

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 approved commitment of the SME Export Marketing and Development Funds from \$3.75 billion by \$1.5 billion to \$5.25 billion.

PROBLEM

Based on the current utilisation rate, the approved commitment of the SME Export Marketing and Development Funds (EMDF) will be exhausted by late 2016. There is a need to increase its commitment to sustain the continued operation of the two funding schemes (i.e. SME Development Fund (SDF) and the SME Export Marketing Fund (EMF)) financed by it. We also plan to implement measures to enhance support for small and medium enterprises (SMEs) in exploring export markets.

PROPOSAL

2. The Director-General of Trade and Industry (DGTI), supported by the Secretary for Commerce and Economic Development, proposes to increase the approved commitment of EMDF from \$3.75 billion by \$1.5 billion to \$5.25 billion.

/JUSTIFICATION

JUSTIFICATION

Sustaining the operation of EMDF

3. The expenditure on SDF and EMF is charged to a non-recurrent commitment of \$3.75 billion for EMDF approved by the Finance Committee on July 2011. As at end of May 2015, \$3.39 billion (around 90%) of this commitment had been utilised. Taking into account the past and current spending positions of EMDF, we expect that the commitment will be fully utilised by late 2016. Having reviewed the operation and effectiveness of SDF and EMF, we see a need to continue operation of the two funding schemes so as to continue supporting SMEs in enhancing their competitiveness and exploring export markets. We propose to increase the commitment of EMDF by \$1.5 billion to \$5.25 billion.

Evaluation and Enhancement of SDF and EMF

SDF

4. SDF provides financial support to non-profit-distributing organisations (such as trade and industrial organisations, professional bodies and research institutes) to undertake projects that can enhance the competitiveness of Hong Kong SMEs in general or in specific sectors, including those that can help SMEs build and promote brands and explore export markets. Currently, the maximum amount of funding support for each approved project is \$2 million, or 90% of the approved expenditure of the project, whichever is less. Each project should be completed within two years.

5. From its launch in 2001 to end May 2015, SDF provided grants totalling about \$276 million for 244 applications from 113 organisations, benefitting a wide range of industries from both the manufacturing sector and the services sector. Details of all SDF-approved projects have been disclosed on the website of the Trade and Industry Department (TID).

6. We conducted a questionnaire survey in 2014 to gauge SMEs' views on the effectiveness of SDF. The survey result showed that participating SMEs generally considered SDF projects useful in making them more competitive. As regards projects involving overseas markets, many SMEs considered that the projects helped them better understand the market environment, regulations, and business practices in relevant markets.

/7.

7. We have received feedback from the trade from time to time requesting the Government to strengthen the support for non-profit-distributing organisations to implement larger-scale activities (such as setting up Hong Kong pavilions in large-scale exhibitions and organising business missions) in order to help SMEs explore overseas markets, especially the emerging ones.

8. Taking into account the views of the trade and operational experience of SDF, we intend to increase the maximum grant for each project from \$2 million to \$5 million, and extend the maximum duration of each project from two years to three years so that organisations can plan larger-scale and more effective activities in strengthening competitiveness of SMEs and assisting them in exploring overseas business opportunities.

EMF

9. EMF provides direct subsidy to SMEs for participation in export promotion activities, including local trade exhibitions, trade exhibitions outside Hong Kong, and business missions to places outside Hong Kong, and placement of advertisements in printed trade publications or on trade websites targeting export markets, so as to encourage enterprises to expand their export business. The amount of grant for each application is 50% of the approved expenditure of the export promotion activity concerned subject to a ceiling of \$50,000. The maximum cumulative amount of grants for each SME has been increased to \$200,000 since June 2013.

10. EMF has been well received by SMEs since its launch in 2001. As at end of May 2015, over 188 000 applications had been approved under EMF, with grants totalling about \$2.86 billion. Over 42 000 SMEs employing around 290 000 people have benefitted from EMF. We conducted a questionnaire survey with EMF beneficiaries in 2014 to collect SMEs' views on the scheme. The majority of the respondents were satisfied that EMF was effective in helping them explore export markets.

11. As Internet technologies and their applications become increasingly mature and popular, more and more SMEs choose to conduct export promotion via various electronic commerce platforms (e.g. Alibaba and Taobao) and electronic media (e.g. electronic magazines and web advertisements). We therefore intend to expand the scope of EMF to cover more export promotion activities conducted through such platforms and media^{Note}, so that SMEs can utilise their EMF grants in a more diverse range of promotional channels. In view of the fast-changing characteristics and great variety of electronic commerce platforms and electronic media, we will establish a set of objective assessment criteria to facilitate enterprises in applying for grants and prevent abuse. Moreover, having regard to evolving technological status and communication means as well as the latest demand and effectiveness of different promotion channels, DGTI will, in line with the principles of EMF, from time to time further adjust the scope of EMF to cover different categories of export promotion activities.

12. The maximum cumulative amount of EMF grants for each SME was increased from \$150,000 to \$200,000 in June 2013 on condition that the SME concerned might only use the additional \$50,000 for export promotion activities each of which had not been previously funded by the EMF. Up to end May 2015, only 244 SMEs have fully utilised the additional \$50,000, accounting for less than 1% of the total number of EMF beneficiaries. To provide SMEs with greater flexibility in utilising the additional grant, we will allow SMEs to make use of the additional \$50,000 for any export promotion activities that have not been funded only by the first \$150,000 of EMF grants.

CONTROL AND REVIEW MECHANISM

13. Applications received under SDF are assessed by the Secretariat set up in TID on the advice of a vetting committee. The vetting committee comprises members from various sectors of the trade and relevant government departments. The membership list of the committee is at Enclosure 1. TID would monitor and evaluate the progress and effectiveness of the approved projects, and submit the progress and final reports of the projects to the vetting committee for consideration.

Encl. 1

14. As regards EMF, funding support is provided on a dollar-for-dollar matching basis between the Government and the SME concerned by way of reimbursement after the SME's completion of the relevant export promotion activity. Applicants are required to provide relevant information and documents in support of their applications to TID for vetting.

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^{Note} At present, SMEs can only make use of the EMF grants to place advertisements on eligible trade websites pre-approved by DGTI from time to time.

15. All the rules and guidelines in respect of SDF and EMF are disclosed on the website of TID to ensure transparency of the schemes. TID will continue to closely monitor the operation of EMF and SDF. It will also conduct regular review on the utilisation and effectiveness of the two schemes to ensure prudent use of public funds.

EXPECTED BENEFITS

16. With the increase of \$1.5 billion in the approved commitment of EMDF, SDF and EMF could continue to support SMEs in enhancing competitiveness and exploring export business opportunities until around 2020.

17. Increasing the maximum grant for each project under the SDF will allow organisations to plan larger-scale and more effective activities in enhancing the competitiveness of SMEs and assisting them to explore overseas markets. Expanding the scope of EMF and relaxing the condition of use for the additional \$50,000 grant will allow SMEs to participate in a wider range of export promotion activities, thereby developing export markets.

FINANCIAL IMPLICATIONS

18. With the implementation of the proposed enhancement measures for SDF and EMF, the average level of grants for SDF projects and the number of EMF applications are expected to increase. The proposed injection of \$1.5 billion is estimated to sustain the operation of the two funds until around 2020. TID will absorb any additional manpower and administrative requirements arising from the proposals within its existing resources.

IMPLEMENTATION TIMETABLE

19. Subject to Members' approval of the proposal as set out in paragraph 2 above, we will implement the enhancement measures within three months after approval of the Finance Committee.

/PUBLIC

PUBLIC CONSULTATION

20. We briefed the Small and Medium Enterprises Committee and the Legislative Council Panel on Commerce and Industry on the proposal on 16 April 2015 and 16 June 2015 respectively. Members generally supported the proposal.

BACKGROUND

21. SDF and EMF were launched in 2001. They are operated by the TID. The total commitment of the two funds was last increased in July 2011 from \$2.75 billion to \$3.75 billion (approved vide FCR(2011-12)43). Existing features and the funding positions of the two schemes are at Enclosures 2 and 3 respectively.

22. The Financial Secretary proposed in the 2015-16 Budget to inject \$1.5 billion into EMDF, increase the maximum amount of funding support for each project under SDF from \$2 million to \$5 million, and expand the scope of EMF.

Commerce and Economic Development Bureau
Trade and Industry Department
June 2015

Vetting Committee of the SME Development Fund

**Membership List
(with effect from 1 January 2015)**

Name	Background
<u>Chairman</u>	
Director-General of Trade and Industry	
<u>Members</u>	
Ms Karen CHAN Ka-yin	Industry and Business
Mr Calvin CHAN Ka-wai	Industry and Business
Ms Rosanna CHOI Yi-tak	Professional
Mr Oscar CHOW Vee-tsung	Industry and Business
Ms Elaine HO Yee-lin	Professional
Mr Francis KWOK Ching-kwong	Industry and Business
Dr Stephen KWOK Chun-pong	Industry and Business
Mr Victor LAM Hoi-cheung	Industry and Business
Dr Kevin LAU Kin-wah	Industry and Business
Mr Bobby LIU Kam-hing	Industry and Business
Ms Jaclyn NGAN Ming-yun	Industry and Business
Prof Raymond SO Wai-man	Academia
Ms Candy TAM Lai-chuen	Industry and Business
Dr Royce YUEN Man-chun	Industry and Business
Deputy Director-General of Trade and Industry	Official Member
Assistant Commissioner for Innovation & Technology (Policy and Development)	Official Member

**Existing features of the SME Development Fund
and the SME Export Marketing Fund**

SME Development Fund (SDF)

1. The SDF provides financial support to non-profit-distributing organisations¹ for undertaking projects which can enhance the competitiveness of Hong Kong's SMEs in general or in specific sectors.
2. The maximum amount of funding support for each approved project is \$2 million, or 90% of the approved expenditure of the project, whichever is lower. The applicant has to contribute the remaining 10% of the project expenditure, which may be in cash, in kind or in the form of sponsorship. Each project should be completed within two years.
3. The applicant organisation is required to submit a plan setting out how the proposed project is to be implemented², and how it would fulfil the objective of the SDF. The applicant organisation should also undertake to share the results and deliverables of the project widely with the industry. The Government has established a vetting committee to consider the applications received under the SDF.

SME Export Marketing Fund (EMF)

4. The EMF provides subsidy to SMEs for participation in export promotion activities, including local trade exhibitions, trade exhibitions held outside Hong Kong, and business missions to places outside Hong Kong, and placement of advertisements in printed trade publications or on trade websites targeting export markets, so as to encourage enterprises to expand their export business.
5. The amount of grant for each application is 50% of the approved expenditure of the export promotion activity concerned, subject to a ceiling of \$50,000. Since 10 June 2013, the cumulative grant ceiling for each SME under the EMF has been raised from \$150,000 to \$200,000, subject to the condition that the additional grant of \$50,000 must be used on export promotion activities each of which has not been previously funded by the EMF.

¹ The applicant organisation should either be a statutory organisation or an organisation registered under the laws of the Hong Kong Special Administrative Region.

² Examples of measures that can be undertaken in a project include seminars, workshops, conferences, exhibitions, surveys/studies, demonstration on technology application, databases, support facilities and service centres, etc.

**Funding positions of the SME Development Fund
and SME Export Marketing Fund
under the SME Export Marketing and Development Funds
(as at end of May 2015)**

	SME Development Fund (SDF)	SME Export Marketing Fund (EMF)
Applications approved	244	188 823
Amount of grant approved	\$276 million	\$2,856 million
Approved commitment	\$3,750 million	
Remaining balance	\$358 million	
Utilisation rate	90%	
Number of SME beneficiaries	N/A	42 565

Note: In calculating the “remaining balance” and the “utilisation rate” for the SME Export Marketing and Development Funds (EMDF), we have, apart from the SDF and the EMF, included the amount of grants approved under the previous SME Training Fund (i.e. \$260 million), of which expenditures were also met by the commitment for the EMDF. The SME Training Fund had ceased to receive applications since 1 July 2005.
