

ITEM FOR FINANCE COMMITTEE

HEAD 181 - TRADE AND INDUSTRY DEPARTMENT

Subhead 700 General other non-recurrent

Item 521 SME Training Fund

Item 522 SME Export Marketing Fund

Item 523 SME Development Fund

New item "SME Training, Export Marketing and Development Funds"

Members are invited to approve the following changes to Head 181 Trade and Industry Department Subhead 700 General other non-recurrent -

- (a) the merger of items 521 SME Training Fund (STF), 522 SME Export Marketing Fund (EMF) and 523 SME Development Fund (SDF) into a new item "SME Training, Export Marketing and Development Funds" with a commitment of \$900 million. Subject to the total expenditure under the STF, EMF and SDF not exceeding \$900 million, cease capping the commitments for the three funding schemes at \$400 million, \$300 million and \$200 million respectively.
- (b) increase the subsidy level per successful application under the STF to 70% of the training expenses, subject to the existing ceilings of \$10,000 for employers' training and \$20,000 for employees' training per small and medium enterprise (SME); and

/(c)

- (c) raise the ceiling on the aggregate amount of grant an SME may receive under the EMF to \$80,000, and raise the sub-ceiling for each successful application to \$30,000 or 50% of the total expenditure on fundable items of an approved export promotional activity, whichever is less.

PROBLEM

The outbreak of Severe Acute Respiratory Syndrome (SARS) has further hit the business of many SMEs and affected their competitiveness.

PROPOSAL

2. The Director-General of Trade and Industry (DGTI), supported by the Secretary for Commerce, Industry and Technology, proposes to make the following changes to the STF, EMF and SDF, as recommended by the Small and Medium Enterprises Committee (SMEC), to further enhance support for SMEs -

- (i) merge the existing non-recurrent items for the STF, EMF and SDF into a new item "SME Training Fund, Export Marketing and Development Funds" with a total commitment of \$900 million. Subject to the total expenditure under the STF, EMF and SDF not exceeding \$900 million, cease capping the commitments for the three funding schemes at \$400 million, \$300 million, and \$200 million respectively;
- (ii) increase the subsidy level per successful application under the STF from 50% to 70% of the training expenses, subject to the existing ceilings of \$10,000 for employers' training and \$20,000 for employees' training per SME (i.e. total amount of grant up to \$30,000 for each SME); and
- (iii) raise the ceiling on the aggregate amount of grant an SME may receive under the EMF from \$40,000 to \$80,000, and raise the sub-ceiling for each successful application from \$20,000 to \$30,000, or 50% of the total expenditure on fundable items of an approved export promotional activity, whichever is the less.

/JUSTIFICATION

JUSTIFICATION

SMEs in the aftermath of SARS

3. As an export-oriented economy, Hong Kong's economy has suffered a major blow as a result of the SARS outbreak. Although the full impact of SARS has yet to be ascertained, we expect the forecast growth rate of GDP in real terms for 2003 to be trimmed down from 3% to 1.5%. Many SMEs in the export sector have been hard hit in the past few months by the disruptions caused by SARS to their participation in export promotional activities, including trade fairs, exhibitions, study missions and business travel. Moreover, many foreign businessmen and buyers have been avoiding travel to this region. In the aftermath of SARS, those SMEs will need to step up efforts in export promotion in order to reach new customers, regain the confidence of existing customers, and re-establish their overseas network.

4. SMEs have limited resources. Their priorities in the aftermath of the SARS outbreak are on soliciting new businesses and maintaining the smooth operation of their businesses. Training needs of the employers and their employees are likely to be superseded by other competing calls.

5. Against the developments set out above and a generally dimmer regional economic outlook, SMEs need further financial assistance in export promotion as well as manpower training and development.

STF

6. The STF aims at encouraging SMEs to provide training for their employers and employees with a view to enhancing the quality of human resources. Hitherto grants under the STF have been disbursed on a dollar-for-dollar matching basis. In order to provide more incentive for SME employers to acquire training for themselves and for them to provide training to their employees, we propose to increase the subsidy level for each successful application under the STF from 50% to 70% of the training expenses, subject to the existing ceilings of \$10,000 for employers' training and \$20,000 for employees' training per SME.

7. We do not propose to raise the ceiling on the aggregate amount of grant an SME may receive under the STF, nor adjust the sub-ceilings in respect of employers' training and employees' training. This is partly because the average amount of grant per successful application is only about \$2,500, and partly because the overwhelming majority of the existing STF beneficiaries have used less than 20% (i.e. less than \$5,000) of the aggregate ceiling of \$30,000.

/8.

EMF

8. The EMF aims at helping SMEs expand their businesses through participation in export promotional activities, such as trade fairs and study missions. Grants under the EMF are disbursed on a dollar-for-dollar matching basis and there is no limit on the number of export promotion activities in which an SME may participate with a grant under the EMF, as long as the overall grant ceiling of \$40,000 per SME, as well as the sub-ceiling per successful application of \$20,000 or 50% of the total expenditure on fundable items of an approved export promotional activity, whichever is the less, are not exceeded.

9. To encourage SMEs to more proactively take part in export promotional activities and to make it more affordable for SMEs to do so, we propose to raise the ceiling on the aggregate amount of grant an SME may receive under the EMF from \$40,000 to \$80,000, and to raise the sub-ceiling for each successful application from \$20,000 to \$30,000 or 50% of the total expenditure on fundable items of an approved export promotional activity, whichever is the less.

SDF

10. The SDF aims at subsidizing projects to be carried out by eligible support organizations, trade and industrial organizations, professional bodies and research institutes to enhance the competitiveness of SMEs in general or SMEs in specific sectors. We consider the existing funding ceiling, which is the lesser of \$2 million per project or 90% of the project costs, reasonable, and do not intend to revise the disbursement mechanism of the SDF for the time being.

11. A table summarising the arrangements for disbursing grants under the STF, EMF and SDF before and after the implementation of the proposed changes is at Enclosure.

Encl.

Merger of STF, EMF and SDF

12. In November 2001, Members approved commitments of \$400 million, \$300 million and \$200 million for the STF, EMF and SDF respectively. As at the end of May 2003, the utilisation rates of these three funds are 10% (about \$38 million), 24% (about \$71 million), and 31% (about \$61 million) respectively. DGTI proposes to pool the resources available for these three funding schemes and remove their respective commitment ceilings. This will enable DGTI to deploy resources flexibly, having regard to SMEs actual demand.

13. After the existing three commitments have been merged and the respective commitment ceilings removed, applications for the STF and EMF will continue to be processed on a first-come-first-served basis and applications for the SDF will continue to be invited in tranches. As the vote controller of the SME funding schemes, DGTI will monitor the take up rate of the three funding schemes, and will seek to strike a balance between deploying resources in accordance with actual demand and prudent use of public funds.

Implementation Timetable

14. Subject to Members' approval of the proposed improvement measures, our aim is to implement them within a week's time.

Review and Monitoring

15. We will, in consultation with the SMEC, closely monitor SMEs' response to the revised disbursement arrangements, and to continue to keep the operations of the funding schemes under review.

FINANCIAL IMPLICATIONS

16. The implementation of the proposed improvement measures will not affect the earmarked aggregate commitment of \$900 million for the STF, EMF and SDF. As at 7 June 2003, about \$174 million had been disbursed under these three funding schemes. About \$726 million will be available under the merged item to cater for future needs.

17. Any additional resources required to implement the proposed improvement measures will be absorbed by the Trade and Industry Department from within its existing resources.

CONSULTATION WITH LEGISLATIVE COUNCIL PANEL

18. We consulted the Legislative Council Panel on Commerce and Industry on our proposal on 9 June 2003. Members were in general supportive of the proposed measures.

/BACKGROUND

BACKGROUND INFORMATION

19. On 9 November 2001, the Finance Committee (FC) approved the setting aside of \$1.9 billion to establish four SME funding schemes (STF, EMF, SDF and the SME Loan Guarantee Scheme (SGS, formerly known as the Business Installations and Equipment Loan Guarantee Scheme)) with a total commitment of \$7.5 billion (of which \$900 million is for the first three schemes and \$6.6 billion for the last one). The schemes were launched in December 2001/January 2002.

20. Upon FC's approval on 24 January 2003, we introduced a series of improvement measures to the STF, EMF and SGS in February/March 2003, with a view to addressing the needs of SMEs in the areas of financing, marketing, and manpower training more fully and effectively.

Commerce, Industry and Technology Bureau
June 2003

Disbursement of Grants under STF, EMF and SDF Before and After Implementation of Proposed Changes

	Before	After
STF		
Ceiling on grant per SME	\$30,000 (employers' training: \$10,000 employees' training: \$20,000)	No change
Sub-ceiling on grant per successful application	50% of the training expenses	70% of the training expenses
Approved commitment	\$400 million (employers' training: \$100 million employees' training: \$300 million)	No commitment ceiling for STF, subject to total expenditure for STF, EMF and SDF not exceeding \$900 million.
EMF		
Ceiling on grant per SME	\$40,000	\$80,000
Sub-ceiling on grant per successful application	\$20,000 (or 50% of the total expenditure on funding items)	\$30,000 (or 50% of the total expenditure on funding items)
Approved commitment	\$300 million	No commitment ceiling for EMF, subject to total expenditure for STF, EMF and SDF not exceeding \$900 million.
SDF		
Ceiling on grant per successful application	\$2 million (or 90% of the project costs)	No change
Approved commitment	\$200 million	No commitment ceiling for SDF, subject to total expenditure for STF, EMF and SDF not exceeding \$900 million.

