

ITEM FOR FINANCE COMMITTEE

HEAD 181 – TRADE AND INDUSTRY DEPARTMENT

Subhead 700 – General non-recurrent

Item 524 SME Export Marketing and Development Funds

Members are invited to approve an increase in the cumulative grant ceiling for each small and medium enterprise under the SME Export Marketing Fund from \$150,000 to \$200,000.

PROBLEM

The weak economic performance of Europe and the United States of America in recent years has brought tough challenges to the export business of small and medium enterprises (SMEs). There is a need for the Government to strengthen its support to SMEs in exploring new business opportunities in the export markets.

PROPOSAL

2. The Director-General of Trade and Industry, supported by the Secretary for Commerce and Economic Development, proposes to raise the cumulative grant ceiling for each SME under the SME Export Marketing Fund (EMF) from \$150,000 to \$200,000.

/JUSTIFICATION

JUSTIFICATION

3. The EMF administered by the Trade and Industry Department (TID) aims at encouraging SMEs¹ to participate in export promotion activities, including participation in exhibitions and business missions and placing advertisements on printed trade publications targeting export markets and eligible trade websites. Since its launch in 2001, the EMF has been well-received by SMEs. The EMF has been assisting SMEs in developing and expanding export markets. As at the end of April 2013, the EMF has approved over 159 000 applications involving a total grant amount of about \$2.38 billion. Over 37 700 SMEs (including 17 290 first-time applicants in the past five years) employing about 260 000 people have benefitted. The statistics on applications approved under the EMF by sectors and types of export promotion activities as at the end of April 2013 are set out in

Encl. 1

Enclosure 1.

4. In response to the changes in the market and the needs of SMEs, TID reviews from time to time the operation and effectiveness of the EMF with a view to ensuring that adequate and timely support is provided to SMEs. With the approvals of the Finance Committee (FC) of the Legislative Council vide FCR(2007-08)44 and FCR(2008-09)42 respectively, a series of enhancement measures have been made to the EMF since 2008. They include increasing the cumulative grant ceiling for each SME under the EMF from \$80,000 to \$150,000; and increasing the maximum grant for each application from \$30,000 to \$50,000 or 50% of the approved expenditure, whichever is the less. In addition, the scope of reimbursement items under the EMF has been expanded from covering only participation in exhibitions and business missions, to including also placement of advertisements on eligible trade websites and all printed trade publications targeting export markets.

5. Recently, due to the prevailing uncertain external economic environment, the export performance of SMEs has been persistently weak and many SMEs are facing the problem of dwindling orders from traditional export markets. They have to strive for new business orders and explore new markets. To tide enterprises over the difficulties and encourage them to explore new business opportunities, the Financial Secretary proposed in the 2013-14 Budget to raise the cumulative grant ceiling for each SME under the EMF from \$150,000 to \$200,000, subject to the meeting of relevant additional conditions. The grant ceiling for each application (i.e. \$50,000) will remain unchanged.

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¹ TID defines “SMEs” as manufacturing businesses which employ less than 100 persons in Hong Kong and non-manufacturing businesses which employ less than 50 persons in Hong Kong.

6. We propose that the additional grant must be used by enterprises to participate in new export promotion activities, i.e. eligible enterprises must use the additional grants to participate in export promotion activities other than those previously subsidised by the EMF. For example, enterprises may participate in different exhibitions, place advertisements on different trade publications, or participate in business missions to different places, etc. This is to encourage SMEs to find new business partners or to try different modes of export promotion activities so as to explore more business opportunities.

CONTROL AND REVIEW MECHANISM

7. Applications under the EMF will continue to be processed in accordance with the current rules and guidelines of the EMF. The financial support under the EMF is to cover the actual expenses incurred on a dollar-for-dollar matching basis between the Government and the SME concerned by way of reimbursement. SME applicants are required to provide comprehensive information in support of their applications to TID after participating in relevant export promotion activities or placing advertisements on printed trade publications or eligible trade websites. All applications are carefully vetted by TID to ensure that the applications comply with all relevant conditions and requirements of the EMF.

8. In addition, an enhanced checking mechanism has been put in place for applications from SME applicants whose businesses have only been established for six months or less. Such applicants are required to provide documentary proof to demonstrate that it has substantive business operation in Hong Kong in order to fulfil the relevant requirement of the EMF. To ensure transparency, all the rules and guidelines governing the operation of the EMF are publicised on the relevant website of TID. Information on the export promotion activities approved under the EMF during the last 12 months has also been uploaded onto the relevant website of TID. TID will continue to conduct timely reviews on the utilisation and effectiveness of the EMF to ensure prudent use of public money.

EXPECTED BENEFITS

9. Increasing the cumulative grant ceiling for each SME under the EMF will immediately benefit about 4 800 SMEs² in different sectors which have exhausted their current cumulative grant ceiling under the EMF. These enterprises can continue to make use of the grants of the EMF to explore new business

/opportunities

² As at 30 April 2013, 4 835 SMEs have exhausted their current cumulative grant ceiling of \$150,000 under the EMF, accounting for 12.8% of the total number of benefitted enterprises (37 781).

opportunities in the export markets, thereby creating positive effects on their business operation and continued development as well as stabilising employment. In addition, more SMEs will also benefit from the additional grants after they have exhausted their current cumulative grant ceiling.

FINANCIAL IMPLICATIONS

10. The FC approved on 18 July 2011 vide FCR(2011-12)43 an increase in the total commitment for the SME Export Marketing and Development Funds (EMDF) (viz. the EMF and the SME Development Fund³) from \$2.75 billion to \$3.75 billion.

11. Assuming that the some 4 800 SMEs which have exhausted their current cumulative grant ceiling under the EMF will all apply for and exhaust the proposed additional grant of \$50,000, the current proposal will entail an estimated expenditure of around \$240 million. The expenditure will further increase when more SMEs apply for the additional grant after they have exhausted their current cumulative grant ceiling of \$150,000. The relevant expenditure will be met by the approved commitment of \$3.75 billion for the EMDF. With the implementation of the proposal, it is estimated that the approved commitment can sustain the operation of the EMDF until mid-2015. The cash flow required is contingent upon demand from SMEs and potential applicants.

12. Additional manpower and administrative expenditure arising from the implementation of the proposal will be absorbed within the existing resources of TID.

13. The proposal has no implication on the level of fees and charges in respect of services provided by TID.

IMPLEMENTATION TIMETABLE

14. Subject to Members' approval of the proposal as set out in paragraph 2 above, we will implement the relevant measure in June 2013.

/PUBLIC

³ The SDF subsidises projects implemented by non-profit-distributing organisations (such as trade and industrial organisations, professional bodies and research institutes, etc) to enhance the competitiveness of SMEs in general or SMEs in specific sectors. The maximum amount of grant for each project is 90% of the total approved project expenditure, subject to a ceiling of \$2 million. As at end April 2013, the SDF has approved 211 projects and the total amount of grant involved is about \$240 million.

PUBLIC CONSULTATION

15. We have consulted the Small and Medium Enterprises Committee and the Panel on Commerce and Industry of the Legislative Council on 19 March 2013 and 16 April 2013 respectively. Members generally supported the proposal.

BACKGROUND

16. On 11 January 2008, the FC approved, among others, enhancement measures to the various SME funding schemes administered by TID. For the EMF, these measures included increasing the cumulative grant ceiling for each SME under the EMF from \$80,000 to \$100,000 (the ceiling of \$30,000 per application remains unchanged); and extending the scope of the EMF to include advertisements on printed trade publications targeting export markets, on the condition that such publications are published by bona fide exhibition organisers. On 28 October 2008, the FC further approved to increase the cumulative grant ceiling for each SME under the EMF from \$100,000 to \$150,000, and the sub-ceiling for each successful application from \$30,000 to \$50,000 or 50% of the approved expenditure, whichever is the less; and extend the scope of reimbursable items under the EMF to include expenditure on advertisements placed on the websites of bona fide exhibition organisers and to relax the existing requirement that the printed trade publications must be published by bona fide exhibition organisers (i.e. advertisements placed on all printed trade publications targeting export markets are eligible). Detailed features of the EMF and the funding position of the EMDF are at Enclosure 2.

Encl. 2

Commerce and Economic Development Bureau
Trade and Industry Department
May 2013

Enclosure 1 to FCR(2013-14)9

**Statistics on the SME Export Marketing Fund
(as at 30 April 2013)**

I. Approved applications by sector

Service industry	Number of approved applications	%
Import and export trade :	63 628	(40%)
Wholesale and retail :	7 884	(5%)
Information technology :	1 959	(1%)
Professional services :	1 526	(1%)
Others :	10 400	(7%)
Sub-total :	85 397	(54%)
Manufacturing industry		
Electronics :	12 991	(8%)
Jewellery :	7 933	(5%)
Textiles and clothing :	7 396	(5%)
Watches and clocks :	7 059	(4%)
Toy :	5 860	(4%)
Others :	32 828	(20%)
Sub-total :	74 067	(46%)
Total :	159 464	100%

II. Approved applications by types of export promotion activity

Types of activity	Number of approved applications	%
Local exhibition :	72 114	(45%)
Exhibition outside Hong Kong :	37 425	(23%)
Business mission :	1 331	(1%)
Placing advertisement on trade publication :	35 976	(23%)
Placing advertisement on eligible website :	12 618	(8%)
Total :	159 464	100%

Detailed features of the SME Export Marketing Fund (EMF)

- The EMF provides funding support to SMEs to participate in export promotion activities, including participating in trade fairs/exhibitions and business missions, and placing advertisements in trade publications targeting export markets as well as on eligible trade websites.
- For each successful application, the maximum amount of grant is 50% of the total approved expenditure (e.g. exhibition fees, costs for setting up booths in exhibitions, air ticket fees and hotel charges for overseas exhibitions, advertising fees, etc.), subject to a ceiling of \$50,000. Currently, the cumulative grant ceiling per SME under the EMF is \$150,000.
- The approved commitment for the SME Export Marketing and Development Funds (EMDF) is \$3.75 billion. The funding position of the EMDF as at 30 April 2013 is as follows:

	SME Export Marketing Fund	SME Development Fund
No. of applications received	185 368	946
No. of applications approved	159 464	211
Approved commitment	\$3.75 billion	
Amount of grants approved	\$2.38 billion	\$0.24 billion
Remaining Balance #	\$0.87 billion	
Utilisation rate #	77%	

In calculating the remaining balance and “utilisation rate” for the EMDF, we have, apart from the EMF and the SME Development Fund, included the amount of grant approved under the previous SME Training Fund (i.e. \$260 million), which has ceased to receive applications since 1 July 2005.
