

CHAPTER 8

Trade and Industry Department

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

**Audit Commission
Hong Kong
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This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

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TRADE AND INDUSTRY DEPARTMENT'S WORK IN SUPPORTING SMALL AND MEDIUM ENTERPRISES

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TRADE AND INDUSTRY DEPARTMENT'S WORK IN SUPPORTING SMALL AND MEDIUM ENTERPRISES

Executive Summary

1. The Government defines small and medium enterprises (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. As at 31 March 2018, there were over 330,000 SMEs in Hong Kong. They 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). The Trade and Industry Department (TID) is responsible for providing service which aims to facilitate the development of SMEs in Hong Kong and help them enhance competitiveness. In 2017-18, the TID's expenditure on supporting SMEs and industries was \$476.7 million. The Audit Commission (Audit) has recently conducted a review of the TID's work in supporting SMEs.

Administration of SME Loan Guarantee Scheme and Special Loan Guarantee Scheme

2. *Need to monitor the declining number of applications approved under the SME Loan Guarantee Scheme (SGS).* The SGS aims at helping SMEs to secure loans from participating lending institutions (PLIs) for acquiring business installations and equipment, and meeting working capital needs through providing loan guarantees. In July 2011, the total guarantee commitment was increased from \$20 billion to \$30 billion. However, the number of applications approved under the SGS dropped by 46% from 1,381 in 2008 to 744 in 2017, and guarantees issued from 2012 to 2017 averaged \$1.26 billion per year. As at 31 March 2018, the total amount of guarantees issued was \$25 billion, representing 83% of the total guarantee commitment. The TID needs to monitor the declining number of applications approved under the SGS to ensure that the SGS continues to be an effective measure in helping SMEs (paras. 2.2 and 2.4 to 2.6).

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3. *Need to provide online enquiry service to facilitate SMEs in checking their available guarantee balances.* Under the SGS, the Government 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. The available guarantee balance may change as the SME applies for new loans or repays the loans backed up by the guarantee. The TID, however, does not provide an online enquiry service for SMEs to check their available guarantee balances under the total guarantee limit. In the period from 2013 to 2017, the TID received annually an average of 87 (ranging from 63 to 142) written enquiries from SMEs about their available guarantee balances (paras. 2.7 and 2.8).

4. *Need to clear long outstanding default claims.* A PLI may lodge a default claim with the TID if the borrower fails to repay the guaranteed facility and such indebtedness remains outstanding 61 days after the repayment date. The PLI concerned is required to submit a payment request form and supporting documents (e.g. credit assessment and review reports, and evidence showing the recovery actions taken) within six months after the relevant repayment date of the defaulted facility. There were substantial number of outstanding default claims under the SGS and the Special Loan Guarantee Scheme (SpGS) which has ceased receiving applications since 1 January 2011. Audit noted that: (a) for the period from the launch of the SGS in December 2001 to 31 March 2018, there were 1,418 default claims (excluding 203 cases that were subsequently withdrawn by the PLIs and 593 cases that were fully repaid by the borrowers) amounting to \$597 million. Compensation payments of 596 (42% of the 1,418 claims) claims amounting to \$294 million had been outstanding for an average of seven years (ranging from 5 days to 15.9 years); and (b) for the period from the launch of the SpGS in December 2008 to 31 March 2018, there were 1,247 default claims (excluding 41 cases that were subsequently withdrawn by the PLIs and 243 cases that were fully repaid by the borrowers) amounting to \$1,009 million. Compensation payments of 359 (29% of the 1,247 claims) claims amounting to \$292 million had been outstanding for an average of 4.6 years (ranging from 10.5 months to 8.2 years). The TID needs to take measures to address the issue of long outstanding default claims (paras. 2.3, 2.11, 2.12 and 2.14).

Administration of SME Export Marketing Fund and SME Development Fund

5. *Areas for improvement in the administration of the SME Export Marketing Fund (EMF).* The EMF was launched in December 2001. It aims at helping SMEs expand markets outside Hong Kong through funding support for their

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participation in export promotion activities. For each successful application, the maximum amount of grant is 50% of the total approved expenditures incurred by the applicant, subject to the funding ceiling per application. Since 1 August 2018, the funding ceiling per application has been increased from \$50,000 to \$100,000, and the cumulative funding ceiling per SME has been increased from \$200,000 to \$400,000 (paras. 3.2 and 3.3). Audit noted the following:

- (a) ***Decreasing number of applications.*** In June 2015, members of the Panel on Commerce and Industry of the Legislative Council expressed concern over the decline in the number of the EMF applications received from some 27,000 in 2010 to some 17,000 in 2014. The number of applications received had further decreased by 6,777 (38%) from 17,672 in 2014 to 10,895 in 2017. The TID needs to take remedial measures (paras. 3.4 and 3.6);
- (b) ***Low utilisation of cumulative funding.*** In June 2013, the cumulative funding ceiling for each SME was raised from \$150,000 to \$200,000. As at March 2018, of the 47,082 SMEs which had obtained funding under the EMF since its launch, only 3,087 (6.5%) had been granted \$150,001 to \$200,000 including only 640 (1.4%) SMEs which had been granted the full \$200,000 (para. 3.7);
- (c) ***Need to enhance the check on connected SMEs.*** Applicant SMEs which have similar business registration details are treated as connected SMEs. Potentially connected SMEs will not be regarded by the TID as actually connected SMEs if they can prove that they are operating independently and their business nature is different from each other. The cumulative amount of funding received by a group of connected SMEs must not exceed the same cumulative funding ceiling of \$200,000 applicable to a single SME. However, in the period from 2010 to 2016, the TID granted cumulative funding exceeding the limit of \$200,000 (ranging from \$204,628 to \$261,434) to five groups of connected SMEs, aggregating \$1.17 million (paras. 3.8 and 3.10); and
- (d) ***Need to consider requiring the proof of eligibility from all EMF applicants.*** Applicant SMEs must have substantive business operations in Hong Kong to qualify for funding. However, the applicants are not required to provide supporting documents to prove that they have substantive business operations in Hong Kong unless so required by the TID. Of the 36,707 applications received in the period from 2015 to 2017,

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the TID requested all the 483 (1.3%) applicant SMEs which had been established for six months or less to provide the proof. For the remaining 36,224 applications, the TID requested applicant SMEs of 351 (0.97%) applications selected randomly to provide proof. Ninety-nine (20%) of the 483 and 50 (14%) of the 351 failed to provide proof of having substantive business operations in Hong Kong. If these applications had not been selected for checking, they would have been approved (subject to meeting other approval criteria) (paras. 3.12 to 3.14).

6. ***Areas for improvement in the administration of the SME Development Fund (SDF).*** The SDF aims at subsidising projects to enhance the competitiveness of SMEs. Audit noted the following:

- (a) as at 31 July 2018, of the 78 approved projects with applications received in the period from 2013 to 2017, 51, 46 and 43 were required to submit progress reports, final reports and post-project evaluation reports respectively to the Secretariat of the Vetting Committee. Audit noted that 77%, 50% and 37% of the progress reports, final reports and post-project evaluation reports respectively were submitted late;
- (b) grantees are required to return residual funds to the Government within one month after submission of the final audited account of the projects. As at 31 July 2018, of the 48 completed projects, 42 had returned their residual funds and six were not yet due for return. Of the 42 projects, 20 (48%) returned their residual funds late; and
- (c) a Report on Completed Projects containing the Secretariat's assessments on each project is submitted by the Secretariat to the Vetting Committee. The TID did not set time target on the submission. In the period from 2013 to 2017, the Secretariat prepared eight Reports on 66 completed projects. On average, the time elapsed between the receipt of post-project evaluation reports from grantees to the submission was 23 months. For 22 (33%) completed projects, the Secretariat took more than 24 months to submit the Reports (paras. 3.19 to 3.21 and 3.23 to 3.26).

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Support and Consultation Centre for Small and Medium Enterprises

7. *Need to monitor the small number of visitors to Support and Consultation Centre for Small and Medium Enterprises (SUCCESS) and the small number of visits to the SUCCESS website.* SUCCESS provides SMEs with information services and consultation services free of charge. Audit noted that: (a) the number of visitors to SUCCESS decreased by 32,134 (90%) from 35,653 in 2008 to 3,519 in 2017; and (b) the number of visits to the SUCCESS website decreased by 150,186 (21%) from 699,170 in 2008 to 548,984 in 2017 (paras. 4.2 and 4.5).

8. *Need to promote SUCCESS membership.* Audit noted that: (a) representatives of most SMEs had not registered as SUCCESS members. As at 31 May 2018, there were 56,083 SUCCESS members, of whom 14,323 (26%) provided the names of their companies when registering for SUCCESS membership. These 14,323 members came from 9,994 companies. Even assuming that all the remaining 41,760 members came from different SMEs, the number of SUCCESS members was small compared to the some 330,000 SMEs in Hong Kong; and (b) after registration, a SUCCESS member will receive regular e-newsletters and email notices from SUCCESS. However, every year a few hundreds of members discontinued their subscription of the e-newsletters and email notices. From 2013 to 2017, on average 927 members per year (ranging from 623 to 1,497) unsubscribed the e-newsletters and email notices of SUCCESS (para. 4.10).

9. *Low utilisation of business publications and audio-visual materials in the reference library.* There is a reference library in SUCCESS. As at 30 June 2018, there were 3,236 business publications (550 on open shelves and 2,686 on closed stacks) and 130 items of audio-visual materials. In the period from the relocation of SUCCESS in mid-October 2015 to July 2018, no visitors had requested reading the publications on the closed stacks. Also, the number of requests for viewing the audio-visual materials was small, for instance, only 17 in 2016 and 16 in 2017 (paras. 4.11 and 4.12).

10. *Low attendance of some SUCCESS seminars.* SUCCESS regularly organises seminars to broaden SMEs' business knowledge and enhance their entrepreneurial skills. Audit examination revealed that: (a) the TID did not set any

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target on attendance rates for the seminars; and (b) in the period from 1 January 2016 to 31 May 2018, SUCCESS organised 74 seminars. While the average number of attendees was 90 and the average attendance rate was 66%, the attendance rates of 13 (18%) seminars ranged from 28% to 49% (paras. 4.14 and 4.15).

11. ***Long time taken to arrange consultation meetings for the Business Advisory Service (BAS) applicants.*** There was no target set for the time taken to arrange consultation meetings for BAS applicants, during which BAS applicants received free advice from advisors nominated by SUCCESS's strategic partners. Audit noted that the 95 consultation meetings for applications received in 2017 were conducted, on average, 24 working days (ranging from 0 to 196 working days) after receiving the applications. Of the 95 applications, Audit reviewed four applications with the longest time elapsed between the consultation meetings and the receipt of the applications. Audit found that the TID took more than 90 working days to arrange the consultation meetings for them (paras. 4.20, 4.25 and 4.26).

12. ***Need to make known the flexible approach taken in accepting applications for SME Mentorship Programme.*** According to the criteria on the TID's website, to be eligible for the Mentorship Programme, a person has to own and run a business which: (a) is registered in Hong Kong under the Business Registration Ordinance; (b) has been established for less than five years; and (c) employs fewer than 20 employees in Hong Kong. It was stated in the TID's internal guidelines that although they will be accorded lower priority, applications which do not meet the eligibility criteria will also be considered if explanations can be provided to justify the need to join the Programme. Audit noted that such arrangement was not made known to the public unless asked by the public. In the three SME Mentorship Programmes 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 the TID's website (paras. 4.28 to 4.30).

13. ***Need to explore the feasibility of accepting applications to join the SME Mentorship Programme on an on-going basis.*** 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. Audit noted that the last three Mentorship Programmes were launched in February 2011, February 2014 and November 2016. In other words, a person interested in the Mentorship Programme

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has to wait for a couple of years if he has not submitted application for the previous round (para. 4.31).

14. *Need to encourage mentors and mentees of the SME Mentorship Programme to have at least three meetings.* According to the guidelines for mentors and mentees, each pair of mentor and mentee of the SME Mentorship Programme is encouraged to have at least three face-to-face meetings during the 12-month period. Audit noted that for the 2014/15 Programme, only 10 (22%) of the 46 respondents to the evaluation questionnaires had met their mentors thrice or more (para. 4.34).

Governance and administrative issues

15. *Areas for improvement in the governance of the Small and Medium Enterprises Committee (SMEC).* The SMEC was set up in July 1996 to advise the Chief Executive on issues affecting the development of SMEs and suggest measures to support and facilitate their development and growth. For the current term of the SMEC, there are 28 members, including 22 non-official members and 2 official members. Audit noted the following: (a) Audit examined the attendance of the 21 meetings held in the five terms from 2009 to 2018 (up to 31 August). For the non-official members, Audit found that in each term, there were two to ten members who attended less than half of the meetings (ranging from 0% to 40%); and (b) there was no quorum requirement for the SMEC meetings (paras. 5.2, 5.3 and 5.5).

16. *Areas for improvement in the governance of the Vetting Committee.* The Vetting Committee is responsible to advise and make recommendations to the Director-General of Trade and Industry on matters relating to the SDF and the Organisation Support Programme of the Dedicated Fund on Branding, Upgrading and Domestic Sales. The current term of the Vetting Committee comprises one ex-officio member and 14 non-official members. Audit identified the following areas for improvement: (a) there were 22 meetings held in the period from 2013 to 2018 (up to 31 August). Audit found that in each year, there were a few (one to three) members who attended none or only one of the meetings in the year. Some meetings involved more than one session held on different days. When calculating attendance, the TID will count a member's attendance for a meeting if the member attended at least one session of the meeting. The 22 meetings involved 42 sessions. In each year, there were three to eight members who were present only in half or less than half of the sessions. As a function of the Vetting Committee is to assess and approve SDF

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funding applications, the attendance of members with sufficient and relevant background is important; and (b) there was no quorum requirement for the Vetting Committee meetings (paras. 5.11 to 5.16).

Audit recommendations

17. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Director-General of Trade and Industry should:**

Administration of SME Loan Guarantee Scheme and Special Loan Guarantee Scheme

- (a) **monitor the declining number of applications approved under the SGS and where necessary, take measures to ensure that the SGS continues to be an effective measure in helping SMEs obtain loans from PLIs (para. 2.9(a));**
- (b) **consider providing an online enquiry service to facilitate SMEs in checking their available guarantee balances under the total guarantee limit of the SGS (para. 2.9(b));**
- (c) **take measures to terminate in a timely manner prolonged default claims in which the PLIs of the SGS and SpGS failed to provide the information essential for vetting the claims (para. 2.19(a));**
- (d) **on a regular basis, issue letters to the PLIs of the SGS and SpGS to ascertain their intention to reactivate their default claims which have been dormant for over two years and take appropriate follow-up action accordingly (para. 2.19(b));**

Administration of SME Export Marketing Fund and SME Development Fund

- (e) **monitor the number of applications for the EMF and if the number of applications continues to decrease, devise effective measures to encourage more applications from SMEs (para. 3.17(b));**

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- (f) **keep in view the utilisation of the funding of the EMF and step up measures to encourage SMEs to make the best use of the available funding (para. 3.17(c));**
- (g) **enhance the check on potentially connected SMEs and take measures to ensure that EMF funding approved to connected SMEs do not exceed the funding ceiling (para. 3.17(d));**
- (h) **consider the feasibility of requiring all applicants of the EMF to provide proof of having substantive business operations in Hong Kong (para. 3.17(e));**
- (i) **take measures to ensure that reports are submitted by grantees of the SDF in accordance with the project agreement in a timely manner (para. 3.28(a));**
- (j) **take measures to ensure the timely return of residual funds by grantees of the SDF; (para. 3.28(b));**
- (k) **expedite the preparation of the Reports on Completed Projects of the SDF and endeavour to submit them to the Vetting Committee in a timely manner (para. 3.28(c));**

Support and Consultation Centre for Small and Medium Enterprises

- (l) **continue to take appropriate measures to boost the number of visitors to SUCCESS and the number of visits to the SUCCESS website (para. 4.18(b));**
- (m) **promote the membership of SUCCESS among SMEs, ascertain the reasons why some members discontinued subscription of e-newsletters and email notices from SUCCESS, and take measures to encourage members to subscribe to SUCCESS e-newsletters and email notices (para. 4.18(c) and (d));**
- (n) **ascertain whether the publications and the audio-visual materials of the reference library meet the information needs of the SMEs and where necessary, consider enhancing the support provided to SMEs to meet their needs (para. 4.18(e));**

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- (o) **step up promotion of SUCCESS seminars to improve their attendance rates (para. 4.18(f));**
- (p) **monitor the time taken to arrange BAS consultation meetings and take appropriate follow-up action for those applications where the consultation meetings could not be arranged within a reasonable time period (para. 4.35(c));**
- (q) **make known to the potential applicants that those who do not meet the eligibility criteria for the SME Mentorship Programme will also be considered if there is capacity and they can provide explanations to justify the need to join the Programme (para. 4.35(d));**
- (r) **explore the feasibility of accepting applications to join the SME Mentorship Programme on an on-going basis with a view to providing timely support to the SME owners at their early stage of business (para. 4.35(e));**
- (s) **take measures to encourage mentors and mentees to have at least three face-to-face meetings during the 12-month SME Mentorship Programme (para. 4.35(g));**

Governance and administrative issues

- (t) **take measures to improve the attendance rates of non-official members of the SMEC (para. 5.9(a));**
- (u) **specify quorum requirement for the SMEC meetings (para. 5.9(b));**
- (v) **take measures to encourage non-official members of the Vetting Committee to attend Vetting Committee meetings and be present as far as possible at all sessions of the meetings they attend to assess and approve SDF funding applications (para. 5.17(a)); and**
- (w) **specify quorum requirement for the Vetting Committee meetings (para. 5.17(b)).**

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Response from the Government

18. The Government generally agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 The Government defines small and medium enterprises (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.

1.3 SMEs are an important driving force in Hong Kong's economic development. As at 31 March 2018, there were over 330,000 SMEs in Hong Kong. They 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). About 50% of the SMEs were in the import/export trade and wholesale industries, or the professional and business services industry, accounting for about half of the SME employment (see Table 1 and Table 2).

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Table 1
Number of SMEs analysed by industry and services
(31 March 2018)

	Number	Percentage
Industry		
Manufacturing	8,899	2.7%
Mining and quarrying; electricity and gas supply; waste management; and construction	1,429	0.4%
Services		
Import/export trade and wholesale	111,392	33.5%
Professional and business services	47,026	14.1%
Retail	44,338	13.3%
Social and personal services	43,207	13.0%
Financing and insurance	25,529	7.7%
Real estate	14,734	4.4%
Information and communications	14,210	4.3%
Accommodation and food services	13,749	4.1%
Transportation, storage, postal and courier services	8,272	2.5%
Total	332,785	100.0%

Source: Audit analysis of Trade and Industry Department records

Table 2

**Number of job opportunities provided by SMEs
analysed by industry and services
(31 March 2018)**

	Number	Percentage
Industry		
Manufacturing	52,966	4.1%
Mining and quarrying; electricity and gas supply; waste management; and construction	14,270	1.1%
Services		
Import/export trade and wholesale	447,740	34.5%
Social and personal services	167,332	12.9%
Professional and business services	157,428	12.1%
Retail	144,871	11.1%
Accommodation and food services	118,474	9.1%
Financing and insurance	65,872	5.1%
Information and communications	48,168	3.7%
Transportation, storage, postal and courier services	48,118	3.7%
Real estate	34,142	2.6%
Total	1,299,381	100.0%

Source: Audit analysis of Trade and Industry Department records

1.4 In 1996, the Small and Medium Enterprises Committee (SMEC — see para. 5.2) was set up to advise the Chief Executive of the Hong Kong Special Administrative Region on issues affecting the development of SMEs and suggest measures to support and facilitate their development and growth. The SMEC is appointed by the Secretary for Commerce and Economic Development under the

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delegated authority of the Chief Executive. The Trade and Industry Department (TID) is responsible for providing service which aims to facilitate the development of SMEs in Hong Kong and help them enhance competitiveness. The TID also provides secretariat support for the SMEC.

Work of the TID in supporting SMEs

1.5 The TID provides support to SMEs under its programme area “Support for SMEs and Industries”. Under this programme area, the main areas of work of the TID are:

- (a) to administer three SME funding schemes, namely the SME Loan Guarantee Scheme (SGS), the SME Export Marketing Fund (EMF), and the SME Development Fund (SDF);
- (b) to continue to follow up on the residual work relating to the Special Loan Guarantee Scheme (SpGS – Note 1);
- (c) to provide information services and consultation services for SMEs through its Support and Consultation Centre for SMEs (SUCCESS);
- (d) to provide secretariat support for the SMEC;
- (e) to administer the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund — see para. 1.9(b)); and
- (f) to maintain regular liaison with local industries and trade and industrial organisations.

1.6 Table 3 shows the major performance indicators of the TID’s work in supporting SMEs reported in the Controlling Officer’s Reports for the period from 2013 to 2017.

Note 1: *To tackle the credit crunch problem arising from the global financial crisis in 2008-09, the Government introduced in December 2008 the SpGS as a time-limited initiative to facilitate enterprises in obtaining cashflow relief from the commercial lending market (see para. 2.3). The SpGS has ceased receiving applications since 1 January 2011.*

Table 3

**Major performance indicators
of the TID's work in supporting SMEs
(2013 to 2017)**

Performance indicator	2013 (No.)	2014 (No.)	2015 (No.)	2016 (No.)	2017 (No.)	Change between 2013 and 2017	
						(No.)	(Percentage)
SGS							
Applications received and processed	1,200	1,124	978	787	770	-430	-36%
EMF							
Applications received and processed	18,682	17,672	14,425	11,387	10,895	-7,787	-42%
SDF							
Applications received and processed (Note 1)	42	53	41	34	36	-6	-14%
SUCCESS							
Visitors to SUCCESS	27,797	27,629	19,406	3,366	3,519	-24,278	-87%
Visits to SUCCESS website	700,945	744,462	957,201	533,099	548,984	-151,961	-22%
BUD Fund (Organisation Support Programme)							
Applications received and processed	50	28	21	26	21	-29	-58%
BUD Fund (Enterprise Support Programme)							
Applications received and processed (Note 2)	N.A.	N.A.	204	525	441	N.A.	N.A.

Source: Audit analysis of TID records

Note 1: The figures reported in the Controlling Officer's Reports included cases that were withdrawn before assessment (see para. 3.19).

Note 2: This new indicator was introduced in 2017. It also covered 2015 and 2016 retrospectively.

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1.7 The annual expenditure on the programme area “Support for SMEs and Industries” in 2017-18 was \$476.7 million (see Table 4).

Table 4

**Expenditure on the programme area “Support for SMEs and Industries”
(2013-14 to 2017-18)**

Nature	Expenditure						Change between 2013-14 and 2017-18	
	2013-14	2014-15	2015-16	2016-17	2017-18	(Amount)	(Percentage)	
	(\$ million)							
Recurrent								
Operating expenses (a)	80.6	87.6	92.8	95.3	101.1	+20.5	+25.4%	
Non-recurrent — loan guarantee schemes (Note)								
SGS	18.9	21.7	18.2	17.7	29.6	+10.7	+56.6%	
SpGS	127.6	134.5	107.8	103.5	79.3	-48.3	-37.9%	
Sub-total (b)	146.5	156.2	126.0	121.2	108.9	-37.6	-25.7%	
Non-recurrent — funding schemes								
EMF	251.8	210.8	185.7	153.4	143.1	-108.7	-43.2%	
SDF	22.1	18.0	21.2	20.7	23.1	+1.0	+4.5%	
BUD Fund	74.7	101.1	53.3	71.9	100.5	+25.8	+34.5%	
Sub-total (c)	348.6	329.9	260.2	246.0	266.7	-81.9	-23.5%	
Total (d) = (a) + (b) + (c)	575.7	573.7	479.0	462.5	476.7	-99.0	-17.2%	

Source: Audit analysis of TID records

Note: The expenditure of the SGS and the SpGS represented payments made to lending institutions for their default claims. Up to 31 March 2018, the amounts of guarantees issued under the SGS and the SpGS had been \$25 billion and \$74 billion respectively.

1.8 The Industries Support Division of the TID (see Appendix A for an extract of the organisation chart of the TID) is responsible for the provision of support to SMEs. As at 31 July 2018, the Industries Support Division had a staff strength of 120.

Audit review

1.9 In 2006 and 2016, the Audit Commission (Audit) completed two reviews on TID's work in supporting SMEs, namely:

- (a) a review entitled "Four small and medium enterprise funding schemes" and the results were reported in Chapter 4 of the Director of Audit's Report No. 47 of October 2006; and
- (b) another review entitled "Dedicated Fund on Branding, Upgrading and Domestic Sales" and the results were reported in Chapter 7 of the Director of Audit's Report No. 66 of April 2016.

1.10 In March 2018, Audit commenced a review of the TID's work in supporting SMEs (Note 2). The audit has focused on the following areas:

- (a) administration of the SGS and the SpGS (PART 2);
- (b) administration of the EMF and the SDF (PART 3);
- (c) SUCCESS (PART 4); and
- (d) governance and administrative issues (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Note 2: *This audit does not cover the BUD Fund, which was covered in a review conducted by Audit in 2016 (see para. 1.9(b)).*

General response from the Government

1.11 The Director-General of Trade and Industry generally agrees with the recommendations in this Audit Report. She has said that the TID attaches great importance to facilitate the development of SMEs, and administers various funding schemes to assist Hong Kong enterprises, in particular SMEs, in obtaining finance, exploring export markets and enhancing their overall competitiveness. The TID reviews the operation and the effectiveness of the funding schemes from time to time to ensure that appropriate support is provided to SMEs. Financial injection and enhancement measures to the various funding schemes have been introduced, including increasing the grant ceilings, expanding the funding scopes, improving the mode of operation to suit the industry's needs, etc. The TID will continue to closely monitor changes in the market and the needs of SMEs with a view to improving and enhancing the operation of the schemes where appropriate.

Acknowledgement

1.12 Audit would like to acknowledge with gratitude the full cooperation of the staff of the TID during the course of audit review.

PART 2: ADMINISTRATION OF SME LOAN GUARANTEE SCHEME AND SPECIAL LOAN GUARANTEE SCHEME

2.1 This PART examines the administration of the SGS and the SpGS. Audit found room for improvement in the following areas:

- (a) applications for the SGS (paras. 2.4 to 2.10);
- (b) processing of default claims of the SGS and the SpGS (paras. 2.11 to 2.20);
and
- (c) evaluation of the SGS (paras. 2.21 to 2.24).

Background

2.2 **SGS.** The SGS was launched in December 2001. It aims at helping SMEs to secure loans from participating lending institutions (PLIs – Note 3) for acquiring business installations and equipment, and meeting working capital needs through providing loan guarantees. Details of the SGS are as follows:

- (a) ***Types of loans.*** The SGS covers two types of loans:
 - (i) ***Business Installations and Equipment Loans.*** Such loans must be in the form of either a non-revolving loan or a hire purchase agreement. The loans may be used for acquiring installations and equipment (e.g. machinery, computer software and hardware, and

Note 3: *All authorised institutions under the Banking Ordinance (Cap. 155) are eligible to join the SGS as PLIs. The institution has to sign a deed with the Government before it is accepted as a PLI. As at 31 July 2018, there were 39 PLIs under the SGS. Examples of the terms in the deed are: (a) the institution acknowledges that the Government places complete reliance on the institution in its professional skill, judgement and care as a prudent lender; (b) the institution should maintain a complete and accurate account for each facility; and (c) the institution should inform the Government within seven days upon the full repayment of each facility.*

Administration of SME Loan Guarantee Scheme and Special Loan Guarantee Scheme

furniture) relating to SME's business operations within or outside Hong Kong; and

- (ii) ***Working Capital Loans.*** Such loans must be in the form of a non-revolving loan. The loans may be for general business uses in meeting working capital needs of the SME;
- (b) ***Eligibility.*** An SME is eligible to apply for guarantee under the SGS if it is:
- (i) registered under the Business Registration Ordinance (Cap. 310) with substantive business operations in Hong Kong (Note 4);
 - (ii) not an associate of the lender; and
 - (iii) not carrying on the business of a lender;
- (c) ***Guarantee ceiling and period.*** The amount of guarantee for an SME is 50% of the approved loan, subject to a guarantee ceiling of \$6 million. The maximum guarantee period is five years. If an SME has fully repaid the loans backed up by the guarantee, the SME is eligible one more time for the related guarantee amount up to a maximum "re-used" amount of \$6 million. In other words, the maximum amount of guarantee at any point of time is \$6 million, but together with the "re-used" guarantee amount, the total amount of guarantees issued under the Scheme for each SME can be up to \$12 million; and
- (d) ***Application procedures.*** The SMEs must lodge the SGS applications through the PLIs for approval of the loans. The TID does not require the PLIs to provide supporting documents (e.g. credit assessment and review reports) for verification during the application stage. According to the deed, the TID places complete reliance on the professional skill, judgement and care of the PLIs in assessing loan applications from SMEs. The SMEs deal directly with the PLIs. The PLIs assess the SMEs' creditworthiness,

Note 4: *In considering whether an enterprise has substantive business operations in Hong Kong, the TID makes reference to a number of aspects (e.g. assessability of profits to Hong Kong Profits Tax and volume of business operations in Hong Kong).*

Administration of SME Loan Guarantee Scheme and Special Loan Guarantee Scheme

arrange the terms of the loans, and apply for guarantees from the TID. Upon TID's approval of the applications, the PLIs will advance the loans to the SMEs and follow through with the repayments.

Under the SGS, the total guarantee commitment is \$30 billion. Up to 31 March 2018, the TID had received 34,055 applications (Note 5) of which 31,023 (91%) were approved. The total amount of guarantees issued for the approved applications was \$25 billion, representing 83% of the total guarantee commitment of \$30 billion. The default rate of the SGS as at 31 March 2018 was 2.27% (see Table 5).

2.3 **SpGS.** In December 2008, to tackle the credit crunch problem arising from the global financial crisis in 2008-09, the Government introduced the SpGS as a time-limited initiative to facilitate enterprises including SMEs in obtaining cashflow relief from the commercial lending market. Under the SpGS, the Government guaranteed up to 80% of the loan amount for a maximum period of five years, or up to 31 December 2015, whichever was earlier. The maximum loan amount was \$12 million for each enterprise. The SpGS has ceased receiving applications since 1 January 2011. Before 1 January 2011, the TID had received 43,000 applications (Note 6) and approved 39,275 (91%) of them. The total amount of guarantees issued for the approved applications was \$74 billion, representing 74% of the total guarantee commitment of \$100 billion. The default rate of the SpGS as at 31 March 2018 was 1.35% (see Table 5).

Note 5: *Of the 34,055 applications, 2,882 were subsequently withdrawn.*

Note 6: *Of the 43,000 applications, 3,331 were subsequently withdrawn.*

Administration of SME Loan Guarantee Scheme and Special Loan Guarantee Scheme

Table 5

Default rates of the SGS and the SpGS (31 March 2018)

	SGS	SpGS
Default claims (a)	\$596,792,615 (Note 1)	\$1,009,207,042 (Note 2)
Default claims subsequently recovered (b)	\$29,320,107	\$13,201,528
Net default claims (c) = (a) - (b)	\$567,472,508	\$996,005,514
Guarantees issued since launch of schemes (d)	\$25,039,194,967	\$74,017,169,425
Default rate (e) = (c) ÷ (d) × 100%	2.27%	1.35%

Source: Audit analysis of TID records

Note 1: The amount involved 1,418 default claims. The average claim was \$420,869.

Note 2: The amount involved 1,247 default claims. The average claim was \$809,308.

Applications for the SGS

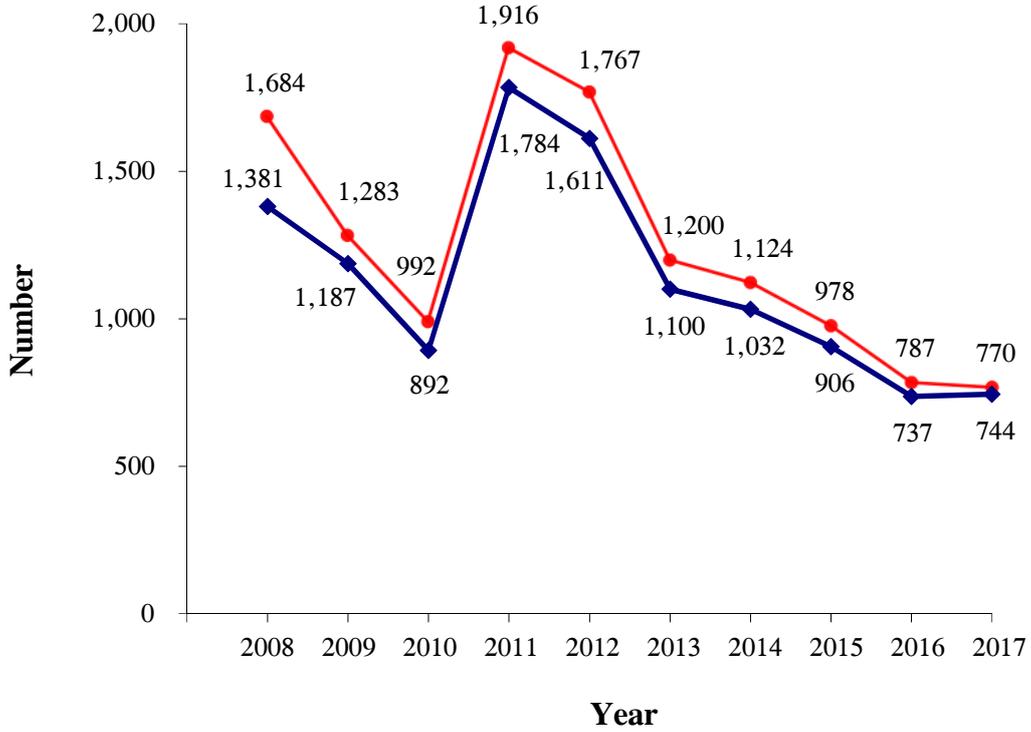
Need to monitor the declining number of applications approved

2.4 The number of applications approved under the SGS dropped by 46% from 1,381 in 2008 to 744 in 2017 (see Figure 1). In the same period, the amount of guarantees issued decreased by 24% from \$1,359 million to \$1,035 million (see Figure 2). The amount of guarantees issued from 2012 to 2017 averaged \$1.26 billion per year.

**Administration of SME Loan Guarantee Scheme
and Special Loan Guarantee Scheme**

Figure 1

**Numbers of SGS applications
(2008 to 2017)**



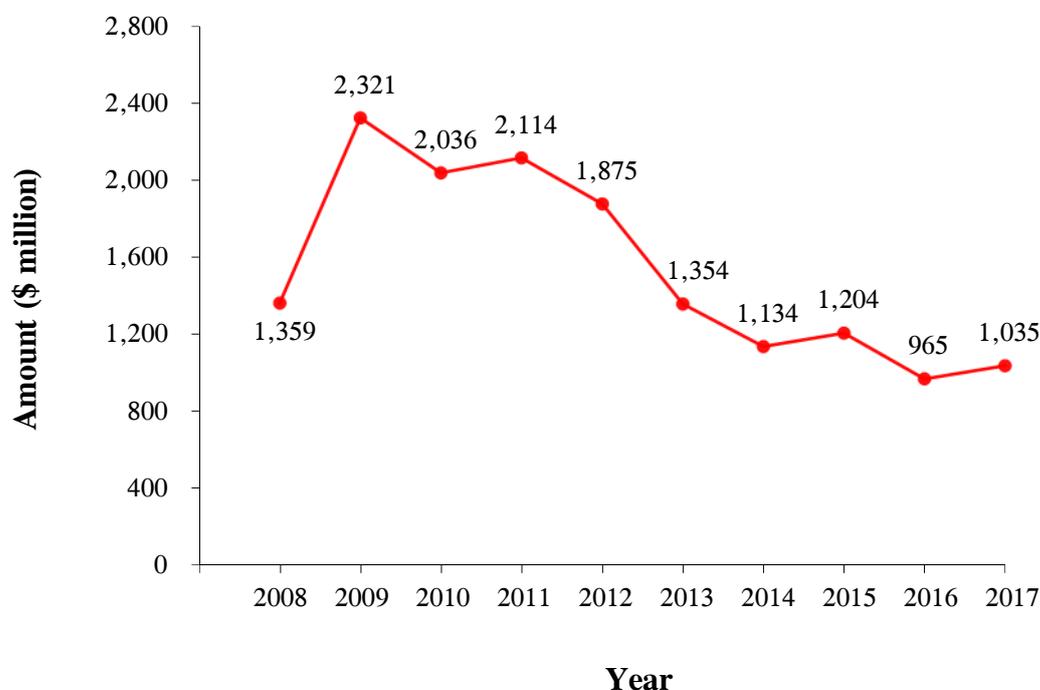
Legend: ● Number of SGS applications received
◆ Number of SGS applications approved

Source: *Audit analysis of TID records*

Administration of SME Loan Guarantee Scheme and Special Loan Guarantee Scheme

Figure 2

Amounts of SGS guarantees issued (2008 to 2017)



Source: Audit analysis of TID records

2.5 Audit noted that in July 2011, when seeking approval from the Finance Committee (FC) of the Legislative Council (LegCo) to increase the total guarantee commitment from \$20 billion to \$30 billion, the TID informed the FC that the additional commitment would enable the SGS to run until late 2016. However, as at 31 December 2016, the total amount of guarantees issued had not reached the total guarantee commitment as predicted. The total guarantees issued was \$23.8 billion, representing only 79% of the total guarantee commitment. Even up to 31 March 2018, the total amount of guarantees issued had increased slightly to \$25 billion, representing only 83% of the total guarantee commitment.

2.6 The business environment in which the SMEs operate is dynamic and will be adversely affected by many factors. Audit considers that the TID needs to monitor the declining number of applications approved under the SGS and where necessary, take measures to ensure that the SGS continues to be an effective measure in helping SMEs obtain loans from PLIs.

***Need to provide online enquiry service
to facilitate SMEs in checking their available guarantee balances***

2.7 Under the SGS, the Government 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, the SME is eligible one more time for the respective amount of guarantee (see para. 2.2(c)). The available guarantee balance under the total guarantee limit may change as the SME applies for new loans or repays the loans backed up by the guarantee.

2.8 Unlike the EMF (see PART 3), the TID does not provide an online enquiry service for SMEs to check their available guarantee balances under the total guarantee limit. Audit noted that in the period from 2013 to 2017, the TID received annually an average of 87 (ranging from 63 to 142) written enquiries from SMEs about their available guarantee balances. As an enhancement measure to facilitate SMEs' planning and submission of loan applications, the TID needs to consider providing an online enquiry service for the SGS.

Audit recommendations

2.9 **Audit has recommended that the Director-General of Trade and Industry should:**

- (a) **monitor the declining number of applications approved under the SGS and where necessary, take measures to ensure that the SGS continues to be an effective measure in helping SMEs obtain loans from PLIs; and**
- (b) **consider providing an online enquiry service to facilitate SMEs in checking their available guarantee balances under the total guarantee limit of the SGS.**

Response from the Government

2.10 The Director-General of Trade and Industry generally agrees with the audit recommendations. She has said that:

- (a) the TID has been monitoring the number of SGS applications and the effectiveness of the SGS on an on-going basis. The average guarantee amount approved per application increased by 13% from \$1.23 million in 2013 to \$1.39 million in 2017. The SGS is market-driven and the number of applications is affected by various factors such as the prevailing economic situation and economic outlook, loan policy of PLIs and the availability of other similar support programmes for SMEs in the market, including the SME Financing Guarantee Scheme, which provides up to 80% loan guarantee. The TID has been promoting the SGS amongst SMEs by organising seminars and attending those organised by trade and industrial organisations. The TID also liaises with PLIs from time to time to publicise the SGS. The TID will continue to undertake various promotion efforts to promote the SGS to SMEs and review from time to time its operation and implementation to ensure its effectiveness; and
- (b) the TID is actively working to provide an online enquiry service for the SGS to facilitate SMEs in checking their available guarantee balances under the total guarantee limit.

Processing of default claims of the SGS and the SpGS

Need to clear long outstanding default claims

2.11 It was stated in the deeds of the SGS and the SpGS signed by the Government with the PLIs that:

- (a) the TID places complete reliance on the professional skill, judgement and care of the individual PLIs in assessing loan applications from borrowers; and
- (b) the target beneficiaries of the SGS/SpGS are borrowers that are creditworthy, are able to demonstrate business prospects, have a good track record, and with substantive business operations in Hong Kong.

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The TID does not require PLIs to provide all supporting documents for verification during the application stage. The PLIs are required to provide supporting documents (e.g. credit assessment and review reports, records of background search on the borrowers, and evidence showing the recovery actions taken against the borrowers and the guarantors) to demonstrate that they have followed all the necessary procedures and complied with all the terms and conditions of the deeds when they submit default claims to the TID.

2.12 A PLI may lodge a default claim with the TID if the borrower fails to repay the guaranteed facility on its loan repayment date, and such indebtedness remains outstanding 61 days after the relevant repayment date. The PLI concerned is required to submit a payment request form and supporting documents (see para. 2.11) within six months after the relevant repayment date of the defaulted facility.

2.13 Before effecting a compensation payment, the TID will:

- (a) ascertain whether the PLI has exercised professional skill, judgment and care before granting approval to the loan application and in the subsequent monitoring of the facility. For example, the TID will obtain the credit assessment report from the PLI to ensure that it has duly considered the borrower's track record, business prospect and financial position in assessing the borrower's loan application;
- (b) ascertain whether the PLI has exercised due diligence to ensure that the borrower has substantive business in Hong Kong. For example, the TID will obtain from the PLI documentary evidence, such as the borrower's Mandatory Provident Fund contribution record and tax demand note;

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- (c) ascertain whether the PLI has complied with all the requirements as stipulated under the deeds. For example, to ensure the PLI's compliance with the provision that the SGS facility was not used to repay or restructure any loans, the TID will review the credit facilities that the PLI has granted to the borrower and will ascertain whether any rescheduling of existing credit facilities has been made after the grant of the SGS loan;
- (d) assess the consistency between the information and documents provided by the PLI at the time of application and after the default claim is lodged; and
- (e) ensure that the PLI has taken practicable steps and actions for the purpose of recovering the outstanding indebtedness, and any amount recovered has been applied towards repayment of the indebtedness. For example, the TID will obtain from the PLI legal documents relating to the realisation of collateral.

The TID will effect compensation payment to the PLI for its default claim after all the necessary information and documents are received and checked in order.

2.14 Audit noted that there were substantial number of outstanding default claims under the SGS and the SpGS:

- (a) **SGS.** For the period from the launch of the SGS in December 2001 to 31 March 2018, there were 1,418 default claims (excluding 203 cases that were subsequently withdrawn by the PLIs and 593 cases that were fully repaid by the borrowers) amounting to \$597 million. Compensation payments of 596 (42%) of the 1,418 claims amounting to \$294 million had not yet been made. Audit noted that the 596 default claims had been outstanding for an average of seven years (ranging from 5 days to 15.9 years); and
- (b) **SpGS.** For the period from the launch of the SpGS in December 2008 to 31 March 2018, there were 1,247 default claims (excluding 41 cases that were subsequently withdrawn by the PLIs and 243 cases that were fully repaid by the borrowers) amounting to \$1,009 million. Compensation payments of 359 (29%) of the 1,247 claims amounting to \$292 million had not yet been made. Audit noted that the 359 default claims had been outstanding for an average of 4.6 years (ranging from 10.5 months to 8.2 years).

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Table 6 shows the ageing analysis of the 596 outstanding SGS default claims and the 359 outstanding SpGS default claims.

Table 6

**Ageing analysis of the 596 outstanding SGS default claims
and the 359 outstanding SpGS default claims
(31 March 2018)**

Time lapsed from receipt date of default claim (No. of years)	Number of outstanding default claims	
	SGS	SpGS
≤2	145 (24%)	3 (1%)
>2 to 4	102 (17%)	151 (42%)
>4 to 6	30 (5%)	142 (40%)
>6 to 8	9 (2%)	59 (16%)
>8 to 10	66 (11%)	4 (1%)
>10 to 12	139 (23%)	N.A. (Note)
>12 to 14	72 (12%)	
>14	33 (6%)	
Total	596 (100%)	359 (100%)

Source: Audit analysis of TID records

Note: The SpGS was launched in December 2008 and has ceased receiving applications since 1 January 2011.

2.15 For the SGS, in the period from April 2003 to March 2018, the TID approved compensation payments for an average of 55 default claims each year. The TID's pace of approving compensation payments for default claims slowed down from approving on average 65 payments per year in the period from April 2003 to March 2013 to 35 in the period from April 2013 to March 2018. Assuming that the TID can approve an average of 55 compensation payments each year, it will take more than 10 years for the TID to clear the 596 backlog cases of outstanding default claims.

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2.16 For the SpGS, in December 2016, in granting the approval for the extension of the special quota to engage Non-Civil Service Contract (NCSC) staff (Note 7) for processing default claims, the Civil Service Bureau advised the TID that it should expedite action to clear the backlog cases to avoid further prolonged engagement of NCSC staff. In December 2017, when it sought the approval of the Civil Service Bureau to further extend the NCSC special quota to 31 March 2020, the TID said that based on its pace of effecting compensation payments for some 100 default claims in the period from April 2016 to March 2017, it estimated that all the outstanding SpGS default claims could be cleared by 31 March 2021. Audit noted that in the period from April 2017 to March 2018, the TID approved compensation payments for 111 default claims.

2.17 Of the 105 SGS default claims which have been outstanding for more than 12 years (see Table 6), Audit examined ten claims and found that in eight (80%) default claims, the TID had, in the period from 2003 to 2007, written to the PLIs concerned alleging that there was non-compliance with the deed signed between the Government and the PLIs. Afterwards, there was no progress in the processing of those default claims and they became dormant.

2.18 Upon enquiry, the TID informed Audit in August 2018 that:

- (a) **SGS.** With a view to settling the prolonged default claims in a timely manner, the TID planned to take follow-up action to terminate the guarantees for the prolonged default claims in which the PLIs failed to provide information essential for vetting the claims for more than seven years after the date of request. As at 31 May 2018, there were 245 such default claims amounting to \$57.3 million; and
- (b) **SpGS.** As at 30 June 2017, there were 51 default claims which had been dormant for over two years. With a view to clearing all outstanding default claims by 31 March 2021, the TID assessed these 51 default claims and identified 11 default claims which had a higher chance of reactivation. The

Note 7: *In view of the workload arising from the implementation of the SpGS, the Civil Service Bureau approved in December 2008 a special quota for the TID to engage NCSC staff. Over the years, the number of NCSC staff engaged had been decreasing. In May 2018, 15 NCSC staff were engaged for the SpGS.*

TID issued letters to four PLIs concerned in mid-2017 to ascertain their intention in reactivating the 11 default claims. The TID planned to conduct another similar exercise by end of 2018.

Audit recommendations

2.19 Audit has *recommended* that the Director-General of Trade and Industry should:

- (a) take measures to terminate in a timely manner prolonged default claims in which the PLIs of the SGS and SpGS failed to provide the information essential for vetting the claims; and**
- (b) on a regular basis, issue letters to the PLIs of the SGS and SpGS to ascertain their intention to reactivate their default claims which have been dormant for over two years and take appropriate follow-up action accordingly.**

Response from the Government

2.20 The Director-General of Trade and Industry generally agrees with the audit recommendations. She has said that:

- (a) to tackle the problem of PLIs of the SGS and the SpGS failing to provide the information essential for vetting prolonged default claims, the TID has been maintaining close liaison with PLIs. Apart from drawing up a priority list with individual PLIs for both sides to focus efforts in processing those outstanding claims which are at a more mature stage, the TID has meetings with PLIs from time to time to deliberate over technical or complicated issues with a view to resolving the outstanding issues of the claims and effecting compensation payments as early as practicable. The TID will continue to issue letters to PLIs regularly to ascertain the latter's intention to reactivate their claims which have remained dormant for over two years; and**

Administration of SME Loan Guarantee Scheme and Special Loan Guarantee Scheme

- (b) in July and August 2018, the TID notified all PLIs that starting from late August 2018, for each SGS default claim that the TID had requested additional information essential for vetting and the PLI concerned had not responded for over seven years, the TID would issue a “Letter of Intent on Termination” to inform the PLI of the Government’s intention to terminate the guarantee concerned unless the overdue information was provided to the TID within two months. If the PLI could not provide the required information by the specified deadline, the TID would issue a “Letter of Termination” to terminate the guarantee with immediate effect. In late August 2018, the first batch of the “Letters of Intent on Termination” were issued to 12 PLIs for 53 claims. The TID will continue to issue the “Letters of Intent on Termination” for the rest of the prolonged claims by batches.

Evaluation of the SGS

Need to improve evaluation of the SGS

2.21 *Low response rate to evaluation surveys.* The SGS was launched in December 2001. In 2007, the TID completed an evaluation survey. Since October 2008, the TID has conducted the evaluation survey on an on-going basis. Details are as follows:

- (a) *2007 evaluation survey.* The TID engaged an education institution to conduct a survey to measure SMEs’ satisfaction with and the effectiveness of the SGS. The response rate of this survey was only 6.69%; and
- (b) *On-going evaluation survey.* The TID conducted the on-going evaluation survey by sending questionnaires to the successful applicants through the PLIs to collect their views on the effectiveness of the SGS. The return of the completed questionnaire was not compulsory. Up to 31 March 2018, of the 10,458 questionnaires sent, 209 (2%) had been returned. Further analysis indicated that the response rate was on a decreasing trend. The response rates for the period from 2016 to 2018 (up to 31 March 2018) ranged from 0.27% to 0.65% (see Table 7).

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Table 7

**Response rates of the evaluation surveys
(October 2008 to March 2018)**

Year	Number of questionnaires sent (a)	Number of questionnaires returned (b)	Response rate (c) = (b) ÷ (a) × 100%
2008 (from October)	312	15	4.81 %
2009	1,187	35	2.95 %
2010	892	35	3.92 %
2011	1,784	64	3.59 %
2012	1,611	27	1.68 %
2013	1,100	7	0.64 %
2014	1,032	6	0.58 %
2015	906	14	1.55 %
2016	737	3	0.41 %
2017	744	2	0.27 %
2018 (up to 31 March)	153	1	0.65 %
Overall	10,458	209	2.0 %

Source: Audit analysis of TID records

Audit considers that the very low response rate and the decreasing trend of the response rate in recent years are a cause for concern as it casts doubt on the usefulness and reliability of the survey results. In Audit's view, the TID needs to take measures to improve the response rate of the SGS evaluation survey with a view to improving the representativeness of the survey results and enhancing the usefulness of the information collected. For instance, the TID may send reminders or make telephone calls to follow up the return of questionnaires from the applicants.

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2.22 *Need to analyse the survey results regularly and take follow-up action.*

There was no documentary evidence available showing that the TID had analysed the evaluation survey questionnaires returned. After Audit's enquiry in June 2018, the TID prepared an analysis report covering the 209 questionnaires returned in the period from November 2008 to March 2018. The results of the analysis revealed that:

- (a) 187 (89%) respondents were satisfied with the SGS;
- (b) 40 (19%) respondents suggested increasing the maximum guarantee amount;
and
- (c) 34 (16%) respondents suggested simplifying the application procedures or shortening the processing time taken by the PLIs.

Audit considers that in future, the TID needs to analyse the survey results regularly and take prompt follow-up action on the feedback of the respondents.

Audit recommendations

2.23 *Audit has recommended that the Director-General of Trade and Industry should:*

- (a) **take measures to improve the response rate of the SGS evaluation survey with a view to improving the representativeness of the survey results and enhancing the usefulness of the information collected; and**
- (b) **analyse the survey results regularly and take prompt follow-up action on the feedback of the respondents.**

Response from the Government

2.24 The Director-General of Trade and Industry generally agrees with the audit recommendations. She has said that:

- (a) with a view to improving the response rate of the SGS evaluation survey, the TID has, since late August 2018, specified a deadline for returning the completed questionnaire. The TID would issue reminders or make telephone calls to follow up the outstanding questionnaires; and
- (b) the TID recognises that survey results provide indicators for assessing the effectiveness of the SGS and has been reviewing the results on an on-going basis. The TID notes that nearly 90% of the respondents indicated that they are satisfied with the SGS and the SGS has assisted them in various aspects, including improving their capital liquidity, enabling their business expansion and improving their capability of securing bank loans. The TID will analyse the survey results regularly and take prompt follow-up actions on the feedback received.

PART 3: ADMINISTRATION OF SME EXPORT MARKETING FUND AND SME DEVELOPMENT FUND

3.1 This PART examines the administration of the EMF and the SDF. Audit found room for improvement in the following areas:

- (a) administration of the EMF (paras. 3.2 to 3.18); and
- (b) administration of the SDF (paras. 3.19 to 3.29).

Administration of the EMF

Background

3.2 The EMF was launched in December 2001. Details of the EMF are as follows:

- (a) ***Objective.*** The EMF aims at helping SMEs expand markets outside Hong Kong through funding support for their participation in export promotion activities;
- (b) ***Scope.*** The EMF covers the following marketing activities which mainly target at markets outside Hong Kong:
 - (i) participation in trade fairs/exhibitions and business missions outside Hong Kong, as well as local trade fairs/exhibitions;
 - (ii) advertisements on printed trade publications;
 - (iii) participation in export promotion activities (such as placing advertisement, keyword search, listing product information, setting up or enhancing online shop, etc.) conducted through electronic platforms/media; and

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- (iv) setting up or enhancing a corporate website of the applicant enterprise;
- (c) **Eligibility.** SMEs are eligible to apply, if they are registered in Hong Kong under the Business Registration Ordinance with substantive business operations (Note 8) in Hong Kong at the time of application; and
- (d) **Amount of grant and ceiling.** For each successful application, the maximum amount of grant is 50% of the total approved expenditures incurred by the applicant or \$50,000, whichever is the less. The cumulative amount of grant an SME may obtain is \$200,000 (Note 9). The last \$50,000 of the total amount of grant must be used for participating in export promotion activities which are not previously funded by the initial grant amount of \$150,000.

Up to 31 March 2018, the TID had received 255,701 applications and approved 216,351 (85%) of them (Note 10). The total amount of grants provided for the approved applications was \$3,308 million (averaging \$15,290 per application), representing 63% of the aggregate commitment of \$5,250 million for the EMF and the SDF (Note 11).

Note 8: *In considering whether an SME has substantive business operations in Hong Kong, the TID makes reference to a number of aspects (e.g. completion of business transaction in Hong Kong and information on employment in Hong Kong).*

Note 9: *Since the launch of the EMF in December 2001, the cumulative funding ceiling per SME has been increased several times. The most recent increases were from \$100,000 to \$150,000 in November 2008, and to \$200,000 in June 2013.*

Note 10: *Examples of reasons leading to applications not being approved: (a) the activity did not relate to the funding scope; (b) the condition of use of the last \$50,000 of grants was not met; and (c) failure to provide sufficient information and supporting documents for vetting.*

Note 11: *To provide more flexibility in the deployment of resources, the commitments for the EMF, the SDF and another funding scheme, namely the SME Training Fund, were merged in June 2003. The SME Training Fund has ceased accepting new applications since 1 July 2005.*

Administration of SME Export Marketing Fund and SME Development Fund

3.3 *Recent developments.* With the approval by the FC of LegCo in June 2018 to increase the aggregate commitment from \$5,250 million by \$1,000 million to \$6,250 million, the EMF has been enhanced since 1 August 2018, as follows:

- (a) the funding ceiling per application has been increased from \$50,000 to \$100,000;
- (b) the cumulative funding ceiling per SME has been increased from \$200,000 to \$400,000; and
- (c) the condition on the use of the last \$50,000 of the grants has been removed. Before the removal, the last \$50,000 of the total amount of grant must be used for participating in export promotion activities which are not previously funded by the initial grant amount of \$150,000 (see para. 3.2(d)).

Decreasing number of applications

3.4 In June 2015, in deliberating the Government's proposal to inject \$1,500 million into the aggregate commitment for the EMF and the SDF (see Note 11 to para. 3.2), members of the Panel on Commerce and Industry of LegCo expressed concern over the decline in the number of the EMF applications received from some 27,000 in 2010 to some 17,000 in 2014 (see Figure 3). They urged the Government to step up publicity and proactively encourage SMEs to apply for funding support, and to provide more assistance to the SMEs to facilitate applications. The TID explained that there were two main reasons for the declining number of applications:

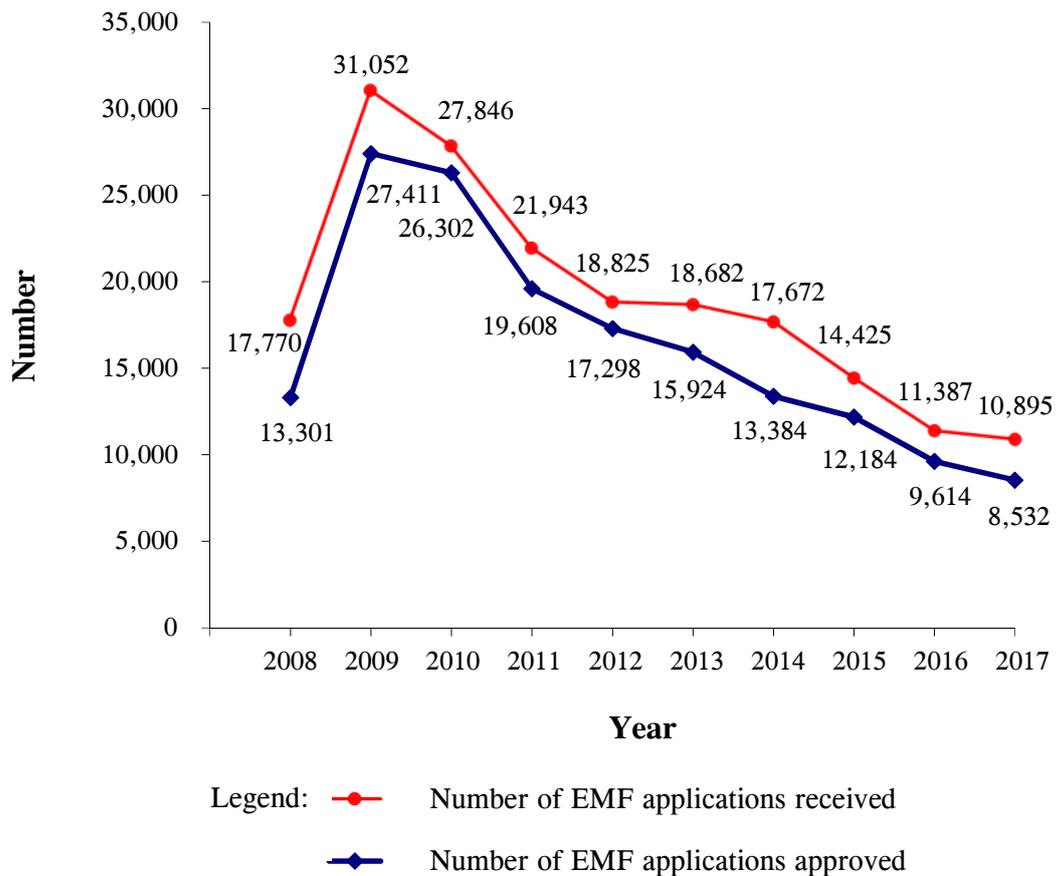
- (a) in view of sluggish performance of the traditional export markets since the global economic downturn induced by the worldwide financial turmoil in end of 2008, SMEs were more prudent in carrying out export promotion activities, or had reduced promotion activities; and
- (b) with the rapid advancement and prevalence of Internet technology to carry out export promotion activities, there had been a declining trend for SMEs to make use of traditional channels for export promotion.

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Regarding the two reasons given by the TID explaining the declining number of applications, Audit noted that the decreasing trend persisted despite the increase in the annual values of total exports by 6% from \$3,673 billion in 2014 to \$3,876 billion in 2017, and the expansion of the EMF's scope to include export promotion activities conducted through electronic platforms and electronic media implemented in September 2015. The number of applications received decreased by 6,777 (38%) from 17,672 in 2014 to 10,895 in 2017 (see Figure 3). The amount of grants approved decreased by \$82 million (38%) from \$217 million in 2014 to \$135 million in 2017 (see Figure 4).

Figure 3

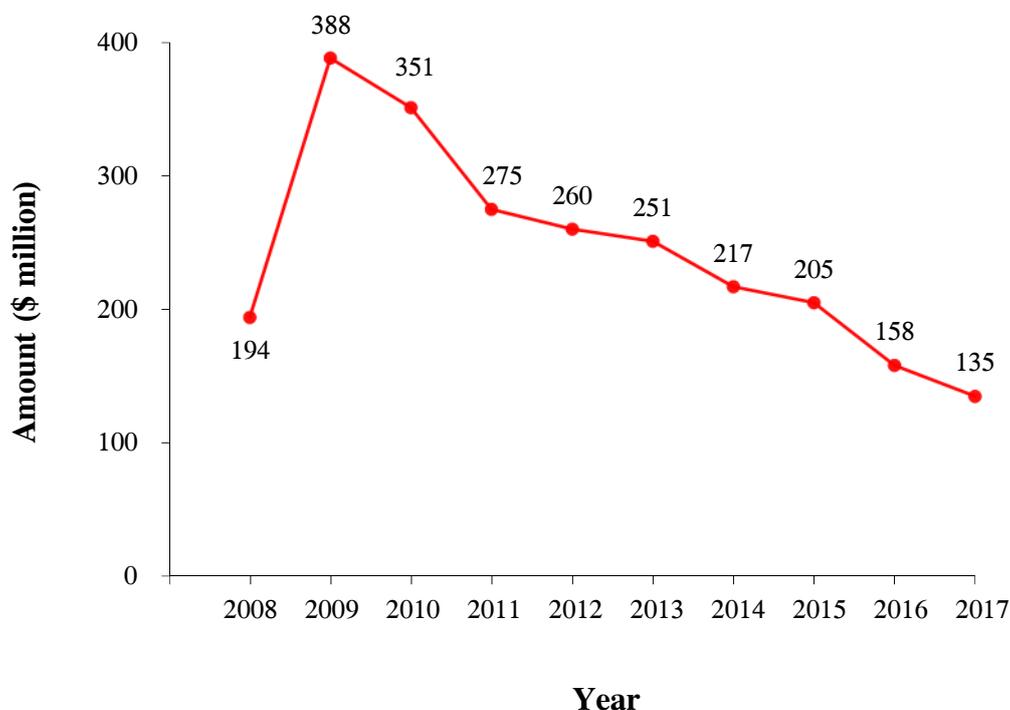
**Numbers of EMF applications
(2008 to 2017)**



Source: Audit analysis of TID records

Figure 4

**Amounts of EMF grants approved
(2008 to 2017)**



Source: Audit analysis of TID records

3.5 The TID informed Audit in September 2018 that:

- (a) SMEs normally plan their export promotion activities based on their economic outlook for the years ahead. It takes time for SMEs to engage in more export promotion activities again after the economic outlook has improved;
- (b) the drop in the number of EMF applications relating to export promotion using traditional channels could not be fully compensated by the pick-up in the applications relating to electronic platforms/media; and
- (c) some SMEs might have sought funding support from the BUD Fund, which was launched in June 2012 and covers similar promotion activities in the Mainland.

3.6 In view of the introduction of the enhancement measures in August 2018 (see para. 3.3), Audit considers that the TID needs to step up its efforts in promoting the new enhancement measures and monitor the number of applications. If the number of applications continues to decrease, the TID needs to devise effective measures to encourage more applications from SMEs.

Low utilisation of cumulative funding

3.7 At the meeting of the Panel on Commerce and Industry held in June 2015 (see para. 3.4), a panel member expressed concern that only a small number of SMEs had fully utilised the additional \$50,000 since the cumulative funding ceiling for each SME was increased from \$150,000 to \$200,000 in June 2013. Audit noted that, as at March 2018, of the 47,082 SMEs which had obtained funding under the EMF since its launch:

- (a) 23,389 (49.7%) had been granted \$50,000 or below (averaging \$23,355);
- (b) 9,841 (20.9%) had been granted \$50,001 to \$100,000 (averaging \$73,486);
- (c) 10,765 (22.9%) had been granted \$100,001 to \$150,000 (averaging \$138,023); and
- (d) only 3,087 (6.5%) had been granted \$150,001 to \$200,000 (averaging \$179,023) including only 640 (1.4%) SMEs which had been granted the full \$200,000.

In view of the enhancement measures introduced in August 2018 (see para. 3.3), in particular, the increase of the cumulative funding ceiling per SME from \$200,000 to \$400,000, the TID needs to keep in view the utilisation of the funding and step up measures to encourage SMEs to make the best use of the available funding.

Need to enhance the check on connected SMEs

3.8 ***Connected SMEs.*** According to the EMF Guide to Application, applicant SMEs which have similar business registration details (e.g. similar nature of business and overlapping shareholders) are treated as connected SMEs. For SMEs identified by the TID as potentially connected SMEs, they will not be regarded as actually

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connected SMEs only if they can prove that they are operating independently and their business nature is different from each other (see para. 3.9(b)). For the purpose of the cumulative funding ceiling, connected SMEs are treated as if they were one entity. The cumulative amount of funding received by a group of connected SMEs must not exceed the same cumulative funding ceiling applicable to a single SME (see para. 3.3(a)).

3.9 ***Check on connected SMEs.*** Since July 2005, the TID has required all applicant SMEs to provide Passport Numbers/the details of the Hong Kong Identity Cards of their owners/shareholders/directors (Note 12). Potentially connected SMEs are those SMEs that may be connected subject to the results of checking by the TID. The procedures of the check on connected SMEs are as follows:

- (a) upon the receipt of an application, the processing officer inputs the application information, including the identities of the owners/shareholders/directors of the applicant SME, into the computer system of the EMF. The computer system matches these information against its database and generates alerts relevant to the applicant SME and its potentially connected and actually connected SMEs:
 - (i) ***Alert for potentially connected SMEs.*** If the amount applied for plus the aggregate cumulative amount of funding already received by the owners/shareholders/directors of the group of potentially connected SMEs reaches the preset threshold, the computer system will generate a threshold alert to remind the processing officer to check whether the applicant SME is actually connected to its potentially connected SMEs; and
 - (ii) ***Alert for actually connected SMEs.*** For SMEs that have been identified as actually connected, they would be recorded in the computer system as connected SMEs. The computer system will generate a warning alert to draw the attention of the processing

Note 12: *For sole proprietorships and partnerships, information of all owners and partners have to be provided to the TID. For limited companies, information of shareholders with 30% shares or more are required. For corporate shareholders, the names and relevant information of all directors of the applicant SME are required.*

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officer whenever any member of the group of connected SMEs submits an application;

- (b) for potentially connected SMEs, the TID will request the applicant SME for documentation to demonstrate that it is not actually connected to other SMEs (e.g. it operates independently and its business nature is different from its potentially connected SMEs); and
- (c) for cases without alert issued by the computer system, if there is any dubious information contained in the application (e.g. when the applicant SME participated in an export promotion activity in the name of another SME or when its expenses were settled by another SME), the processing officer will also request the applicant SME to provide documentation to show that it is not connected to other SMEs (e.g. it operates independently and its business nature is different from its potentially connected SMEs).

3.10 Up to April 2018, the TID had identified 681 groups of connected SMEs. During the processing of EMF applications, the TID found that in the period from 2010 to 2016, it granted cumulative funding exceeding the limit of \$200,000 (ranging from \$204,628 to \$261,434) to five groups, aggregating \$1.17 million. Details are as follows:

- (a) ***Two cases where threshold for generating alert was set above funding ceiling.*** Before October 2010, for unknown reasons, the preset threshold (see para. 3.9(a)(i)) of the computer system had been set at an amount higher than the then cumulative funding ceiling of \$150,000. Therefore, no threshold alert was triggered to remind the processing officers of the two cases to check whether the applicant SME concerned was actually connected to another SME;
- (b) ***One case where cumulative funding for triggering threshold alert excluded funding granted before July 2005.*** Before July 2005, applicants were not required to provide information about owners/shareholders/directors. Since July 2005, applicants had been required to provide such information (see para. 3.9). The group of two connected SMEs submitted five applications before July 2005. Their owners/shareholders/directors information was not submitted. The total funding granted was about \$96,000. When generating threshold alert, the computer system had not taken into account the approved funding amounts

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of these applications submitted before July 2005. The TID approved five applications from the two SMEs after July 2005 and the aggregate cumulative funding received by the two SMEs exceeded the funding ceiling. In September 2018, the TID informed Audit that the computer system had been enhanced. After the enhancement, applications without owners/shareholders/directors information submitted before July 2005 would also be taken into account;

- (c) ***One case where connected SMEs were not identified.*** In an application submitted in March 2011, as the aggregate cumulative funding received by the SME and its potentially connected SMEs exceeded the threshold, the processing officer initiated checking procedures. However, without obtaining the necessary supporting documents, the officer concluded that the SME was not connected to the other SMEs. Subsequently, the SME submitted another application in April 2015. The processing officer considered that the SME was not connected to other SMEs by referring to the results of the checking in 2011; and
- (d) ***One case where connected SMEs were not recorded in the computer system as connected.*** In an application submitted in March 2016, the TID found that the applicant SME was connected to another SME. However, the processing officer did not record the two SMEs as connected SMEs in the computer system. Subsequently, the SME submitted another application in September 2016. In the absence of alert that the SMEs had been identified as actually connected, the processing officer approved the application.

3.11 Audit considers that the TID needs to enhance the check on potentially connected SMEs and take measures to ensure that funding approved to connected SMEs do not exceed the funding ceiling.

***Need to consider requiring the proof of eligibility
from all EMF applicants***

3.12 SMEs registered in Hong Kong under the Business Registration Ordinance with substantive business operations in Hong Kong at the time of application are eligible to apply for the EMF (see para. 3.2(c)). To apply for the EMF, an applicant has to declare in the application form that the SME concerned has substantive business operations in Hong Kong. Unless requested by the TID, the applicant is not required to provide supporting documents to prove that the SME concerned has substantive business operations in Hong Kong.

3.13 According to the TID's Operation Manual, to ensure that the applicant SMEs fulfil the eligibility of having substantive business operations in Hong Kong, the TID requests:

- (a) all applicants whose businesses have been established for six months or less to provide evidence of business transactions as proof that they have substantive business operations in Hong Kong; and
- (b) 1% of the applicants selected randomly every quarter to provide evidence of business transactions as proof that they have substantive business operations in Hong Kong.

3.14 Of the 36,707 applications received in the period from 2015 to 2017, the TID conducted checks on 483 (1.3%) applications from SMEs that had been established for six months or less. Of the 483 applications, 99 (20%) were rejected due to failure to provide proof of having substantive business operations in Hong Kong. For the remaining 36,224 applications, the TID conducted checks on 351 (0.97%) applications. Of the 351 applications, 50 (14%) were rejected due to failure to provide proof of having substantive business operations in Hong Kong (see Table 8). If these applications had not been selected for checking, they would have been approved (subject to meeting other approval criteria).

Table 8

**50 EMF applications rejected due to failure to provide proof
of having substantive business operations in Hong Kong
(2015 to 2017)**

Year	Number of applications	
	Checked	Rejected
2015	141	18 (13%)
2016	103	16 (16%)
2017	107	16 (15%)
Overall	351	50 (14%) (Note)

Source: Audit analysis of TID records

Note: The 50 rejected applications included 14 applications that had failed to provide sufficient proof of having substantive business operations in Hong Kong and 36 that did not respond to requests for proof.

3.15 In view of the notable percentage of applicants who could not provide proof of having substantive business operations in Hong Kong, the TID needs to consider the feasibility of requiring all applicants to provide proof of having substantive business operations in Hong Kong.

Need to improve evaluation of EMF

3.16 Since the EMF was launched in December 2001, the TID had completed two satisfaction surveys in 2007 and 2014 respectively. Since February 2018, the TID has conducted the satisfaction survey on an on-going basis. Details of the surveys are as follows:

- (a) **2007 survey.** The TID engaged an education institution to conduct a survey to measure the overall perceived satisfaction and effectiveness of the EMF. The response rate was 5.4%;

- (b) **2014 survey.** In 2014, the TID sent 17,371 questionnaires to the successful applicants upon approving their applications. Of the 17,371 questionnaires, 436 (2.5%) were returned; and
- (c) **On-going survey.** Similar to the 2014 survey, the TID sends questionnaires to the applicants upon approving their applications. Up to 31 May 2018, of the 2,798 questionnaires sent, 139 (5%) had been returned.

Audit considers that the very low response rate is a cause for concern as it casts doubt on the usefulness and reliability of the survey results. With a view to improving the representativeness of the respondents of the survey and enhancing the usefulness of the survey results, Audit considers that the TID needs to take measures to improve the response rate of the satisfaction survey. For instance, the TID may send reminders or make telephone calls to the applicants urging them to return the questionnaires.

Audit recommendations

3.17 Audit has recommended that the Director-General of Trade and Industry should:

- (a) **step up efforts in promoting the new enhancement measures of the EMF;**
- (b) **monitor the number of applications and if the number of applications continues to decrease, devise effective measures to encourage more applications from SMEs;**
- (c) **keep in view the utilisation of the funding and step up measures to encourage SMEs to make the best use of the available funding;**
- (d) **enhance the check on potentially connected SMEs and take measures to ensure that funding approved to connected SMEs do not exceed the funding ceiling;**
- (e) **consider the feasibility of requiring all applicants to provide proof of having substantive business operations in Hong Kong; and**

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- (f) **take measures to improve the response rate of the satisfaction survey for the EMF.**

Response from the Government

3.18 The Director-General of Trade and Industry generally agrees with the audit recommendations. She has said that:

- (a) the demand for funding support for export promotion from the trade has remained generally steady. The average amount of grant approved remained at some \$15,000 in the past five years and the approval rate was around 80%. The TID has been actively promoting the EMF through various channels, such as briefing at seminars, panels in trade exhibitions; and e-banners and articles on websites and publications of trade and industrial organisations;
- (b) to strengthen support to SMEs, the TID advanced implementation of the enhancements to the EMF from the fourth quarter of 2018 to August 2018. Since March 2018, the TID has promoted the enhancements at 24 seminars, among other promotion efforts. The number of applications received in August 2018, i.e. the first month upon the implementation of the enhancement measures, has increased by 28% as compared to August 2017. The TID will continue to step up its promotion efforts to SMEs including producing a new Announcement in the Public Interest and setting up booths/panels in trade exhibitions;
- (c) the TID has introduced a number of enhancement measures to encourage SMEs to make the best use of the fund. These include, among others, increasing the maximum cumulative grant per SME from \$200,000 to \$400,000 and the maximum grant per application from \$50,000 to \$100,000, as well as relaxing the conditions of funding by removing the condition of use for the last \$50,000 of the grants. The TID will continue to monitor the utilisation of the fund and consider suitable measures to encourage SMEs to make the best use of the available funding;

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- (d) since July 2018, a number of measures have been introduced to enhance the check on potentially connected SMEs. Specifically, the procedures for updating the preset threshold to generate alerts have been tightened, and the computer programme has been enhanced to provide clear indication on the cumulative grant position of connected SMEs and easy assessment of the funding position of potentially connected SMEs. The TID will review and refine its work processes on an on-going basis to ensure that funding approved to connected SMEs do not exceed the funding ceiling;
- (e) the TID has been adopting a risk-based approach in respect of requiring applicants to provide proof of having substantive business operations in Hong Kong. We will strive to increase the ratio of applications selected for checking without compromising the processing time; and
- (f) the TID agrees that there is room for improving the response rate of the satisfactory survey for the EMF. The TID will set a deadline for response and send reminders or make phone calls to applicants to encourage them to return the evaluation questionnaires.

Administration of the SDF

3.19 The SDF was launched in December 2001. Details of the SDF are as follows:

- (a) **Objective.** The SDF aims at subsidising projects carried out by eligible organisations to enhance the competitiveness of SMEs in general or SMEs in specific sectors;
- (b) **Scope of funding.** Proposals that are conducive to enhancing the competitiveness of Hong Kong's SMEs in general or in specific sectors can apply. Examples include seminars, workshops, research studies and award schemes;
- (c) **Eligibility.** Non-profit-distributing organisations, such as trade and industrial organisations, professional bodies and research institutes, are eligible to apply. Projects which are or will be in receipt of other Government funding support will not be considered; and

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- (d) ***Funding principle and project duration.*** The maximum amount of funding support for each approved project is \$5 million, or 90% of the approved project expenditure, whichever is the less. 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. The maximum duration of a project is three years.

Up to 31 March 2018, the TID had received 1,035 applications (excluding 115 applications that were withdrawn before assessment) and approved 290 (28%) of them. The total amount of grants provided for the approved applications was \$359 million (averaging \$1.2 million per application), representing 7% of the aggregate commitment of \$5,250 million for the EMF and the SDF (see Note 11 to para. 3.2).

Need to ensure timely submission of reports

3.20 To facilitate the monitoring and evaluation of SDF projects, the project agreement signed between the Government and the grantees stipulated that grantees are required to submit progress reports, final reports and post-project evaluation reports to the Secretariat of the Vetting Committee as follows:

- (a) ***For project not exceeding \$1 million and the implementation period not exceeding one year.*** The grant will be disbursed in one lump sum within 30 days after satisfying the Secretariat's requirements (e.g. in-kind contribution). The grantee has to submit the final report together with the audited account within three months and the post-project evaluation reports within six months after completion of the project;
- (b) ***For project with implementation period not exceeding two years (other than those in (a)).*** The grant will be disbursed in two instalments according to the cash flow projection in the approved project proposal. The first instalment is paid within 30 days after satisfying the Secretariat's requirements. Thereafter, the grantee has to submit:
- (i) the progress report together with the audited account not later than two months before payment of the second instalment;

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- (ii) the final report together with the audited account within three months after completion of the project; and
 - (iii) the post-project evaluation report within six months after completion of the project; and
- (c) ***For project with implementation period of more than two years.*** The grant will be disbursed in three instalments according to the cash flow projection in the approved project proposal. The first instalment is paid within 30 days after satisfying the Secretariat's requirements. Thereafter, the grantee has to submit:
- (i) the first progress report together with the audited account not later than two months before payment of the second instalment;
 - (ii) the second progress report together with the audited account not later than two months before payment of the third instalment;
 - (iii) the final report together with the audited account within three months after completion of the project; and
 - (iv) the post-project evaluation report within six months after completion of the project.

The TID issues letters to the grantees before the due date to remind them to submit the reports on time. Chaser letters/warning letters will also be issued at monthly intervals in case of late submissions.

3.21 There were 78 approved projects with applications received in the period from 2013 to 2017. As at 31 July 2018, of these 78 approved projects, 51, 46 and 43 were required to submit progress reports, final reports and post-project evaluation reports respectively. Audit noted that many reports were submitted late, namely 77%, 50% and 37% of the progress reports, final reports and post-project evaluation reports respectively were late (see Table 9).

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Table 9

**Timeliness of submission of progress reports,
final reports and post-project evaluation reports
(31 July 2018)**

Delay	Progress reports		Final reports		Post-project evaluation reports	
	Number	Percentage	Number	Percentage	Number	Percentage
No delay	12	23%	23	50%	27	63%
≤ 3 months	35	69%	18	39%	11	26%
> 3 months to 6 months	4	8%	3	7%	3	7%
> 6 months to 9 months	0	0%	1	2%	1	2%
> 9 months	0	0%	1 (Note 1)	2%	1 (Note 2)	2%
Total	51	100%	46	100%	43	100%

Source: Audit analysis of TID records

Note 1: The final report was submitted 322 days after the due date.

Note 2: The post-project evaluation report was submitted 295 days after the due date.

3.22 To facilitate proper and timely monitoring of SDF projects, the TID needs to take measures to ensure that reports are submitted by grantees in accordance with the project agreement in a timely manner.

Need to ensure timely return of residual funds

3.23 Upon the completion of a project or termination of a project agreement, the grantee is required to return residual funds to the Government within one month after submission of the final audited account of the project. The TID issues letters to the grantees before the due date to remind them to return the residual funds on time. Chaser letters/warning letters are issued at monthly intervals in case of late returns.

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3.24 As at 31 July 2018, of the 78 approved projects with applications received in the period from 2013 to 2017, 48 were completed. Of the 48 completed projects, 42 had returned their residual funds and six were not yet due for return. Of the 42 projects, 20 (48%) returned their residual funds (ranging from \$0.14 to \$228,839, averaging \$58,333) late (see Table 10). In Audit’s view, the TID needs to take measures to ensure the timely return of residual funds by grantees (e.g. stepping up follow-up action on late return).

Table 10

**Timeliness of return of residual funds of SDF projects
(31 July 2018)**

Delay	Number of projects	Percentage
No delay	22	52%
≤ 1 month	7	17%
> 1 month to 2 months	5	12%
> 2 months to 3 months	7	17%
> 3 months	1 (Note)	2%
Total	42	100%

Source: Audit analysis of TID records

Note: The residual funds of this project were returned 109 days after the due date.

Need to expedite the preparation of the Reports on Completed Projects

3.25 According to the Guide to Application, each completed project will be evaluated and rated. Unsatisfactory rating may affect the chance of the applicant or the project team in obtaining SDF grant in future. The Secretariat evaluates the completed projects based on the reports (including the final reports together with the audited accounts and the post-project evaluation reports) submitted by the grantees and information gathered from the TID’s on-going monitoring of the projects. A Report on Completed Projects containing the Secretariat’s assessments on each project

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is submitted by the Secretariat to the Vetting Committee (Note 13). In the Report on Completed Projects, an overall rating is given based on the ratings in five aspects, namely:

- (a) project outcome;
- (b) project implementation;
- (c) report submission;
- (d) return of residual funds; and
- (e) feedback of beneficiaries.

3.26 The TID did not set any time target for submitting the Reports on Completed Projects to the Vetting Committee. In the period from 2013 to 2017, the Secretariat prepared eight Reports on Completed Projects containing the assessments on 66 completed projects (Note 14). Audit noted that on average, the time elapsed between the receipt of post-project evaluation reports from grantees to the submission of the Reports on Completed Projects was 23 months. For 22 (33%) completed projects, the Secretariat took more than 24 months to submit the Reports on Completed Projects to the Vetting Committee (see Table 11).

Note 13: *The Vetting Committee is responsible to advise and make recommendations to the Director-General of Trade and Industry on matters relating to the SDF and the Organisation Support Programme of the BUD Fund. It is chaired by the Director-General of Trade and Industry. As at May 2018, it comprised one ex-officio member (i.e. a Deputy Director-General of Trade and Industry) and 14 non-official members from various sectors (e.g. information technology, accounting and manufacturing).*

Note 14: *Of the 66 completed projects, 10 were rated “good”, 44 “satisfactory”, 11 “acceptable” and one “below standard”.*

Table 11

**Time taken for submission of
Reports on Completed Projects to the Vetting Committee
(2013 to 2017)**

Time elapsed after receipt of post-project evaluation reports	Number of projects
≤ 6 months	1
> 6 months to 12 months	9
> 12 months to 24 months	34
> 24 months to 36 months	11
> 36 months to 48 months	10
> 48 months to 60 months	0
> 60 months to 72 months	1 (Note)
Total	66

Source: Audit analysis of TID records

Note: The report was submitted 64 months after the receipt of the post-project evaluation report.

3.27 To facilitate proper and timely evaluation of the effectiveness of the SDF, the TID needs to expedite the preparation of the Reports on Completed Projects and endeavour to submit them to the Vetting Committee in a timely manner.

Audit recommendations

3.28 **Audit has recommended that the Director-General of Trade and Industry should:**

- (a) **take measures to ensure that reports are submitted by grantees in accordance with the project agreement in a timely manner;**
- (b) **take measures to ensure the timely return of residual funds by grantees;
and**

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- (c) **expedite the preparation of the Reports on Completed Projects and endeavour to submit them to the Vetting Committee in a timely manner.**

Response from the Government

3.29 The Director-General of Trade and Industry generally agrees with the audit recommendations. She has said that:

- (a) the TID has put in place a mechanism for monitoring the submission of reports by grantees. Reminder letters are issued to the grantees before the due date to remind them to submit the progress/final report and post-project evaluation report on time. Chaser letters and/or warning letters are issued in case of late submissions at monthly interval. To ensure the timely submission of the progress reports, the TID does not disburse the second or third instalment of the grant until the receipt and acceptance of the progress reports. In addition, the timing of submission of reports by grantees are taken into account in determining the overall rating of the project for the Vetting Committee's endorsement upon completion of the project. The Vetting Committee will be informed of the rating when the grantee's future applications are considered;
- (b) the TID has put in place a mechanism for monitoring the return of residual funds by grantees. Reminder letters are issued to the grantees before the due date to remind them to return the residual fund on time. Chaser letters and/or warning letters are issued in case of late submissions at monthly intervals. In addition, the timing of returning the residual funds by grantees are taken into account in determining the overall rating of the project for the Vetting Committee's endorsement upon completion of the project. The Vetting Committee will be informed of the rating when the grantee's future applications are considered; and
- (c) the preparation of the Reports on Completed Projects involved the vetting of the grantees' final report/audited account and post-project evaluation report. The time required for the preparation differs depending on the complexity of the project and the responsiveness of the grantee. Despite the considerable time and resources needed for the vetting, the TID will continue its efforts in expediting the process.

PART 4: SUPPORT AND CONSULTATION CENTRE FOR SMALL AND MEDIUM ENTERPRISES

4.1 This PART examines the operation of SUCCESS, focusing on the following areas:

- (a) information services (paras. 4.4 to 4.19); and
- (b) consultation services (paras. 4.20 to 4.36).

Background

4.2 SUCCESS was established in November 2001. It collaborates with industrial and trade organisations, professional bodies, private enterprises and other Government departments to provide SMEs with information services and consultation services free of charge. SMEs can register as members free of charge to receive updates on business development and information on SUCCESS' activities.

4.3 SUCCESS was relocated from Mong Kok to Kwun Tong in mid-October 2015, and then to Kowloon City in late February 2018. SUCCESS is now located at the Trade and Industry Tower in Kowloon City occupying a total floor area of 225 square metres. A Principal Trade Officer, underpinned by 18 staff, is responsible for the operation of SUCCESS in addition to their other duties in supporting SMEs. The TID does not allocate departmental costs to SUCCESS and does not calculate the operating costs of SUCCESS.

Information services

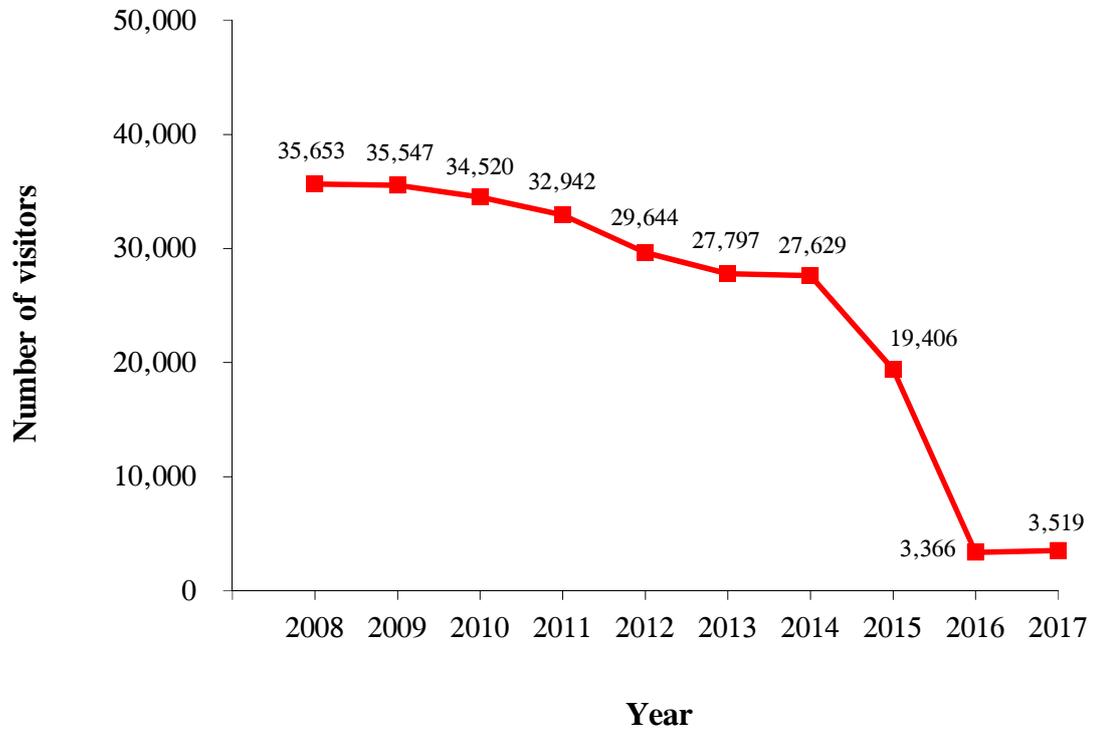
- 4.4 SUCCESS provides a range of information services to SMEs:
- (a) it provides information on government licences or permits for running different types of businesses and starting a business in Hong Kong;
 - (b) it provides information on SME-related activities, services and facilities through the SUCCESS website;
 - (c) it provides free access to electronic business databases (e.g. company profiles for global market opportunities);
 - (d) it operates a reference library, which provides a collection of business reference materials;
 - (e) it publishes bi-weekly e-newsletters and half-yearly publications to provide information on SME topical issues; and
 - (f) it organises seminars and workshops to help broaden SMEs' business knowledge and enhance their entrepreneurial skills.

Need to monitor the small number of visitors to SUCCESS and the small number of visits to the SUCCESS website

4.5 Audit analysis of the number of visitors to SUCCESS (see Figure 5) and the number of visits to the SUCCESS website (see Figure 6) for the period from 2008 to 2017 revealed that:

Figure 5

Visitors to SUCCESS
(2008 to 2017)

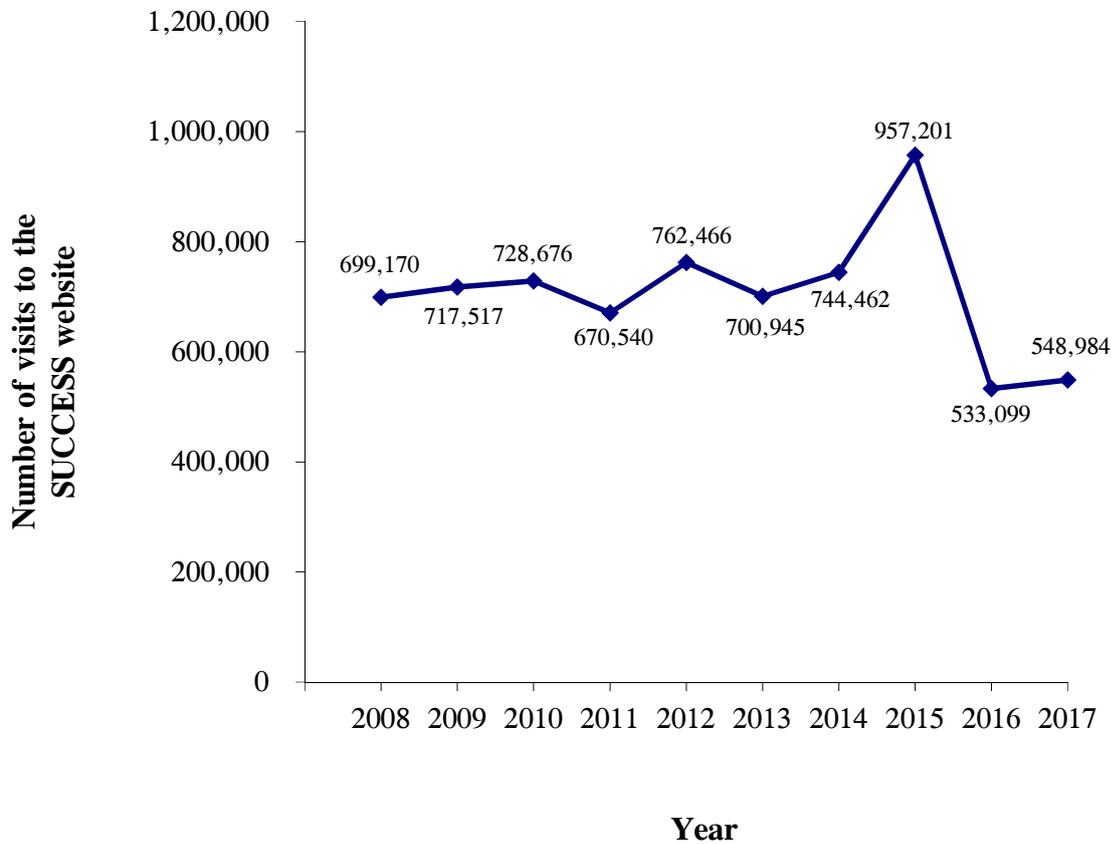


Source: Audit analysis of TID records

Remarks: The number of visitors to SUCCESS for the period from January to June 2018 was 2,164 (see Table 12).

Figure 6

Visits to the SUCCESS website
(2008 to 2017)



Source: Audit analysis of TID records

Remarks: The number of visits to the SUCCESS website for the period from January to June 2018 was 454,254 (see Table 13).

- (a) ***Small number of visitors to SUCCESS.*** The number of visitors to SUCCESS decreased by 32,134 (90%) from 35,653 in 2008 to 3,519 in 2017. In particular, the number decreased drastically from 19,406 in 2015 to 3,366 in 2016 after the relocation of SUCCESS from Mong Kok to Kwun Tong in October 2015; and

- (b) ***Small number of visits to the SUCCESS website.*** The number of visits to the SUCCESS website decreased by 150,186 (21%) from 699,170 in 2008 to 548,984 in 2017. The number was rather stable in the period from 2008 to 2014, fluctuating between about 700,000 to 750,000. The number increased to a peak of 957,201 in 2015 and dropped drastically by about 42.6% to about 550,000 in 2016 and 2017.

4.6 The TID explained that the reasons for the decreases in the number of visitors to SUCCESS and the number of visits to the SUCCESS website in the Controlling Officer's Report 2017-18 were as follows:

- (a) ***Visitors to SUCCESS.*** The decrease in the number of visitors to SUCCESS was attributable to:
 - (i) the relocation of SUCCESS in late 2015 leading to less enquiries made in person in SUCCESS; and
 - (ii) the downward trend of visitors to SUCCESS as a result of regular updating of SME-related information on the SUCCESS website and regular notifications sent to SME contacts electronically (see para. 4.9(a)); and

- (b) ***Visits to the SUCCESS website.*** The decrease in the number of visits to the SUCCESS website in 2016 subsequent to a substantial surge in 2015 might be attributable to more visitors searching for information relating to the relocation of SUCCESS in late 2015.

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4.7 Audit noted that both the number of visitors to SUCCESS and the number of visits to the SUCCESS website increased in 2018, as follows:

- (a) **Visitors to SUCCESS.** Since late March 2018, the service counter for the EMF (see PART 3) has been relocated to SUCCESS with a view to building synergy among the services provided by the TID to SMEs. In addition to submitting applications by post, EMF applicants could submit their applications at the EMF counter. As visitors submitting applications at EMF counter did not use the services of SUCCESS, they should not be included in the total number of visitors to SUCCESS. In the period from March to June 2018, visitors to the EMF counter accounted for 50% of the total visitors to SUCCESS. Disregarding these visitors, the number of visitors to SUCCESS remained small (see Table 12) though the half-year number of 2,164 is higher than half of the full-year number of 3,519 for 2017; and

- (b) **Visits to the SUCCESS website.** According to the TID, the number of visits to the SUCCESS website increased in 2018 (see Table 13) because:
 - (i) many visitors searched for information relating to the relocation of SUCCESS in February 2018; and
 - (ii) more SMEs were aware of SUCCESS subsequent to the TID's promotion of the relocation of SUCCESS.

Table 12

**Visitors to SUCCESS
(January to June 2018)**

Month	Number of visitors		Total number of visitors
	Using service of SUCCESS	Submitting applications at EMF counter	
	(a)	(b)	(c) = (a) + (b)
January	278 (100%)	—	278 (100%)
February	113 (100%)	—	113 (100%)
March	367 (79%)	97 (21%)	464 (100%)
April	325 (34%)	629 (66%)	954 (100%)
May	575 (45%)	700 (55%)	1,275 (100%)
June	506 (42%)	710 (58%)	1,216 (100%)
Overall	2,164 (50%)	2,136 (50%)	4,300 (100%)

Source: Audit analysis of TID records

Remarks: 1. SUCCESS was relocated from Kwun Tong to Kowloon City in late February 2018.

2. The EMF service counter was relocated to SUCCESS in late March 2018.

3. Assuming the number of visitors in the second half of 2018 is the same as the first half, the total number of visitors (excluding visitors to EMF counter) in 2018 will be about 4,300.

Table 13

**Visits to the SUCCESS website
(January to June 2018)**

Month	Number of visits
January	70,752
February	56,939
March	81,967
April	75,663
May	86,580
June	82,353
Total	454,254

Source: Audit analysis of TID records

4.8 Audit considers that the TID needs to monitor the number of visitors to SUCCESS excluding visitors to the service counter of the EMF and the number of visits to the SUCCESS website. The TID also needs to continue to take appropriate measures to boost the number of visitors to SUCCESS and the number of visits to the SUCCESS website.

Need to promote SUCCESS membership

4.9 SUCCESS membership aims at facilitating the TID in disseminating information on SUCCESS activities and services, as well as the latest business news to the trading community in an expeditious, reliable and cost-effective way. Any person (including owners, potential owners and managerial staff of SMEs) holding an email account can register for SUCCESS membership free of charge. SUCCESS membership is not a pre-requisite for the use of SUCCESS services. After registration, SUCCESS members:

- (a) will receive regular updates on the latest business development and information on SUCCESS seminars, workshops and other services through e-newsletters and email notices;
- (b) can retrieve their recent search records of business licence information on the SUCCESS website; and
- (c) can register for SUCCESS activities and services more conveniently.

4.10 Audit examined the TID records and noted that:

- (a) ***Room for promoting SUCCESS membership.*** Representatives of most SMEs had not registered as SUCCESS members. It was not mandatory for the members to provide the names of their companies. As at 31 May 2018, there were 56,083 SUCCESS members, of whom 14,323 (26%) provided the names of their companies when registering for SUCCESS membership. These 14,323 members came from 9,994 companies. Even assuming that all the remaining 41,760 members came from different SMEs, the number of SUCCESS members was small compared to the some 330,000 SMEs in Hong Kong; and
- (b) ***Some members discontinued subscription of e-newsletters and email notices.*** After registration, a SUCCESS member will receive regular e-newsletters and email notices from SUCCESS. However, every year a few hundreds of members discontinued their subscription of the e-newsletters and email notices. From 2013 to 2017, on average 927 members per year (ranging from 623 to 1,497) unsubscribed the e-newsletters and email notices of SUCCESS (see Table 14).

Table 14

**Number of SUCCESS members who unsubscribed
the e-newsletters and email notices
(2013 to 2017)**

Year	Number of members discontinued subscription
2013	1,497
2014	682
2015	787
2016	623
2017	1,045
Average	927

Source: Audit analysis of TID records

Audit considers that the TID needs to promote the membership of SUCCESS among SMEs. The TID also needs to ascertain why some members unsubscribed the e-newsletters and email notices from SUCCESS and take measures to encourage members to subscribe to the e-newsletters and email notices for SUCCESS.

***Low utilisation of business publications
and audio-visual materials in the reference library***

4.11 There is a reference library (see Photograph 1) in SUCCESS, which maintains a collection of business publications and audio-visual materials, as follows:

Photograph 1

Reference library in SUCCESS



Source: TID records

- (a) ***Business publications.*** As at 30 June 2018, there were 3,236 publications in the reference library. Examples of the publications included the half-yearly publications issued by SUCCESS, periodicals issued by industrial and trade organisations, and publications on China business information. Of the 3,236 publications, 550 were placed on the open shelves. For the remaining 2,686 publications which were placed on the closed stacks, they can be searched on the SUCCESS website and borrowed from SUCCESS on request; and
- (b) ***Audio-visual materials.*** As at 30 June 2018, there were 130 recordings capturing 130 SUCCESS seminars held in the period from January 2011 to June 2018.

All the publications and the audio-visual materials can be borrowed for reading or viewing in the reference library. They cannot be taken away from SUCCESS.

4.12 Audit noted that in the period from the relocation of SUCCESS in mid-October 2015 to July 2018, no visitors of SUCCESS had requested reading those publications on the closed stacks (Note 15). Audit also noted that the number of requests for viewing the audio-visual materials of SUCCESS seminars was small. For instance, there were only 17 and 16 requests for viewing in 2016 and 2017 respectively.

4.13 In Audit's view, the TID needs to ascertain whether the publications and the audio-visual materials meet the information needs of the SMEs and consider other effective alternatives of providing support to SMEs instead of operating the reference library. For instance, the TID may explore the feasibility of uploading the recordings of SUCCESS seminars to an electronic platform for online viewing.

Low attendance of some SUCCESS seminars

4.14 SUCCESS regularly organises seminars (e.g. Practical Legal Matters for SMEs) to broaden SMEs' business knowledge and enhance their entrepreneurial skills. The TID adopted different channels to promote seminars organised by SUCCESS (e.g. placing advertisements in newspapers and sending e-notices to SUCCESS members).

4.15 Audit noted that the TID recorded the number of registration and attendance of the seminars but did not set any target on attendance rates for the seminars. In the period from 1 January 2016 to 31 May 2018, SUCCESS organised 74 seminars. Audit reviewed the attendance rates (i.e. the number of attendees as a percentage of the capacity of the venue) of these seminars and found that while the average number of attendees was 90 and the average attendance rate was 66%, the attendance rates of 13 (18%) seminars were below 50%, ranging from 28% to 49% (see Table 15).

Note 15: *Prior to the relocation of SUCCESS from Mong Kok to Kwun Tong in mid-October 2015, all the publications were placed on open shelves in the reference library for reading by visitors.*

Table 15

**Attendance rates of SUCCESS seminars
(2016 to 2018 (up to May))**

Year	No. of seminars held	Average no. of attendees	Average attendance rate	Seminars with attendance rate below 50%	
				No. (%) of seminars held	Range of attendance rates
2016	23	78	61%	6 (26%)	28% to 49%
2017	35	97	67%	4 (11%)	36% to 43%
2018 (up to May)	16	91	73%	3 (19%)	all were 49%
Overall	74	90	66%	13 (18%)	28% to 49%

Source: Audit analysis of TID records

Remarks: The attendance rates were calculated by dividing the number of attendees by the capacity of the venue.

4.16 Audit considers that the TID needs to step up promotion of SUCCESS seminars to improve their attendance rates.

Low response to the questionnaires of SUCCESS seminars

4.17 After each seminar, questionnaires are distributed to the attendees to collect their feedback. Audit reviewed the summaries of the completed questionnaires compiled by the TID and found that the response of the questionnaires was low (see Table 16).

Table 16

Response rates of the questionnaires of SUCCESS seminars
(2016 to 2018 (up to May))

Year	Number of seminars held	Overall response rate of questionnaires	Range of response rates
2016	23	56%	24% to 89%
2017	35	46%	7% to 83%
2018 (up to May)	16	39%	10% to 91%

Source: Audit analysis of TID records

In October 2018, the TID informed Audit that it had been working on improving the response rate of the questionnaires of SUCCESS seminars. Since April 2018, electronic questionnaires had been sent to the participants. Participants could also fill in electronic questionnaires by scanning a Quick Response Code provided at the seminars. Audit considers that the TID needs to monitor the response of the questionnaires of SUCCESS seminars and if necessary, take further measures to improve the response.

Audit recommendations

4.18 Audit has *recommended* that the Director-General of Trade and Industry should:

- (a) monitor the number of visitors to SUCCESS excluding visitors to the EMF service counter and the number of visits to the SUCCESS website;
- (b) continue to take appropriate measures to boost the number of visitors to SUCCESS and the number of visits to the SUCCESS website;
- (c) promote the membership of SUCCESS among SMEs;

- (d) **ascertain the reasons why some members discontinued subscription of e-newsletters and email notices from SUCCESS, and take measures to encourage members to subscribe to SUCCESS e-newsletters and email notices;**
- (e) **ascertain whether the publications and the audio-visual materials of the reference library meet the information needs of the SMEs and where necessary, consider enhancing the support provided to SMEs to meet their needs;**
- (f) **step up promotion of SUCCESS seminars to improve their attendance rates; and**
- (g) **monitor the response of the questionnaires of SUCCESS seminars and if necessary, take further measures to improve the response of the questionnaires.**

Response from the Government

4.19 The Director-General of Trade and Industry generally agrees with the audit recommendations. She has said that:

- (a) SUCCESS was relocated from Kwun Tong to Kowloon City in the first quarter of 2018. To build synergy of SUCCESS services with other services of the TID, the service counter of the EMF was moved to SUCCESS in the first quarter of 2018. In tandem with the relocation, the TID has taken the opportunity to rebrand the SUCCESS logo and to enrich the design and content of the SUCCESS website. The TID has been monitoring the number of visits to the SUCCESS website and the number of visitors to SUCCESS, with the number of visitors to the EMF counter recorded separately. Both the number of visitors to SUCCESS and the number of visits to the SUCCESS website have increased (by 14% and 108% respectively) in the first eight months of 2018;
- (b) the TID has arranged various groups, including representatives of SME trade and industry bodies to visit SUCCESS. It will continue to take further measures to boost the number of visitors to SUCCESS and visits to the SUCCESS website;

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- (c) the services of SUCCESS are open to all SMEs and interested persons. SUCCESS membership is not a pre-requisite for the use of SUCCESS services. That said, the TID has been promoting SUCCESS membership through various channels, including inviting users of SUCCESS services and applicants of SME funding schemes to register, conducting promotion at SME-related exhibitions, seminars and events organised by partner organisations, and placing promotional articles on publications or hyperlink on websites of trade and industrial organisations;
- (d) the TID will continue its efforts in recruiting SUCCESS members and highlighting the convenience offered by SUCCESS membership in its promotion so as to encourage subscription for the e-newsletters and email notices of SUCCESS;
- (e) as part of the support services provided by SUCCESS, the TID will review and update the collection of publications and audio-visual materials in the reference library of SUCCESS from time to time, either on its initiative or upon receiving suggestions. Upon the relocation of SUCCESS to Kowloon City in the first quarter of 2018, new publications relating to the Belt and Road Initiative and e-commerce were added to the library. The TID will also consider other measures with a view to meeting the information needs of SMEs; and
- (f) the TID has been organising SUCCESS seminars and workshops taking into account topics suggested by participants and the prevailing issues of interest to SMEs. The TID has also been sending reminders to enhance attendance of SUCCESS seminars. Of the 74 seminars organised by SUCCESS in the period from January 2016 to May 2018, the attendance rates of 28 (38%) seminars were above 90%. The TID will continue to step up promotion of SUCCESS seminars and workshops to enhance their attendance rates.

Consultation services

4.20 SUCCESS operates a Business Advisory Service (BAS) and an SME Mentorship Programme:

- (a) **BAS.** SMEs can obtain free advice under 25 advisory areas (Note 16) from advisors nominated by SUCCESS's strategic partners, which are well-established organisations and industry-specific associations (e.g. Association of Chartered Certified Accountants, The Hong Kong Federation of Commerce for SMEs and Hong Kong Federation of E-Commerce); and
- (b) **SME Mentorship Programme.** The SME Mentorship Programme provides an opportunity for SME owners at their early stage of business to learn from and be guided by mentors through one-on-one free counselling. The mentors are experienced entrepreneurs, senior executives and professionals recruited and recommended by co-organisers, which are industrial and trade organisations and professional bodies (e.g. the Hong Kong SME Association and the Chinese General Chamber of Commerce). Each mentorship lasts for 12 months, and each pair of mentor and mentee is encouraged to have at least three face-to-face meetings during the period.

***Description of performance target
in Controlling Officer's Reports not clear***

4.21 Upon receipt of BAS applications, the TID seeks necessary clarifications from the applicants on their problems and questions, and then assesses if arrangements of meetings with advisors are suitable. For applications requiring provision of general information only (e.g. licensing requirements and SME support services), the TID conducts necessary research, collates and provides the relevant information to the applicants direct in writing without arranging consultation meetings between the advisors and the applicants. For suitable applications, the TID arranges consultation meetings for the applicants by liaising with both the advisors and the applicants to work out a mutually convenient timeslot. The TID issues confirmation of meetings after both the advisors and the applicants have agreed on a date of meeting. In 2017, there were 235 applications. Of these 235 applications, the TID considered that 135 applications required provision of general information and the remaining

Note 16: *The 25 advisory areas are: setting up business, funding schemes, marketing, China trade, legal, accounting, financing, franchising, taxation, equipment leasing, Mandatory Provident Fund, customer relations, corporate strategy/governance, export credit management, human resource management, electronic commerce, information technology, supply chain management, intellectual property, production technology, environmental management, quality assurance, product testing, branding and ISO certification.*

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100 applications required arrangement of consultation meetings. Up to 31 May 2018, consultation meetings for 95 applications were conducted and 5 were not yet conducted.

4.22 The TID stated in the Controlling Officer's Report a target relating to consultation meeting, as follows:

“confirming consultation meeting with applicants of Business Advisory Service within ten working days upon receipt of all necessary documents and information”

Audit reviewed the TID's achievement of the performance target in the five years from 2013 to 2017 and noted that the TID reported in the Controlling Officer's Reports that it had fully (i.e. 100%) met the target. Audit examination of the 95 meetings for the applications received in 2017 revealed that the TID had not met the target. While details (including the date) of consultation meetings for 47 (49%) of the 95 meetings were provided to the applicants within ten working days after receipt of an application, the meetings for 48 (51%) applications were not. On average, the dates of the 48 meetings were provided 36 working days (ranging from 11 to 190 working days) after receipt of an application.

4.23 In October 2018, the TID informed Audit that the performance target stated in the Controlling Officer's Report was meant to be:

“confirming with applicants of Business Advisory Service within ten working days upon receipt of all necessary documents and information if a consultation meeting is considered suitable, and if not, provide them with the required information”

The TID had fully (i.e. 100%) met this target.

4.24 Audit considers that the TID needs to ensure that the description of the performance target in the Controlling Officer's Report is clear. Furthermore, as the TID had fully met the intended performance target in the period from 2013 to 2017, the TID needs to consider setting a performance target at a level that is challenging and achievable.

Long time taken to arrange consultation meetings for BAS applicants

4.25 Apart from the target of confirming consultation meetings with BAS applicants within ten working days (see para. 4.22), there was no target set for the time taken to arrange consultation meetings for BAS applicants. Audit noted that the 95 consultation meetings for applications received in 2017 (see para. 4.21) were conducted, on average, 24 working days (ranging from 0 to 196 working days) after receiving the applications (see Table 17).

Table 17

**Time elapsed between consultation meetings
and receipt of applications
(31 May 2018)**

Time elapsed (No. of working days)	Number of applications	Percentage
0 to 30 (Note 1)	78	82%
31 to 60	9	10%
61 to 90	4	4%
91 to 180	3	3%
over 180	1 (Note 2)	1%
Total	95	100%

Source: Audit analysis of TID records

Note 1: One application was submitted to the BAS booth set up by the TID in an exhibition relating to SMEs. The consultation meeting was arranged on the same day of the application and therefore, the time elapsed was 0 day.

Note 2: The time elapsed for this case was 196 working days.

4.26 Of the 95 applications, Audit reviewed four applications with the longest time elapsed between the consultation meetings and the receipt of the applications. The TID took more than 90 working days to arrange the consultation meetings for them. Audit noted that in three applications, the TID contacted the advisors for arranging the consultation meetings 85, 151 and 168 working days after the dates of receipt of the applications. In the remaining application, after the applicant had declined the proposed dates of meeting twice, the TID took 88 working days to contact another advisor for arranging the meeting.

4.27 Audit noted that it was the TID's practice to group together a few applications under the same or similar advisory areas for an advisor in order to hold the meetings on the same day. This practice will facilitate the advisors, who may be busy, to arrange for meetings. However, Audit considers that such practice will inevitably lengthen the waiting time of some applications. With a view to ensuring that advice is provided to the BAS applicants in a timely manner, the TID needs to monitor the time taken to arrange consultation meetings and take appropriate follow-up action for those applications where the consultation meetings could not be arranged within a reasonable time period.

***Need to make known the flexible approach taken
in accepting applications for SME Mentorship Programme***

4.28 The eligibility criteria for the SME Mentorship Programme are promulgated on the TID's website. According to the criteria on the website, to be eligible for the Mentorship Programme, a person has to own and run a business which:

- (a) is registered in Hong Kong under the Business Registration Ordinance;
- (b) has been established for less than five years; and
- (c) employs fewer than 20 employees in Hong Kong.

4.29 It was stated in the TID's internal guidelines that although they will be accorded lower priority, applications which do not meet the eligibility criteria will also be considered if explanations (e.g. change of business nature and change of ownership of the business) can be provided to justify the need to join the Programme. Audit noted that such arrangement was not made known to the public unless asked by the public.

4.30 Audit noted that in the three SME Mentorship Programmes 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 meet the eligibility criteria published on the TID's website (e.g. the criteria that the company of the applicant employed fewer than 20 employees). This indicated that there were also demands from people who do not fully meet the eligibility criteria for the Mentorship Programme. Audit considers that the TID needs

to make known to the potential applicants that although a lower priority will be accorded, applicants who do not meet the eligibility criteria for the SME Mentorship Programme will also be considered if there is capacity and they can provide explanations to justify the need to join the Programme.

Need to explore the feasibility of accepting applications to join the SME Mentorship Programme on an on-going basis

4.31 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. Audit noted that the last three Mentorship Programmes were launched in February 2011, February 2014 and November 2016. In other words, a person interested in the Mentorship Programme has to wait for a couple of years if he has not submitted application for the previous round. As the Mentorship Programme aims at providing support for SME owners whose businesses have been established for less than five years, Audit considers that the TID needs to explore the feasibility of accepting applications to join the Mentorship Programme on an on-going basis with a view to providing timely support to the SME owners at their early stage of business.

Need to improve the response rate of the evaluation questionnaires of the SME Mentorship Programme

4.32 After each round of the SME Mentorship Programme, SUCCESS sends an evaluation questionnaire to every mentee, mentor and co-organiser to collect their feedback on the Programme (e.g. the number of times the mentor meets the mentee, and the programme arrangement). Based on the returned questionnaires, the TID prepares a review report. Audit examined the review reports of the 2011/12 and 2014/15 Programmes and noted that the response rates of the evaluation questionnaires ranged from 23% to 55% (see Table 18).

Table 18

**Response rates of evaluation questionnaires
(2011/12 and 2014/15 Programmes)**

Programme	Response rate		
	Mentee	Mentor	Co-organiser
2011/12	36%	51%	50%
2014/15	23%	55%	53%

Source: Audit analysis of TID records

4.33 While the response rates for mentors and co-organisers were 50% or above, the response rates for mentees were much lower (36% and 23% for the 2011/12 and 2014/15 Programmes respectively). Audit considers that the TID needs to take measures to improve the response rate of the evaluation questionnaires.

***Need to encourage mentors and mentees of
the SME Mentorship Programme to have at least three meetings***

4.34 According to the guidelines for mentors and mentees, each pair of mentor and mentee of the SME Mentorship Programme is encouraged to have at least three face-to-face meetings during the 12-month period (see para. 4.20(b)). In the evaluation questionnaire (see para. 4.32), mentees were asked whether they and their mentors had three face-to-face meetings. Audit noted that for the 2014/15 Programme, only 10 (22%) of the 46 respondents had met their mentors thrice or more. Audit considers that the TID needs to take measures to encourage mentors and mentees to have at least three face-to-face meetings during the 12-month Programme.

Audit recommendations

4.35 **Audit has *recommended* that the Director-General of Trade and Industry should:**

- (a) **ensure that the description of the performance target of the BAS in the Controlling Officer's Report is clear;**
- (b) **consider setting a performance target of the BAS at a level that is challenging and achievable;**
- (c) **monitor the time taken to arrange BAS consultation meetings and take appropriate follow-up action for those applications where the consultation meetings could not be arranged within a reasonable time period;**
- (d) **make known to the potential applicants that those who do not meet the eligibility criteria for the SME Mentorship Programme will also be considered if there is capacity and they can provide explanations to justify the need to join the Programme;**
- (e) **explore the feasibility of accepting applications to join the SME Mentorship Programme on an on-going basis with a view to providing timely support to the SME owners at their early stage of business;**
- (f) **take measures to improve the response rate of the evaluation questionnaires of the SME Mentorship Programme; and**
- (g) **take measures to encourage mentors and mentees to have at least three face-to-face meetings during the 12-month SME Mentorship Programme.**

Response from the Government

4.36 The Director-General of Trade and Industry generally agrees with the audit recommendations. She has said that:

- (a) having regard to the substance of services requested by the applicants, applications for BAS may result in arrangement of a consultation meeting with advisors or provision of information direct. The TID has adopted the target to confirm with all applicants within ten working days if a consultation meeting is considered suitable, and if not, provide them with the required information. The TID will consider the best way to revise the performance target for clarity sake;
- (b) the TID has been monitoring the time required for arranging individual consultation meetings between the advisors and the applicants. The TID will liaise with the applicant if it foresees that a consultation meeting cannot be arranged within a short period of time, and will take appropriate follow-up actions having regard to the wish of the applicant. The TID will continue to monitor the situation and take appropriate follow-up actions when consultation meetings cannot be arranged within a reasonable period of time;
- (c) to enable more SMEs in their early stage of business to benefit from the SME Mentorship Programme, the TID has recruited more co-organisers to provide support in nominating mentors. In the 2016/18 Mentorship Programme, the TID was able to accept all applicants who could not fully meet the eligibility requirements through recruiting a record high number of co-organisers. The TID will explain to interested SMEs that applications failing to meet all the requirements will still be considered though a lower priority would be accorded. The TID will make known the flexibility in the relevant promotion materials for future SME Mentorship Programmes;

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- (d) the TID reviews the operation of the SME Mentorship Programme from time to time to ensure that timely support can be provided to interested SME owners at their early stage of business. Under the 2016/18 Mentorship Programme, the period for accepting applications was extended to ten months from one to two months in the past programmes to enable more interested SMEs to submit applications. The TID will continue to explore measures to ensure that the SME Mentorship Programme provides timely support to SMEs;
- (e) the TID considers that feedback from co-organisers, mentors and mentees is important for enhancing the SME Mentorship Programme. The TID will continue to encourage participating parties through different means to complete the evaluation questionnaires; and
- (f) the TID has devised guidelines to mentors and mentees for the conduct of the mentorship in the 2016/18 SME Mentorship Programme, including encouraging them to have at least three face-to-face meetings. The TID will continue to encourage mentors and mentees to have at least three meetings under the programme, and/or to communicate through other means like e-mails, phone calls or messages if the mentors and mentees consider such means of communication more effective.

PART 5: GOVERNANCE AND ADMINISTRATIVE ISSUES

5.1 This PART examines the governance and administrative issues relating to the provision of support for SMEs. Audit found room for improvement in the following areas:

- (a) SMEC (paras. 5.2 to 5.10); and
- (b) Vetting Committee (paras. 5.11 to 5.18).

SMEC

5.2 The SMEC was set up in July 1996 to advise the Chief Executive on issues affecting the development of SMEs and suggest measures to support and facilitate their development and growth. Members of the SMEC are appointed by the Secretary for Commerce and Economic Development. Each term of SMEC membership is two years. For the term from 1 January 2017 to 31 December 2018, the SMEC comprises 28 members:

- (a) the non-official Chairman;
- (b) 22 non-official members (including businessmen, professionals, bankers and academics);
- (c) 3 representatives from organisations that provide support to SMEs (i.e. the Hong Kong Productivity Council, the Hong Kong Trade Development Council and the Vocational Training Council); and
- (d) 2 official members (i.e. the Director-General of Trade and Industry and a Deputy Secretary for Commerce and Economic Development (Commerce and Industry)).

Governance and administrative issues

Low attendance rates of some non-official members

5.3 Audit examined the attendance of the 21 meetings held in the five terms from 2009 to 2018 (up to 31 August). The average attendance rate of these 21 meetings was 70% (ranging from 50% to 91%). For the two official members and the three representatives from organisations that provided support to SMEs, their attendance rates in the five terms were satisfactory (ranging from 81% to 100%). For the non-official members, Audit found that in each term, there were two to ten members who attended less than half of the meetings (ranging from 0% to 40% — see Table 19).

Table 19

**Attendance rates of non-official members of the SMEC
(2009 to 2018 (up to 31 August))**

Attendance rate (%)	Number of non-official members				
	2009 to 2010 term (5 meetings)	2011 to 2012 term (5 meetings)	2013 to 2014 term (5 meetings)	2015 to 2016 term (3 meetings)	2017 to 2018 term (up to 31 August) (3 meetings)
0	1 } (Note 1)	0 }	1 } (Note 1)	2 } (Note 2)	1 } (Note 3)
1 to 24	1 } 3	1 } 2	1 } 8	0 } 10	0 } 7
25 to 49	1 }	1 }	6 }	8 }	6 }
50 to 74	5	6	0	6	7
75 to 100	14	14	13	6	10
Total (Note 4)	22	22	21	22	24

Source: Audit analysis of TID records

Note 1: These two members were not reappointed for their subsequent term due to low attendance.

Note 2: The two members attended one SMEC activity (see para. 5.6) although they had not attended any SMEC meetings.

Note 3: The member resigned in August 2017 after the first meeting in the term. A new member was appointed to replace him in February 2018 after the second meeting in the term.

Note 4: There is no fixed number of non-official members in each term of the SMEC.

5.4 Attendance at meetings is an important indicator to reflect members' commitment to serving an organisation. Audit considers that the SMEC Secretariat needs to take measures to improve the attendance rates of non-official members. For instance, the Secretariat may notify the members of the date of meeting as early as possible to facilitate their arrangement and urge them to make efforts to attend meetings as far as possible.

No quorum set for the SMEC meetings

5.5 According to the TID, before fixing the meeting dates, the Secretariat would ensure that at least one third of the non-official members would be available on the meeting dates. The Secretariat would arrange the meeting to be held on another day if less than one third of the non-official members were available. However, Audit noted that there was no quorum requirement for the SMEC meetings. As decisions made and agreements reached during the SMEC meetings are important, to ensure that decisions made and agreements reached reflect the collective view of SMEC members in general, Audit considers that as a good practice, the SMEC Secretariat needs to specify quorum requirement for the SMEC meetings.

Need to facilitate the SMEC in enhancing its roles and functions

5.6 At the SMEC meeting held in November 2013, the issue was raised that the roles and functions of the SMEC could be enhanced to better support and facilitate the development of the SMEs. In February 2014, with a view to more effectively discharging its functions stipulated in the terms of reference (i.e. to advise the Chief Executive on issues affecting the development of SMEs and suggest measures to support and facilitate their development and growth), the SMEC discussed the ways to enhance its roles and functions. After the meeting, the Secretariat drew up the 2014 to 2016 Work Plan, which was endorsed by the Chairman of the SMEC. The four work items covered in the Work Plan were:

- (a) regular SMEC meetings;
- (b) regular meetings with trade and industrial organisations relating to SMEs;
- (c) participation in overseas visit activities; and
- (d) participation in events relating to SMEs.

Governance and administrative issues

5.7 Since the meeting held in February 2014 (see para. 5.6), the SMEC has drawn up Three-year Work Plans every three years. Two Work Plans had been drawn up, namely the 2014 to 2016 Work Plan drawn up in February 2014 and the 2017 to 2019 Work Plan drawn up in September 2016. Audit noted that up to 31 December 2017, the SMEC could only achieve some of the plans set out in its two Work Plans covering 2014 to 2016 and 2017 to 2019 (see Table 20).

Table 20

**Performance of the SMEC
compared to the Three-year Work Plans
(2014 to 2017)**

Work item	2014 to 2016 Work Plan						2017 to 2019 Work Plan	
	2014		2015		2016		2017	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Regular SMEC meetings	3	3	2	1	3	2	2	2
Regular meetings with trade and industrial organisations relating to SMEs	2	1	2	2	2	1	1	1
Participation in overseas visit activities	0	0	1	1	0	0	1	1
Participation in events relating to SMEs	Note	3	Note	0	Note	0	Note	0

Source: Audit analysis of TID records

Note: According to the Work Plans, participation in SME activities is on an on-going basis and no target number was specified.

5.8 With a view to enhancing the roles and functions of the SMEC, the SMEC Secretariat needs to take appropriate measures to facilitate the SMEC's achievement of its plans set in the Work Plans.

Audit recommendations

5.9 **Audit has recommended that the Director-General of Trade and Industry should:**

- (a) **take measures to improve the attendance rates of non-official members of the SMEC;**
- (b) **specify quorum requirement for the SMEC meetings; and**
- (c) **take appropriate measures to facilitate the SMEC's achievement of its plans set in the Work Plans.**

Response from the Government

5.10 The Director-General of Trade and Industry generally agrees with the audit recommendations. She has said that:

- (a) the TID will continue to make its best efforts to notify members of the date of meeting as early as possible and encourage members to attend meetings;
- (b) the Secretariat has taken steps to ensure that a reasonable number of members are available before fixing the date of meeting. The TID will adopt a quorum formally for future SMEC meetings; and
- (c) the Work Plans serve to provide general indicators on the number of meetings to be held and the activities to be arranged in the next three years for planning purpose, rather than performance pledges per se. The TID will continue to take measures to facilitate members' participation in SMEC meetings and activities, taking into account the views of members and having regard to the prevailing situation which may affect the development of SMEs in Hong Kong.

Vetting Committee

5.11 The Vetting Committee is responsible to advise and make recommendations to the Director-General of Trade and Industry on matters relating to the SDF and the Organisation Support Programme of the BUD Fund (see para. 1.5(e)). Its terms of reference are as follows:

- (a) to advise on the assessment criteria;
- (b) to advise whether applications for funding should be approved, the amount to be granted to each approved project, and the terms of conditions for approving funds;
- (c) to monitor implementation of funded projects; and
- (d) to evaluate the effectiveness of the SDF and the Organisation Support Programme of the BUD Fund.

5.12 The Vetting Committee is chaired by the Director-General of Trade and Industry. As at May 2018, it comprised one ex-officio member (i.e. a Deputy Director-General of Trade and Industry) and 14 non-official members from various sectors (e.g. information technology, accounting and manufacturing). Each term of membership is two years.

Need to encourage non-official members to attend meetings and sessions of meetings

5.13 For the period 2013 to 2017, there were four meetings each year. For 2018, up to 31 August, there had been two meetings. Audit examined the attendance of the 22 meetings held in the period from 2013 to 2018 (up to 31 August). The average attendance rate of these 22 meetings was 77% (ranging from 50% to 100%). Audit found that in each year, there were a few (one to three) members who attended none or only one of the meetings in the year (see Table 21).

Table 21

**Attendance rates of non-official members of the Vetting Committee
(2013 to 2018 (up to 31 August))**

Attendance rate (%)	Number of non-official members					
	2013 (4 meetings)	2014 (4 meetings)	2015 (4 meetings)	2016 (4 meetings)	2017 (4 meetings)	2018 (up to 31 August) (2 meetings)
0	1 }-1	0 }-0	0 }-0	1 }-3	1 }-2	3 }-3
25	0 }-	0 }-	0 }-	2 }-	1 }-	0 }-
50	4	1	0	2	3	4
75	3	4	6	3	6	0
100	6	9	8	6	4	7
Total (Note)	14	14	14	14	15	14

Source: Audit analysis of TID records

Note: There is no fixed number of non-official members in each term of the Vetting Committee.

5.14 Audit noted that some meetings involved more than one session held on different days. When calculating attendance, the TID will count a member's attendance for a meeting if the member attended at least one session of the meeting. The 22 meetings held during the period 2013 to 2018 (up to 31 August) involved 42 sessions. Audit examined the participation of the Vetting Committee members in the 42 sessions and noted that on average, in each of the 42 sessions, about 60% (ranging from 29% to 100%) of the members were present. In each year, there were three to eight members who were present only in half or less than half of the sessions (see Table 22).

Table 22

**Presence of non-official members at the Vetting Committee sessions
(2013 to 2018 (up to 31 August))**

Percentage of sessions present (%)	Number of non-official members					
	2013 (12 sessions)	2014 (7 sessions)	2015 (8 sessions)	2016 (7 sessions)	2017 (5 sessions)	2018 (up to 31 August) (3 sessions)
0	1	0	0	1	1	3
> 1 to ≤ 25	3	0	0	2	1	0
> 25 to ≤ 50	4	3	6	3	2	4
> 50 to ≤ 75	4	4	5	2	3	4
> 75 to ≤ 100	2	7	3	6	8	3
Total	14	14	14	14	15	14

Source: Audit analysis of TID records

5.15 One of the functions of the Vetting Committee is to assess and approve SDF funding applications. The attendance of members with sufficient and relevant background in Vetting Committee meetings is important. It is also important for members to be present at all sessions of the meetings they attend. Audit considers that the Secretariat needs to take measures to encourage non-official members to attend Vetting Committee meetings and be present as far as possible at all sessions of the meetings they attend. For instance, the Secretariat may notify the members of the dates of meetings and sessions as early as possible to facilitate their arrangement.

No quorum set for Vetting Committee meetings

5.16 According to the TID, the Secretariat of the Vetting Committee will usually fix the meetings on dates with the highest number of available members. However, there was no quorum requirement for the Vetting Committee meetings. As decisions made and agreements reached during the Vetting Committee meetings are important, to ensure that decisions made and agreements reached reflect the collective view of

Vetting Committee members in general, Audit considers that as a good practice, the Vetting Committee Secretariat needs to specify quorum requirement for the Vetting Committee meetings.

Audit recommendations

5.17 Audit has recommended that the Director-General of Trade and Industry should:

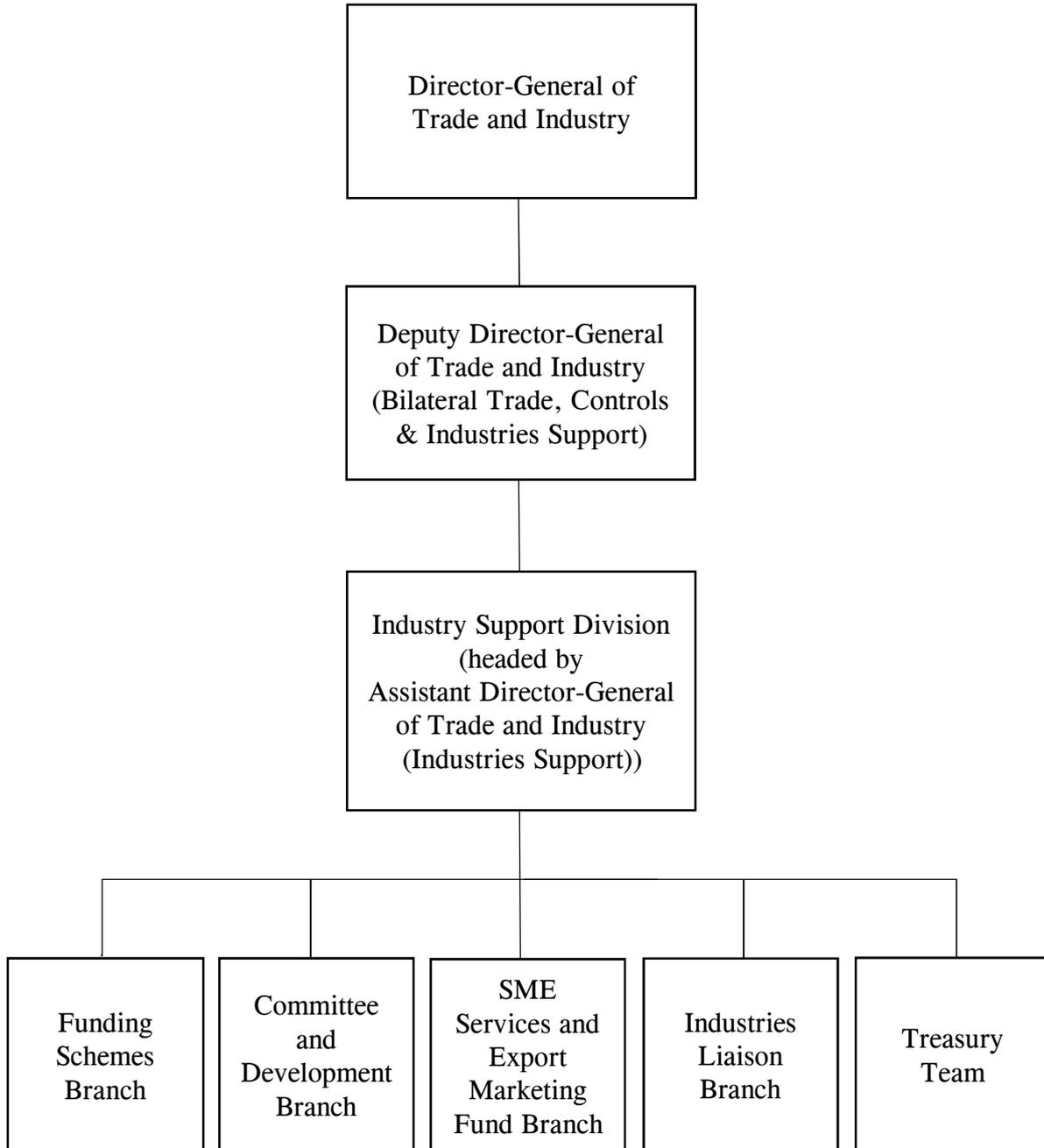
- (a) take measures to encourage non-official members of the Vetting Committee to attend Vetting Committee meetings and be present as far as possible at all sessions of the meetings they attend to assess and approve SDF funding applications; and**
- (b) specify quorum requirement for the Vetting Committee meetings.**

Response from the Government

5.18 The Director-General of Trade and Industry generally agrees with the audit recommendations. She has said that:

- (a) the TID will continue to make its best effort to facilitate members in attending the Vetting Committee meetings. The Secretariat will mark members' diaries for the tentative meeting dates of the year (usually two days for each quarter) at the start of each year. Prior to each meeting, the Secretariat will remind and re-confirm members' availability and fix the meeting on dates with the highest number of available members. Depending on the number of applications, sometimes a meeting may last for two days; and**
- (b) for each meeting, the Secretariat ensures that there is a reasonable number of members available before fixing the date of meeting. Nonetheless, the Vetting Committee has formally adopted a quorum requirement since September 2018.**

TID: Organisation chart (extract)
(31 July 2018)



Source: TID records

Acronyms and abbreviations

Audit	Audit Commission
BAS	Business Advisory Service
BUD Fund	Dedicated Fund on Branding, Upgrading and Domestic Sales
EMF	SME Export Marketing Fund
FC	Finance Committee
LegCo	Legislative Council
NCSC	Non-Civil Service Contract
PLIs	Participating lending institutions
SDF	SME Development Fund
SGS	SME Loan Guarantee Scheme
SMEC	Small and Medium Enterprises Committee
SMEs	Small and medium enterprises
SpGS	Special Loan Guarantee Scheme
SUCCESS	Support and Consultation Centre for SMEs
TID	Trade and Industry Department