

立法會
Legislative Council

LC Paper No. CB(1)971/14-15(06)

Ref. : CB1/PL/CI

Panel on Commerce and Industry

Meeting on 16 June 2015

**Background brief on the increase in commitment and
enhancement measures for SME Development Fund and
SME Export Marketing Fund**

Purpose

This paper provides background information on the SME Development Fund ("SDF") and the SME Export Marketing Fund ("EMF") administered by the Trade and Industry Department ("TID"). It also summarizes the views and concerns expressed by Members during previous discussions on the subject.

Background

2. Small and medium enterprises ("SMEs")¹ are an important pillar of Hong Kong's economy and employment market. There are 320 000 SMEs in Hong Kong, accounting for 98 per cent of the total local enterprises and employing 50 per cent of the private sector workforce. The Administration has been providing assistance to SMEs through various schemes having regard to prevailing economic situation to support their continuous development.

¹ The Government's definition of SMEs: (a) any manufacturing business which employs fewer than 100 persons in Hong Kong; or (b) any non-manufacturing business which employs fewer than 50 persons in Hong Kong.

SME Development Fund

3. SDF provides financial support to non-profit-distributing organizations² (including trade and industrial organizations, professional bodies and research institutes) to implement projects that aim at enhancing the competitiveness of SMEs in general or in specific sectors in Hong Kong. Examples of project include seminars, workshops, conferences, exhibitions, research studies, award schemes, service centres, support facilities and technology demonstrations, etc.

4. The maximum amount of funding support for each approved project is \$2 million, or 90% of the total project expenditure (whichever is lower). The applicant organization has to contribute the remaining amount, which may be in cash, in kind or in the form of sponsorship. Projects funded under the SDF shall be completed in 2 years.

5. Since the establishment of the SDF in 2001 up to the end of January 2015, over 240 applications were approved involving a total grant amount of around \$270 million.

SME Export Marketing Fund

6. EMF aims at encouraging SMEs to participate in export promotion activities. The current scope of funding covers participation in trade fairs/exhibitions and business missions, as well as placing advertisements on printed trade publications targeting export markets and on eligible trade websites. The maximum amount of grant for each successful application is 50% of the total approved expenditures incurred by the applicant or \$50,000, whichever is the less. The maximum cumulative amount of grant an SME may obtain is \$200,000.

7. Since the establishment of the EMF in 2001 up to the end of February 2015, over 185 000 applications were approved involving a total grant amount of around \$2.8 billion.

8. The Finance Committee ("FC"), at its meeting on 18 July 2011, approved the increase of the total commitment for the SDF and the EMF from \$2.75 billion to \$3.75 billion. As at the end of February 2015, the cumulative total grant amount approved under the EMF and the SDF was about \$3.34 billion, and the remaining amount available for use was about \$410 million.

² A non-profit-distributing organization is defined as an organization of which profits are not distributed to its directors, shareholders, employees or any other person.

Previous discussions

9. Members followed up closely at different forums the implementation progress and operation of the EMF and the SDF.

Deliberations of the Panel on Commerce and Industry

10. At the meeting of the Panel on Commerce and Industry ("the Panel") on 16 April 2013, members were briefed on the Administration's proposal to increase the cumulative grant ceiling for each SME under the EMF by \$50,000 from \$150,000 to \$200,000.

11. Members supported the Administration's proposal of requiring the applicant enterprises to use the additional grant of \$50,000 to conduct new export promotion activities other than the activities previously subsidized by the EMF. Members considered that the requirement would encourage SMEs to find new business partners or to try different modes of export promotion activities in exploring more business opportunities. The Administration was urged to strengthen assistance for SMEs to help them tap new business opportunities in emerging markets, such as the Association of Southeast Asian Nations, South America and Africa, by organizing trade missions to these countries.

12. Some members expressed concern whether the existing funding commitment for the EMF would be sufficient to cover the additional expenditure arising from the proposed increase in the cumulative grant ceiling for each SME to \$200,000. The Administration advised that it would seek the Panel's support and FC's approval for injection of additional funds if necessary.

Deliberations of the Finance Committee

13. During the deliberations on the Administration's proposal to increase the cumulative grant ceiling for each SME under the EMF at the FC meeting on 24 May 2013, some FC members expressed the view that an increase of \$50,000 only was insufficient to effectively support SMEs' participation in export promotion activities. The Administration was urged to consider further increasing the cumulative grant ceiling for the EMF in future. The Administration advised that it had regularly reviewed the operation and effectiveness of the EMF, and both the cumulative grant ceiling for each SME and the maximum grant ceiling for each application had been increased several times in the past years. EMF which aimed at encouraging SMEs to participate

in export promotion activities should not be regarded as a source of recurrent funding for SMEs' operations. An increase of \$50,000 was proposed having regard to the need to balance the assistance rendered to SMEs and prudent use of public money.

14. Noting that a period of up to 30 working days was required for processing EMF applications, some members expressed concern about the long processing time. The Administration advised that the processing time for some applications was longer as the applicants were requested to provide further supplementary information. Guidelines for EMF applications, including a checklist on the requisite supporting documents had been uploaded onto TID's website.

Examination of the Estimates of Expenditure 2015-2016

15. At the special FC meeting on 30 March 2015 to examine the Estimates of Expenditure 2015-2016, Members enquired about the number of applications received and approved, the approval rate, and average amount of grant for applications approved, etc. under the EMF and the SDF³. Some Members noted with concern the decline in the number of EMF applications and the low approval rate in recent years, and urged the Administration to step up publicity to encourage more applications.

³ Source: Figures provided by the Administration in Reply Serial Nos. S-CEDB(CIT)06 and CEDB(CIT)189 in the Examination of Estimates of Expenditure 2015-2016 are as follows:

<u>EMF</u>						
Year	Number of applications received	Number of applications vetted *	Number of applications approved	Number of applications rejected	Approval rate	Average amount of grant for applications approved
2010	27 846	29 570	26 302	3 268	88.9%	\$13,336
2011	21 943	22 904	19 608	3 296	85.6%	\$14,017
2012	18 825	19 561	17 298	2 263	88.4%	\$15,003
2013	18 682	18 645	15 924	2 721	85.4%	\$15,758
2014	17 672	16 681	13 384	3 297	80.2%	\$16,202

* The figures are not the same as the numbers of applications received in respective years as applications received during the year but still being vetted are excluded whilst applications received in the previous year but with vetting completed in the current year are included.

<u>SDF</u>				
	Number of applications approved	Number of applications rejected	Amount of grants for applications approved	Success rate
April 2014 to February 2015	14	14	\$14,885,069	50%

16. The Administration explained that the number of EMF applications had dropped mainly because SMEs had been more prudent in carrying out export promotion activities in view of the uncertainties in traditional export markets, as well as the increasing use of electronic marketing strategies on the Internet in place of traditional marketing channels, such as advertising on printed trade publications and participating in trade fairs/exhibitions, that were supported by the EMF. The approval rate of the EMF in 2014 (80.2%) had decreased by 5% as compared with that in 2013 (85.4%) mainly due to more applicants' failing to provide the required information or supporting documents for approval, or failing to show that it had substantive business operation in Hong Kong. The Administration would continue to promote the EMF to more SMEs through various channels.

Recent developments

17. The Financial Secretary has proposed in the 2015-2016 Budget to inject \$1.5 billion into the EMF and the SDF; increase the maximum amount of funding support for each project under the SDF from \$2 million to \$5 million; and expand the scope of the EMF to cover more types of export promotion activities, including those carried out through the electronic media.

Latest position

18. The Administration will brief the Panel on 16 June 2015 on the details of the proposed increase in commitment and enhancement measures to the EMF and the SDF.

Relevant papers

19. A list of relevant papers is shown in the **Appendix**.

**Increase in commitment and enhancement measures
for SME Development Fund and SME Export Marketing Fund**

List of relevant papers

Date of meeting	Meeting	Paper
21/6/2011	Panel on Commerce and Industry	<p>Administration's paper on "Small and medium enterprises funding schemes and impact of the Japan earthquake on Hong Kong enterprises" (LC Paper No. CB(1)2481/10-11(07))</p> <p>Updated background brief on the support measures for small and medium enterprises prepared by the Legislative Council Secretariat (LC Paper No. CB(1)2481/10-11(08))</p> <p>Minutes of meeting (LC Paper No. CB(1)3077/10-11)</p>
18/7/2011	Finance Committee	<p>Administration's paper on "SME Loan Guarantee Scheme and SME Export Marketing and Development Funds" (FCR(2011-12)43)</p> <p>Minutes of meeting (LC Paper No. FC167/11-12)</p>
16/4/2013	Panel on Commerce and Industry	<p>Administration's paper on "Support measures for small and medium enterprises" (LC Paper No. CB(1)832/12-13(07))</p> <p>Updated background brief on the support measures for small and medium enterprises prepared by the Legislative Council Secretariat (LC Paper No. CB(1)832/12-13(08))</p> <p>Minutes of meeting (LC Paper No. CB(1)1280/12-13)</p>

Date of meeting	Meeting	Paper
24/5/2013	Finance Committee	<p>Administration's paper on "SME Export Marketing and Development Funds" (FCR(2013-14)9)</p> <p>Minutes of meeting (LC Paper No. FC9/13-14)</p>
30/3/2015	Special meeting of the Finance Committee to examine the Estimates of Expenditure 2015-2016	<p>Administration's replies to Members' initial written questions (Reply serial nos. CEDB(CIT)189, 295 and 298)</p> <p>Administration's replies to Members' supplementary written questions (Reply serial no. S-CEDB(CIT)06)</p>