

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

Small and Medium Enterprise (SME) Funding Schemes

Introduction

This paper gives an update on the operation of the SME funding schemes.

Background

2. We define “SMEs” as any manufacturing businesses which employ fewer than 100 persons in Hong Kong; or any non-manufacturing businesses which employ fewer than 50 persons in Hong Kong. According to this definition, there are at present around 276,000 SMEs in Hong Kong, which employ 1.2 million people (about 50% of employment in the private sector).

3. As the key recommendation of the Small and Medium Enterprises Committee (SMEC), four SME funding schemes, namely SME Loan Guarantee Scheme, SME Export Marketing Fund, SME Development Fund and SME Training Fund, were established in December 2001/January 2002 to help SMEs secure finance, expand export markets, upgrade human resources and enhance their competitiveness.

4. The Trade and Industry Department (TID) regularly reviews the operation of the funding schemes. During the past five years or so, various improvement measures were introduced to the schemes. Additional funding was also injected into three of the four schemes in 2005 (please see paragraph 20 regarding the SME Training Fund).

5. The Director of Audit conducted a value-for-money audit of the funding schemes in 2006. The observations and recommendations of the Director of Audit were tabled at the Legislative Council on 15 November 2006. TID has accepted the audit recommendations, and we have kept the Public Accounts Committee informed of our progress in implementing the recommendations.

6. As at end April 2007, about 132,400 applications were approved, involving \$10 billion of government guarantee or grant. Over 48,300 SMEs have directly benefited from the funding schemes. Brief update on the funding schemes is set out below.

SME Loan Guarantee Scheme (SGS)

7. Launched in December 2001, the SGS helps SMEs secure loans from participating lending institutions (PLIs) for acquiring business installations and equipment. Under the SGS, Government acts as guarantor for up to 50% of the loans. Since March 2003, the scope of SGS has been expanded to cover associated working capital loans and accounts receivable loans. The maximum amount of guarantee available for an SME is \$4 million, within which \$2 million is for Business Installations and Equipment Loans, \$1 million for Associated Working Capital Loans and \$1 million for Accounts Receivable Loans.

8. Based on an assumed default rate of 15% and a maximum expenditure provision of \$1 billion, the maximum guarantee limit that the Government may commit was \$6.6 billion. Following approval from the Finance Committee in May 2005, the assumed default rate has been lowered to 7.5%. With a revised expenditure provision of \$800 million, the Government's maximum guarantee commitment has been increased to \$10.6 billion.

9. The operation of SGS has been smooth. As at end April 2007, some 9,700 SMEs have benefited and the total amount of guarantee issued is \$8.9 billion, representing a utilization rate of 84%.

10. The default rate, calculated on the basis of the amount of claims received from PLIs compared with the total amount of guarantees issued, is 2.5%. As recommended by the Director of Audit, TID has strengthened the monitoring of the default rates through compilation of more risk management parameters (e.g. size, years of establishment and business nature of SME).

11. A Working Group has also been set up under SMEC to review the scope and operation of the SGS, with a view to assisting more SMEs

in the service sector (as recommended by the Director of Audit). The Working Group recommendations will be submitted to SMEC for deliberation.

SME Export Marketing Fund (EMF)

12. Launched in December 2001, EMF supports SMEs' participation in export promotion activities like trade fairs and study missions. With improvement measures introduced in February and June 2003, the maximum amount of grant for an SME has been raised to \$80,000 (\$30,000 for each application or 50% of approved expenditure, whichever is the less).

13. The original funding provision for EMF was \$300 million. To provide more flexibility in the deployment of resources, this provision was merged with those for the SME Development Fund (SDF, \$200 million) and the SME Training Fund (STF, \$400 million) in 2003. An additional provision of \$500 million (of which \$200 million was transferred from the original provision for SGS) was injected in 2005 to continue the operation of the EMF and SDF.

14. The application procedure has also been simplified since July 2005. In-principle funding approval prior to participating in export promotion activities was no longer required, and SMEs may apply for grants within 60 calendar days after their participation in the export promotion activities.

15. EMF offers the most direct and visible form of assistance to SMEs in export marketing. As at end April 2007, some 18,000 SMEs have benefited from EMF, involving total cash grants of \$743 million.

16. The Director of Audit has recommended that TID should collect information from SMEs on the benefits they gained from participating in the export promotion activities. In this connection, TID has engaged an independent agent to conduct surveys to collect such information. The information will also be a useful reference in our regular review on the overall effectiveness of EMF.

SME Development Fund (SDF)

17. Launched in December 2001, SDF supports non-profit-distributing organizations to carry out projects to enhance 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.

18. SDF provides a unique platform to leverage the resources of non-profit-distributing organizations in addressing the various needs of SMEs. Since January 2006, TID has, instead of inviting applications at certain times of the year, started to accept applications on a year-round basis. As at end April 2007, 96 applications have been approved, involving a total funding support of \$110 million.

19. As recommended by the Director of Audit, TID has taken measures to publicize the Scheme more proactively, particularly among potential applicants. We have also made arrangements to request successful applicants to help assess the benefits of the funded projects to SMEs.

SME Training Fund (STF)

20. Launched in January 2002, STF supports SME employers and employees to take up training courses relevant to their business operation. In view of the significant duplication between STF and other training and education initiatives which employers and employees of SMEs can obtain Government support, we have ceased accepting new STF applications from July 2005. We expect to complete processing all outstanding reimbursement cases by June 2007.

Way Forward

21. The latest utilization figures for the funding schemes are at Annex. We estimate that the Government's maximum guarantee commitment for SGS will be exhausted by late 2008, and the funding provision for EMF and SDF by early 2009. We will consult SMEC on

the future of the funding schemes in due course. In the course of the review, we will also take into account recent developments impacting on Hong Kong enterprises, including those with operation and investment in the Mainland.

Advice Sought

22. Members are invited to note the contents of this paper.

Commerce, Industry and Technology Bureau
Trade and Industry Department
June 2007

Utilization Figures for SME Funding Schemes

(as at 30 April 2007)

	Loan Guarantee Scheme (SGS)	Export Marketing Fund (EMF)	Training Fund* (STF)	Development Fund (SDF)
Guarantee Ceiling/Funding Provision	\$10 600 m	\$1 400 m		
Number of Applications Received	20 554	56 033	96 486	659
Number of Applications Approved	18 767	44 792	68 750	96
Amount of Guarantee/Grant Approved	\$8 883 m	\$743 m	\$264 m	\$110 m
Utilization rate	83.8%	53.1%	18.9%	7.9%
		79.9%		
Number of SME Beneficiaries	9 689	18 018	30 538	N.A.
	48 366#			N.A.

* Ceased accepting new applications since July 2005.

Individual SMEs benefiting from more than one Funding Scheme counted as one.