

Trade and Industry Department's work in supporting small and medium enterprises

The Audit Commission ("Audit") conducted a review of the work of the Trade and Industry Department ("TID") in supporting small and medium enterprises ("SMEs").¹

2. As at 31 March 2018, there were over 330 000 SMEs in Hong Kong which constituted over 98% of Hong Kong's total business units and provided job opportunities for 1.3 million people (about 45% of the workforce in the private sector). TID is responsible for providing service to facilitate the development of SMEs in Hong Kong and help them enhance competitiveness. The main areas of TID's work include, among others:

- administrating three SME funding schemes (i.e. the SME Loan Guarantee Scheme ("SGS"), the SME Export Marketing Fund ("EMF") and the SME Development Fund ("SDF"));²
- following up on the residual work relating to the Special Loan Guarantee Scheme ("SpGS");³
- providing information services and consultation services for SMEs through its Support and Consultation Centre for SMEs ("SUCCESS"); and
- providing secretariat support for the SME Committee.

In 2017-2018, TID's expenditure on supporting SMEs and industries was \$476.7 million.

¹ The Administration defines SMEs as: (a) manufacturing businesses which employ fewer than 100 individuals in Hong Kong; or (b) non-manufacturing businesses which employ fewer than 50 individuals in Hong Kong.

² SGS, EMF and SDF were launched in December 2001 to respectively help SMEs:

- (a) secure loans from participating lending institutions for acquiring business installations and equipment, and meeting working capital needs through providing loan guarantees;
- (b) expand markets outside Hong Kong through funding support for their participation in export promotion activities; and
- (c) enhance their competitiveness by subsidizing their projects.

³ SpGS was introduced in December 2008 as a time-limited initiative to facilitate enterprises in obtaining cashflow relief from the commercial lending market, yet it has ceased receiving applications since 1 January 2011.

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3. The Committee noted the following findings from the Director of Audit's Report:

- the number of applications approved under SGS dropped by 46% from 1 381 in 2008 to 744 in 2017. As at 31 March 2018, the total amount of guarantees issued was \$25 billion, representing 83% of the total guarantee commitment;
- there was no online enquiry service for SMEs to check their available guarantee balances⁴ under the total guarantee limit of SGS;
- under SGS and SpGS, when the borrowers failed to repay the guaranteed facility on the loan repayment date, participating lending institutions could submit default claims with supporting documents to TID. As at 31 March 2018, compensation payments of 596 SGS claims amounting to \$294 million and 359 SpGS claims amounting to \$292 million had been outstanding for an average of 7 and 4.6 years respectively;
- since 1 August 2018, the funding ceiling of EMF per application had been increased from \$50,000 to \$100,000, and the cumulative funding ceiling per SME had been increased from \$200,000 to \$400,000. However, the number of EMF applications had decreased by 38% from 17 672 in 2014 to 10 895 in 2017. As at March 2018, of the 47 082 SMEs which had obtained funding under EMF since its launch, only 640 (1.4%) SMEs had been granted the full \$200,000;
- of the 36 707 EMF applications received from 2015 to 2017, TID only checked 834 (2.3%) applications and found that 149 (17.9%) of them failed to provide proof that they had substantive business operations in Hong Kong;
- as at 31 July 2018, of the 42 completed SDF projects with applications received from 2013 to 2017 and their residual funds returned, 20 (48%) returned their residual funds less than one month to 109 days late;⁵

⁴ Under SGS, the Administration guarantees 50% of the approved loan amount for a maximum period of five years, subject to a guarantee limit of \$6 million for each SME. If an SME has fully repaid the loans backed up by the guarantee, SME is eligible one more time for the respective amount of guarantee. As such, the available guarantee balance may change as SME applies for new loans or repays the loans backed up by the guarantee.

⁵ Grantees of SDF projects are required to return residual funds to the Administration within one month after submission of the final audited account of the projects.

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- the number of visitors to SUCCESS decreased by 90% from 35 653 in 2008 to 3 519 in 2017; and the number of visits to the website of SUCCESS decreased by 21% from 699 170 in 2008 to 548 984 in 2017;
- in the three SME Mentorship Programmes⁶ held in 2011 and 2012, 2014 and 2015 and 2016 to 2018, there were 196, 214 and 191 approved applications respectively. Of these approved applications, 23 (12%), 21 (10%) and 55 (29%) did not fully meet the eligibility criteria published on TID's website; and
- each year from 2013 to 2018 (up to 31 August 2018), there were one to three of the Vetting Committee⁷ members who attended none or only one of the meetings in the year.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the manpower expenditure on the programme area "Support for SMEs and Industries"; handling procedures of SMEs' enquiries on their available guarantee balances under the total guarantee limit of SGS; the implementation and review of SGS; the handling of default claims under SGS and SpGS; the implementation and effectiveness of EMF; the underlying reasons for the decrease in the numbers of SGS and EMF applications and the increase of the aggregate commitment and the cumulative funding ceiling per application of EMF; the response rates to the evaluation surveys of SGS, EMF and SUCCESS seminars; and the implementation of the SME Mentorship Programmes. The replies from **Director-General of Trade and Industry** are in *Appendices 42 and 43*.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.

⁶ The SME Mentorship Programme aims at providing an opportunity for SME owners at their early stage of business (i.e. the business has been established for less than five years) to learn from and be guided by mentors through one-on-one free counselling.

⁷ The Vetting Committee is responsible to advise and make recommendations to Director-General of Trade and Industry on matters relating to SDF and the Organisation Support Programme of the Dedicated Fund on Branding, Upgrading and Domestic Sales.