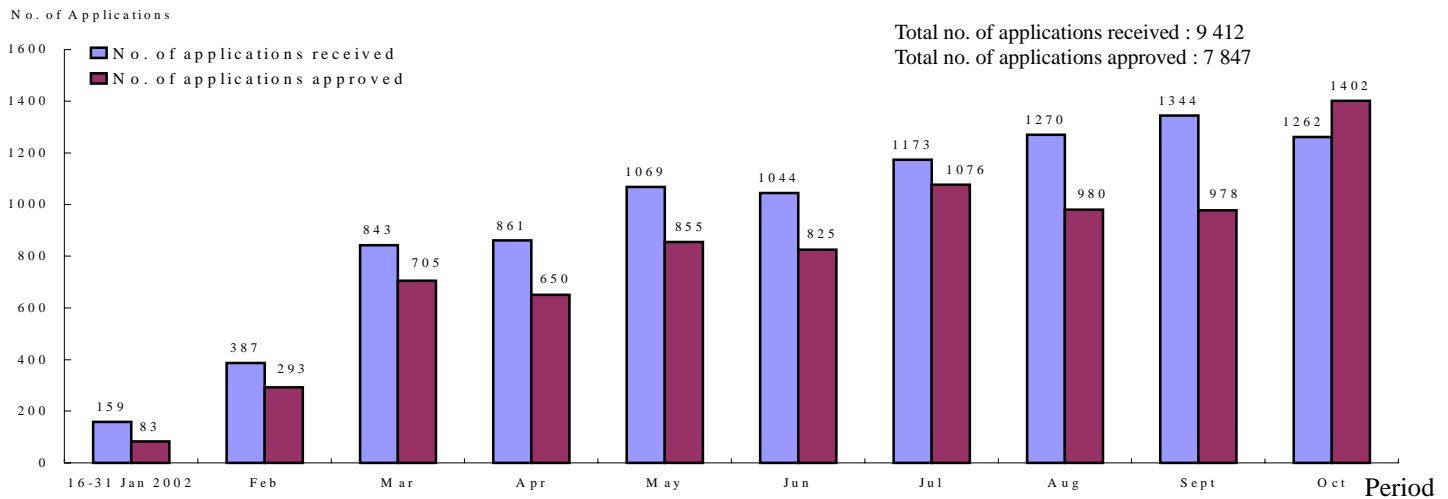


(VI) Business nature of beneficiaries



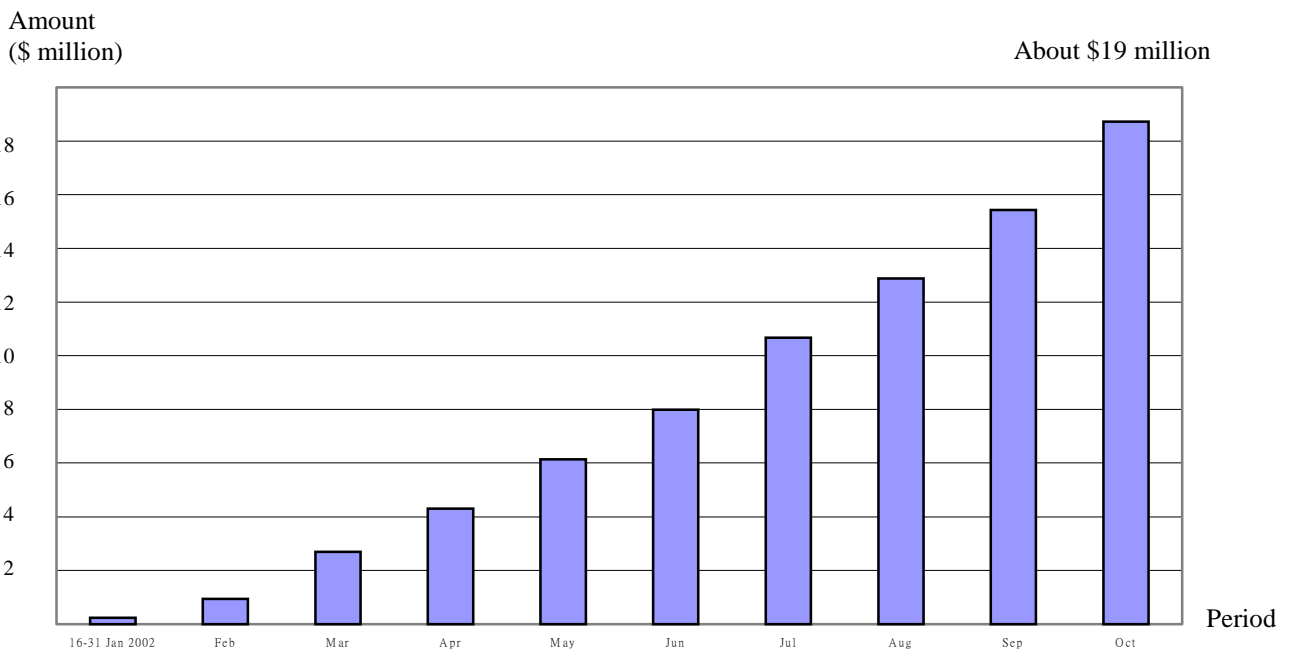
**Progress of the SME Training Fund
(as at 31 October 2002)**

(I) Monthly distribution of applications received and approved



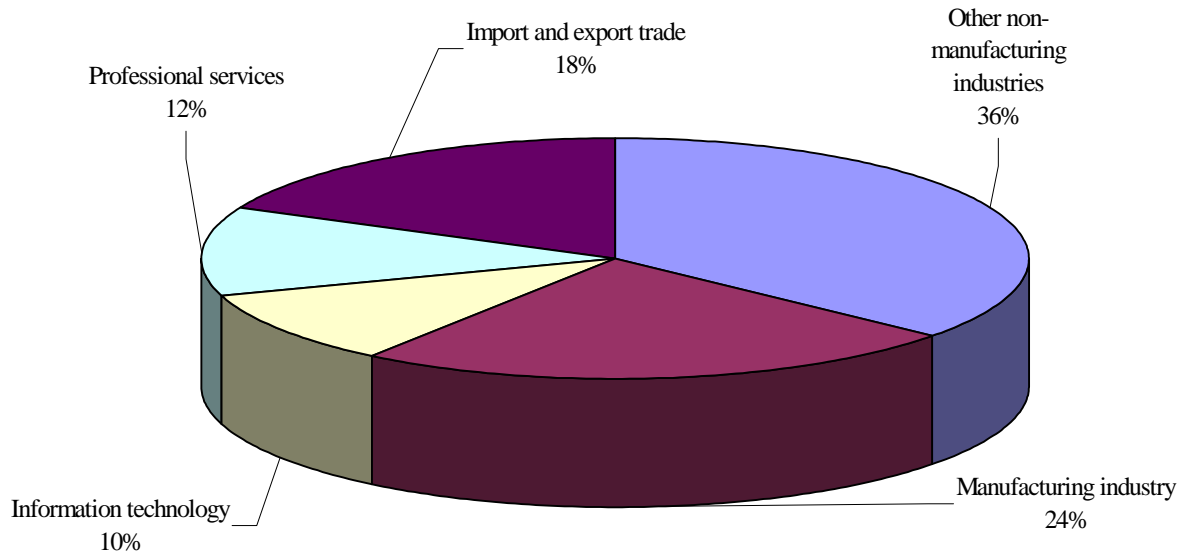
Remarks: Applications approved in a particular month include applications received prior to but approved in that month.

(II) Cumulative amount of grant



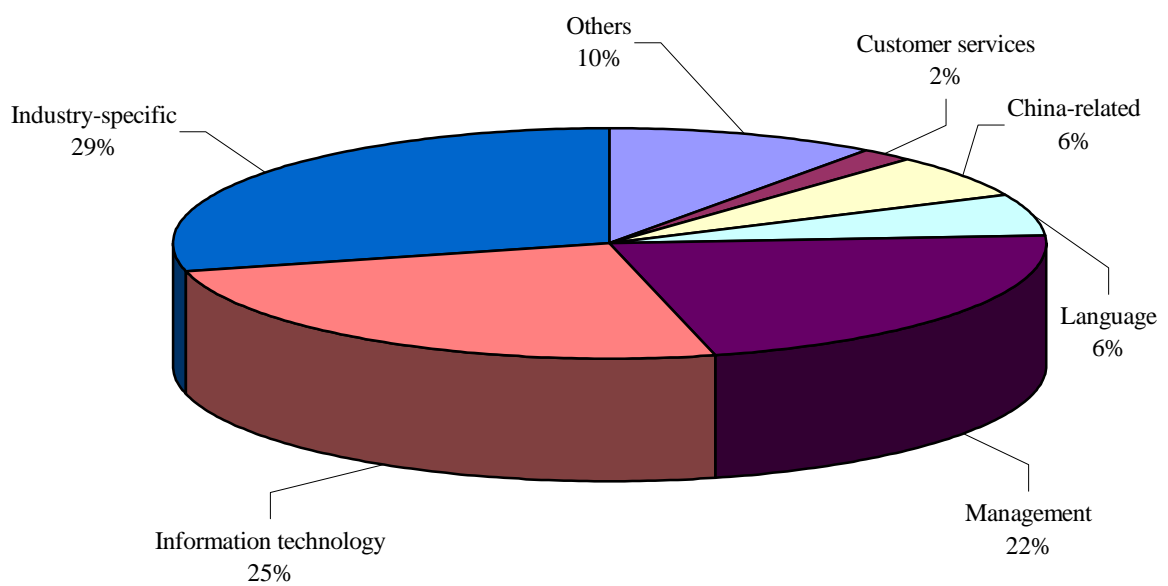
(III) Business nature of beneficiaries

Total no. of beneficiaries : 4 482



(IV) Nature of training courses approved

Total no. of applications approved : 7 847



**Progress of the 1st tranche of the SME Development Fund
(as at 31 October 2002)**

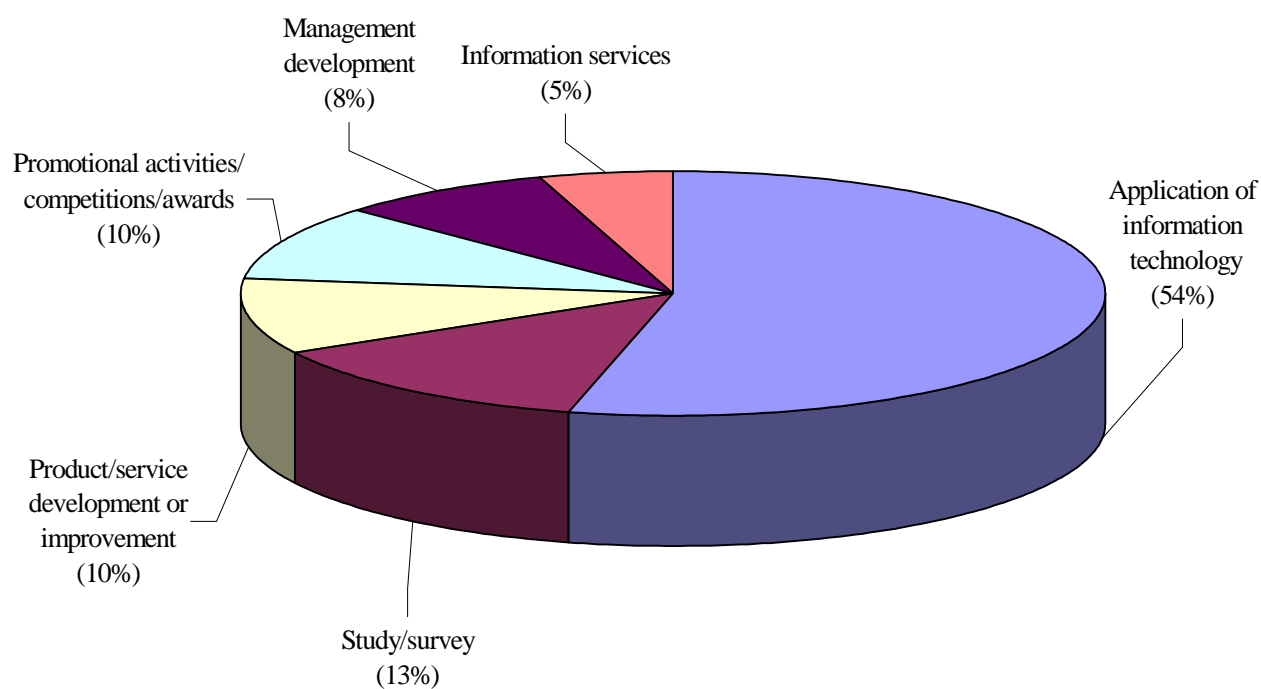
(I) Progress

No. of applications received	No. of applications approved	Total amount of funding support granted (HK\$)
291	39*	\$44 million (22% of the \$200 million capital amount of the SDF)

* The Trade and Industry Department (TID) has reviewed another 54 applications. TID will soon recommend to the SDF Vetting Committee to provide funding support to some of the projects under review.

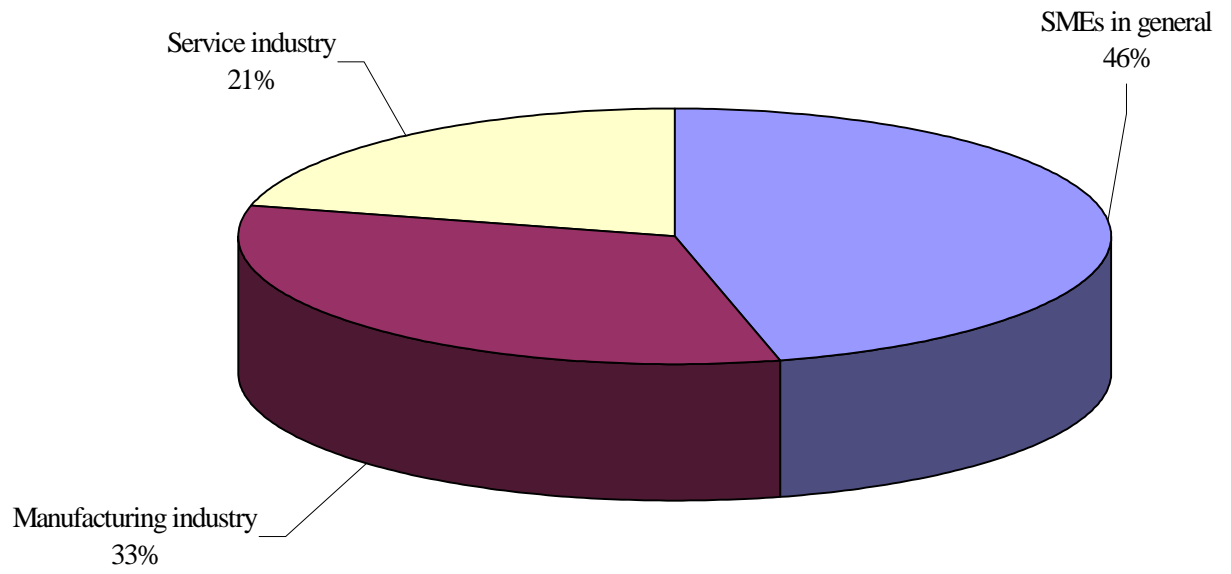
(II) Nature of the approved projects

Total no. of applications approved : 39



(III) Target beneficiaries of the approved projects

Total no. of applications approved : 39



Small and Medium Enterprises Committee
Summary of Recommendations to Further Enhance the SME Funding Schemes

SME Business Installations and Equipment Loan Guarantee Scheme	
Use of Loans	<p>To expand the scope of Government's guarantee to include working capital loans, in addition to business installations and equipment loans. Details are as follows:</p> <p><u>Recommendation (1):</u> To provide SMEs with two types of guarantee when they purchase business installations and equipment, namely a business installations and equipment loan guarantee and a conditional working capital loan guarantee. The provision of the latter would be conditional on the provision of the former. The objective is to help SMEs which want to purchase business installations and equipment secure loans for, respectively, purchasing installations and equipment, and working capital.</p> <p><u>Recommendation (2):</u> To provide SMEs with guarantee for loans based on accounts receivable. All SMEs should be eligible for the guarantee, regardless of whether they are recipients of the conditional working capital loan guarantee.</p>
Guarantee Amount	<p><u>Recommendation (3):</u> To increase the maximum amount of business installations and equipment loan guarantee for an SME from \$1 million to \$2 million. (However, the existing condition that the amount of guarantee will not exceed 50% of the loans approved by lending institutions will still apply.)</p> <p><u>Recommendation (4):</u> The amount of guarantee for the conditional working capital loan should not exceed 50% of the guarantee an SME would obtain for business installations and equipment loan, viz \$1 million or 50% of the conditional working capital loan approved by lending institution (whichever is the less).</p> <p><u>Recommendation (5):</u> The maximum amount of guarantee for loans based on accounts receivable an SME may receive should be \$1 million or 50% of the loans approved by lending institutions (whichever is the less).</p>
Guarantee Period	<p><u>Recommendation (6):</u> To extend the guarantee period for business installations and equipment loans from three years to five years.</p> <p><u>Recommendation (7):</u> The guarantee period for the conditional working capital loans, and for loans based on accounts receivable, should be two years at the maximum.</p>
SME Export Marketing Fund	
Amount of Grant and Number of Grant Received	<p><u>Recommendation:</u> To increase the maximum amount of grant per SME from \$10,000 to \$40,000. There should be no limit on the number of export promotion activities an SME may apply for EMF, as long as the ceiling of \$40,000 is not exceeded. The maximum amount of grant for each successful application would be \$20,000 or 50% of the total expenditure on fundable items of the approved export promotion activity (whichever is the less).</p>
SME Training Fund	
Amount of Grant	<p><u>Recommendation (1):</u> To increase the maximum amount of grant an SME may obtain, on a cumulative basis, for employers' training from \$5,000 to \$10,000, and that for employees' training from \$10,000 to \$20,000. In other words, the total maximum amount of grant an SME may obtain would be increased from \$15,000 to \$30,000.</p>
Application Procedure	<p><u>Recommendation (2):</u> To do away with the requirement that applications have to be submitted prior to the commencement of the training courses, and to allow SMEs to submit applications either before or after the commencement of the training courses. In the case of the latter, applications have to be submitted not later than the thirtieth calendar day after the completion of the training courses.</p>

SME Funding Schemes

The amount of guarantee/grant an SME may receive before and after the introduction of SME Committee's proposed improvements

	SME Business Installations and Equipment Loan Guarantee Scheme	SME Export Marketing Fund	SME Training Fund	Total
Maximum amount per SME under existing SME funding schemes	business installations and equipment loan guarantee: \$1m (For \$1m Government's guarantee, lending institutions may provide not less than \$2 million loan to SME.)	\$10,000	\$15,000 [Employees' training : \$10,000 Employers' training : \$5,000]	\$1.025m
Maximum amount per SME under new SME funding schemes	\$4m : <ul style="list-style-type: none"> • business installations and equipment loan guarantee: \$2m • conditional working capital loan guarantee: \$1m • accounts receivable loan guarantee: \$1m (For \$4m Government's guarantee, lending institutions may provide not less than \$8 million loan to SME.)	\$40,000	\$30,000 [Employees' training : \$20,000 Employers' training : \$10,000]	\$4.07m