

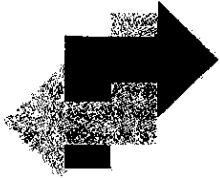
Four small and medium enterprise funding schemes

The Committee noted that the Audit Commission had conducted a review on the efficiency and effectiveness of four small and medium enterprise (SME) funding schemes, namely, the SME Export Marketing Fund, the SME Training Fund, the SME Loan Guarantee Scheme and the SME Development Fund.

2. The Committee did not hold any public hearing on this subject. Noting that the Trade and Industry Department had generally agreed with the audit recommendations set out in paragraphs 2.30, 3.22, 4.28 and 5.19 of the Director of Audit's Report, the Committee asked for a written response on the progress in implementing the recommendations.

3. The **Acting Director-General of Trade and Industry** provided, in his letter of 21 December 2006 in *Appendix 28*, a progress report to the Committee.

4. The Committee notes the reply of the Acting Director-General of Trade and Industry and wishes to be kept informed of the progress made in implementing the various audit recommendations.



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21 December 2006

Public Accounts Committee
 Legislative Council
 Legislative Council Building
 8 Jackson Road
 Central
 Hong Kong
 (Attn: Ms Serena Chu)

Dear Ms Chu,

**The Director of Audit's Report on the
 results of value for money audits (Report No. 47)**

Chapter 4: Four small and medium enterprise funding schemes

Thank you for your letter of 5 December 2006.

I attach a table (in English and Chinese) setting out the progress made by the Trade and Industry Department in implementing the recommendations of the Audit Report. Soft copies will be sent to you via email.

Yours sincerely,

(Clement Leung)

Acting Director-General of Trade and Industry

c.c. Secretary for Commerce, Industry and Technology
 Director of Audit

Encl.



**Progress made by the Trade and Industry Department in
Implementing the Recommendations as set out in
the Director of Audit's Report (No. 47)**

I. SME Export Market Fund (para. 2.30)

Audit Recommendation	Progress
<p>(a) Continue to improve the TID system and monitor the situation. The TID should assess the risk of abuse and, if necessary, take appropriate action to further strengthen the system.</p>	<ul style="list-style-type: none"> ● To protect public expenditure, we have been improving the risk management and targeting approach over the years. For details, please refer to paragraph 2.31(b) of the Audit's Report. ● We will continue to keep our control system under constant review and will make vigorous efforts to guard against potential abuses.
<p>(b) Re-examine some of the claims to identify obvious non-compliance cases and take action to recover the grants paid.</p>	<ul style="list-style-type: none"> ● We are re-examining the 138 cases mentioned in Table 3 of paragraph 2.10 of the Audit's Report in which SMEs had submitted applications within one month of their business registration. ● In respect of the two applications in which the SMEs had submitted applications on the same day of their business registration, no irregularity/abuse was found. ● For the remaining 136 cases, re-examination is underway. So far, no irregularity/abuse has been identified.
<p>(c) Rectify the deficiencies of the TID computer system as soon as possible.</p>	<ul style="list-style-type: none"> ● Enhancements to the computer system have been made to address the deficiencies identified and the excess grants of \$74,816 paid in all the 5 cases have been fully recovered.

Audit Recommendation	Progress
(d) Regularly extract exceptional cases from the computer system for follow-up review.	● We are running reports from the computer system to identify any exceptional cases for follow-up review on a regular basis.
(e) Develop additional performance targets and indicators to help measure the extent to which the EMF has met its objectives.	● We will include two additional indicators, i.e. "number of SME beneficiaries" and "amount of government grants" in the Controlling Officer's Report.
(f) Set up a mechanism for collecting information from SMEs on the benefits they expect to gain from participating in the export promotion activities, and for monitoring the actual benefits gained.	● We are considering the recommendation and will consult SMEC as appropriate.
(g) Conduct at an opportune time an effectiveness review of the EMF.	● We are considering the recommendation, and will consult SMEC as appropriate.

II. SME Training Fund (para. 3.22)

Audit Recommendations	Progress
<p>(a) Re-examine the paid claims under the STF to identify any obvious non-compliance cases (e.g. trainees claiming STF grants both as the employers and employees of the same SME) and take action to recover, if possible, any grants improperly obtained.</p>	<ul style="list-style-type: none"> ● We have re-examined all the paid claims involving trainees claiming STF grants both as employers and employees of the same SME (involving a total of 144 trainees). Findings as follows: <ul style="list-style-type: none"> - 26 trainees (18%) had genuinely changed their employer/employee status at the time of different applications; - 89 trainees (62%) had obtained grants in the inappropriate category but the total grants obtained were within the ceiling of the appropriate category. Adjustments have been made in our records and no other follow-up action is required; and - 29 trainees (20%) had obtained grants in the inappropriate category and the total grants obtained had exceeded the ceiling of the appropriate category. We are now taking action to recover the excess grants of \$106,221.
<p>(b) Thoroughly examine the 3,100 outstanding grant applications as at the end of July 2006 to confirm that the claims for grants are proper.</p>	<ul style="list-style-type: none"> ● As applications processed after June 2004 had already been subjected to scrutiny under the "alert parameters" mechanism, we will focus on cases processed before June 2004 but pending reimbursement payments. ● Since the thorough examination of the reimbursement applications in August 2006, two cases had been rejected as the trainees were not employers/employees of the applicants.

Audit Recommendations	Progress
	<ul style="list-style-type: none"><li data-bbox="834 327 1445 595">● Up to end November 2006, 1 040 cases are still pending as the trainees have yet to complete the training courses and submit reimbursement applications (these applications would have to be submitted to TID by 30 June 2007).

III. SME Loan Guarantee Scheme (para. 4.28)

Management of default risk

Audit Recommendation	Progress
(a) Regularly compile analyses of the loan default rates by various parameters (e.g. size, age and business nature of the SMEs) for risk management purpose.	<ul style="list-style-type: none"> We have included size, age and business nature of the SMEs as parameters to enhance the analysis of loan default rates.
(b) Monitor closely the default rates of loans advanced by PLIs.	<ul style="list-style-type: none"> We are monitoring the default rates by PLIs on a weekly basis. In cases of concern, we shall contact the relevant PLI for clarification. If necessary, we will consider taking relevant actions (such as withholding issue of new guarantees to the PLI).
(c) Assess the risks faced by the Government relating to the provision of loan guarantees to SMEs owned by the same major owners and take effective measures to address such risks.	<ul style="list-style-type: none"> According to the Supervisory Policy Manual issued by the Hong Kong Monetary Authority, PLIs should make cross-reference to related borrowers/guarantors to assess the loan risk. We believe that PLIs have considered relevant data on related borrowers/guarantors when assessing the loans. We will remind PLIs to comply with the requirement when handling SGS applications.
(d) Collect information on details of the major owners of SMEs at the time of guarantee application, and implement checking procedures to help identify multiple government guarantees to be given to related SMEs owned by the same major owners.	<ul style="list-style-type: none"> We have requested the applicants to provide information of the major owners of SMEs at the time of guarantee application. If we find that there is/are related SME(s) already obtained guarantees under the scheme, we shall follow up to ascertain whether there is possible abuse in circumventing the guarantee ceiling.

Vetting of default claims

Audit Recommendation	Progress
<p>(e) Conduct thorough vetting of the default claims before making compensation payments to PLIs. In particular, the TID should ensure that it has obtained adequate evidence to ascertain that the PLIs have carefully assessed the creditworthiness of the SMEs concerned.</p>	<ul style="list-style-type: none"> ● We are carefully assessing each default claim to make sure that PLIs have exercised prudence and due diligence in assessing the loans. In cases of doubt, we will seek clarifications from PLIs. We will request access to PLIs' loan files if necessary.

Enhancing the impact of the SGS on the local economy

Audit Recommendation	Progress
<p>(f)(i) Review whether the Government should devote more resources from the SGS to help SMEs in the service sector.</p>	<ul style="list-style-type: none"> ● Together with the Small and Medium Enterprises Committee, we are now conducting a review on the scope and operation of the SGS with a view to assisting more SMEs in the service sector.
<p>(f)(ii) Take measures to ensure that only SMEs with substantive business operations in Hong Kong will receive assistance under the SGS.</p>	<ul style="list-style-type: none"> ● If the SME applicant is established for less than 6 months, we will seek PLI's clarification on whether the SME concerned has substantive business operations in Hong Kong.
<p>(g) Follow up on the outcome of the implementation of the SGS (e.g. the number of additional local jobs created) to assess whether the targets on additional impacts are achieved.</p>	<ul style="list-style-type: none"> ● We are considering the recommendation, and will consult SMEC as appropriate.

Assessing the effectiveness of the SGS

Audit Recommendation	Progress
(h) Develop additional performance targets and indicators, including outcome targets, that can adequately help stakeholders assess the efficiency and effectiveness of the SGS in meeting its objectives.	<ul style="list-style-type: none"> ● We will include two additional indicators, i.e. “number of applications received and processed” and “number of SME beneficiaries”, in the Controlling Officer’s Report.
(i) Draw on overseas experiences in the performance measurement and reporting of similar schemes, with a view to setting targets on additional impacts of the SGS.	<ul style="list-style-type: none"> ● We are considering the recommendation, and will consult SMEC as appropriate.

IV. SME Development Fund (para. 5.19)

Audit Recommendations	Progress
<p>(a) Monitor the number of applications received closely, assess whether the SMEs' needs for support under the SDF have diminished and whether TID needs to take a more proactive approach to help support organizations identify potential projects.</p>	<ul style="list-style-type: none"> ● We have adopted a more proactive approach to publicise the scheme (e.g. issuing of invitation letters to industrial organizations and organization of briefing sessions). We have also conducted a series of meetings with interested parties to identify potential projects. We will also assess SMEs' needs from time to time and devise appropriate actions accordingly.
<p>(b) Take measures to ensure that applicants always provide quantitative measurement on the adoption of their project results by the industry as required in the "SDF Guide to Application".</p>	<ul style="list-style-type: none"> ● While we will encourage applicants to provide quantitative measurements, the diverse nature of the project deliverables (e.g. reference books or websites providing information) may make it impracticable for all applicants to provide such information.
<p>(c) Consider further publicising the results of funded projects through building up a central pool of useful information on the SME website of the TID.</p>	<ul style="list-style-type: none"> ● We have modernised the SDF webpage by including a summary of project results of the funded projects and providing hyperlinks to relevant websites. A new icon will also be added to the website of the Support and Consultation Centre for SMEs (SUCCESS) to facilitate the public in searching for SDF project results.
<p>(d) Develop additional targets and indicators to help measure the extent to which the SDF has met its objectives.</p>	<ul style="list-style-type: none"> ● We will include "amount of government grants" as a new indicator in the Controlling Officer's Report.
<p>(e) Set up a mechanism to monitor the achievements of the additional targets and indicators and conduct at an opportune time an effectiveness review of the SDF to assess the extent to</p>	<ul style="list-style-type: none"> ● We are considering the recommendation and will consult SMEC as appropriate.

Audit Recommendations	Progress
which it has met its objectives.	