

Motion on
“Supporting SMEs to tide over the financial tsunami”
at the meeting of the Legislative Council on 12 November 2008

Progress Report

Purpose

At the Legislative Council meeting of 12 November 2008, the motion moved by Hon Vincent Fang Kang, as amended by Hon Tanya Chan and Hon Jeffery Lam Kin-fung, on “Supporting small and medium enterprises to tide over the financial tsunami” was carried. This paper reports on the progress of actions taken by the Administration.

Establishing an inter-departmental task force for supporting small and medium enterprises (SMEs) and revitalizing the economy

2. In response to the current financial crisis, the Chief Executive announced in his Policy Address last year that he would establish the Task Force on Economic Challenges (TFEC) to monitor and assess the impact of the financial tsunami on the local economy and our major industries. The TFEC will propose specific options for the Government and business community to address the challenges and turn the crisis into business opportunities. TFEC has held three meetings.

3. TFEC members have come up with proposals for creating employment and stimulating the economy. Examples include accelerating infrastructural projects to create jobs for the construction sector and providing more temporary and training positions for graduates and youths. The Government has agreed to implement some of these recommendations and will study the others in detail. Feasible measures will be implemented without delay. TFEC members also supported the Government’s proposal to launch the Special Loan Guarantee Scheme (details at para. 13).

4. The Government’s priority is to preserve employment and support enterprises so that lay-offs and closures can be reduced. Supporting SMEs is an important part of preserving employment. The Government will also make the best use of its resources to stimulate the economy and create jobs so as to minimise the impact of the recession.

5. The Financial Secretary has also convened inter-departmental meetings to coordinate efforts of various bureaux and departments in formulating and launching a series of support measures for enterprises. In considering concrete measures, the Government has all along maintained close contact with the Legislative Council, chambers of commerce and the trade and has followed up on their proposals.

6. To facilitate the understanding of enterprises the support measures from which they can benefit, the Trade and Industry Department (TID) and five major industrial and trade organisations had organised a large-scale seminar on 15 January 2009 to brief SMEs on the support measures provided by the Government and industry support organizations.

Formulating long-term plans to support the development of the industries engaging in local consumption

7. The Government will keep abreast with the needs of the market and strive to provide a stable, transparent and conducive business environment in order to help the establishments explore business opportunities. At its first meeting, the TFEC had agreed to focus its work on four sectors, including tourism and consumption-related services. The task force will consider ways to respond, identify new opportunities, and enhance the competitiveness of these industries.

8. The Government has also been providing support for various industries to enhance their competitiveness through the services of various departments and industry support organisations. Among them, the SME Development Fund of the TID provides financial support to projects carried out by support organisations, trade and industrial organisations, professional bodies or research institutes to enhance the competitiveness of SMEs in general or in specific sectors.

9. We will also continue to promote the development of the tourism industry, thereby driving local sectors such as retail, catering and hotels. We will strengthen our efforts in opening up new source markets and high-end sectors such as cruise and MICE (Meetings, Incentives, Exhibitions and Meetings) tourism. Since December last year, eligible Shenzhen non-permanent residents could visit Hong Kong in group tour. The Central Government also announced two pilot measures to further facilitate Mainland residents to visit Hong Kong, namely implementing arrangements for non-Guangdong residents in Shenzhen to apply for Individual Visit Scheme (IVS) endorsements in Shenzhen to visit Hong

Kong; and allowing eligible Shenzhen residents multiple entries into Hong Kong within one year with IVS endorsement. These measures will further facilitate visitors from Shenzhen to come to Hong Kong. We will continue to enhance the service quality and attractiveness of Hong Kong tourism, thereby promoting Hong Kong's position as a key tourist destination and encouraging repeat visits.

Encouraging the banks to provide robust credit facilities and credit card payment services to enterprises which have been operating soundly and steadily

10. The Government continues to encourage authorized institutions (AIs) to be supportive of their SME customers. On 19 November 2008, the Hong Kong Monetary Authority (HKMA) issued a circular letter to all AIs to remind them of the need to follow the "Hong Kong Approach to Corporate Difficulties" (Hong Kong Approach) in handling customers experiencing financial difficulties. Where corporate customers experience financial difficulties, AIs should remain supportive and be prepared to consider customers' requests for temporary relief arrangements, such as extension of repayment deadlines. In the event that a debt restructuring is necessary, AIs should follow the Hong Kong Approach and cooperate with other institutions involved in coming up with a restructuring plan acceptable to all parties.

11. On 21 November 2008, the HKMA announced two further measures to encourage banks to continue providing credit. The first relates to AIs' capital adequacy ratio (CAR). Currently, the HKMA requires each locally incorporated bank to maintain a supervisory minimum CAR that is higher than the statutory minimum (8%), with the "premium" determined according to the situation of individual banks. To help local banks perform their financial intermediation role, the HKMA will, on a temporary basis, adopt a flexible approach towards the handling of the relevant "premium" of individual banks where necessary, so that the banks concerned will have more room to conduct lending business.

12. The second measure is an arrangement for the provision of renminbi liquidity to Hong Kong banks operating on the Mainland. The HKMA has worked out an arrangement with the People's Bank of China (PBoC) such that Hong Kong banks operating on the Mainland can approach the PBoC or the HKMA if they need renminbi liquidity. This arrangement aims to help Hong Kong corporations operating on the Mainland to continue to obtain financing from Hong Kong banks on the

Mainland.

Providing guarantee for SMEs' trust receipts and accounts receivables, and increasing the ratio of loan guarantee ratio provided by the Government

13. The Government launched a Special Loan Guarantee Scheme (SpGS) on 15 December 2008. Under the SpGS, the Government provides 70% guarantee for the loans approved by the participating lending institutions. With a total commitment of \$100 billion from the Government, a maximum amount of \$142 billion could be made available in the commercial lending market. All companies (except listed companies), regardless of the number of their employees, industry or type of business, can apply. Each enterprise may obtain a maximum loan of \$6 million. Within this ceiling, \$3 million may be used for a revolving credit line, such as trust receipts and accounts receivable loans. The banking industry has responded positively to the SpGS. Some banks have also established "SME Lending Funds" and launched related publicity campaigns. As at 31 January 2009, 37 lending institutions have joined the SpGS.

14. Apart from the SpGS, the regular SME Loan Guarantee Scheme (SGS) was also enhanced on 6 November 2008 by allowing more flexibility in the use of funds and extending the loan repayment period.

15. Between 6 November 2008 and 31 January 2009, 1,629 loan applications have been approved under the enhanced SGS and the SpGS, involving a total loan amount of \$3.69 billion.

Extending the insurance coverage of the Hong Kong Export Credit Insurance Corporation (ECIC) to include local sales enterprises

16. The ECIC was set up under the Hong Kong Export Credit Insurance Corporation Ordinance to provide export credit insurance services to help exporters develop their businesses. In addition to offering insurance covers to exporters or manufacturers who export on credit terms, the ECIC also protects Hong Kong manufacturers supplying goods to other exporters and buying offices of overseas companies in Hong Kong against non-payment risks arising from insolvency and bankruptcy and payment default. In other words, the ECIC provides insurance covers to all Hong Kong manufacturers provided that the concerned goods are exported on credit terms.

17. As regards the proposal of expanding ECIC's scope of services to cover the credit risks involved in all domestic business transactions, we note that such services are currently available in the private-sector insurance market. We are now working with the insurance industry to consider how they could provide services that will meet SMEs' needs.

Waiving the rentals of all food markets and government markets for one quarter, and waiving the hawkers' licence fees for one year

18. The rentals of Cheung Sha Wan and Western Wholesale Food Markets have all along been determined on a cost recovery basis. The costing review completed in 2008 shows an increase in the overall costs for both the Cheung Sha Wan and Western Wholesale Food Markets. The rentals of both markets have therefore been adjusted upward by 11.4% under the established mechanism from June 2008. However, taking into account the operating environment of the trade, the Government announced in July 2008 a two-month waiver of rentals for government wholesale food markets. In fact, the rentals for both the Cheung Sha Wan and Western Wholesale Food Markets have dropped by about 35% since 1999. As such, even after an increase of 11.4%, the rental level is still slightly lower than the level in 2002-03.

19. In relation to public markets, the overall rental policy for public markets is to charge tenants according to the open market rental (OMR). The rentals of public markets are normally set according to the open auction prices. The upset auction prices of market stalls are determined with reference to the OMR as assessed by the Rating and Valuation Department (RVD). In assessing the rental value of market stalls, the RVD takes into full account the general economic situation of Hong Kong, the actual conditions of individual markets and other relevant factors.

20. In the past, one of the main purposes to build public markets is to resite hawkers on street. The Administration therefore offers rental concession to attract hawkers to move in the markets, i.e. in the first 3 years after moving in the markets, the resiting hawkers pay rentals only at the level of hawker licence fee which is monthly about \$100 instead of OMR. The tenants affected by market relocation plans bid stalls with 75% of OMR as upset prices in stall auctions. Moreover, the rentals of public market stalls have been frozen for ten years since the rental reduction of 30% imposed by the two then Provisional Councils in 1998. In May 2008, the Government announced an extension of the rental freeze to 30 June 2009. As such, many tenants are paying rentals far

lower than the OMR.

21. In his Audit report no. 51 published in November 2008, the Director of Audit pointed out that about 85% of the stall tenants were paying rentals lower than the OMR, 48% of the stall tenants were paying rental at 60% or less of the OMR. As the rentals are lower than the OMR, the Government needs to subsidize to a certain extent. In 2007/08 financial year, the Food and Environmental Hygiene Department (FEHD) subsidized \$160 million on market operation. The Director of Audit also recommended that the Administration should put up for the Legislative Council Panel's consideration as soon as practicable a suitable and aligned rental adjustment mechanism

22. In relation to hawker licence fee, the purpose of hawker licensing is to regulate hawking activities. The nature of a hawker licence is similar to that of a licence or permit for certain types of business, such as karaoke establishment permit, restaurant licence and amusement game centre licence.

23. The hawker licence fee falls under the category of fees charged under the "user pays" principle, i.e. the Government recovers full costs from users for the provision of goods and services or implementation of regulatory schemes. The costs do not include expenses on hawker management and law enforcement under FEHD. There has been no adjustment to the hawker licence fee since 1998 and the Government is currently unable to achieve full-cost recovery for licensing.

24. The Government will keep in view the business environment and economic development, and will review the relevant fees and charges when needed.

Offering rental relief for retail and factory tenants of the Housing Authority (HA)

25. The HA had endorsed on 25 November 2008 to offer rent relief for its retail (including market stall) and factory tenants. A temporary concession in rental at 50% of the net rent, excluding rates and air-conditioning charges are given to retail and factory tenants for a period of 2 months commencing from 1 January 2009 to 28 February 2009. Yet, supermarkets/superstores and banks are excluded from this rent concession exercise. About 2,400 retail tenants and 3,600 factory tenants are benefited from the above measure which will cost the HA a loss of rental income of about \$34.8 million.

26. When the commercial tenancies of the HA expire and due for renewal, due consideration will be given to assess the renewal rent according to the population changes of the public housing estates and the specific circumstances of the estates. Apart from the above, changes of the local economy will also be taken into account. Concerning the impact brought about by the global financial turmoil to the local enterprises, the HA will fully reflect this factor in assessing the renewal rent at a reasonable level. On the other hand, in order to help the factory tenants of the HA to weather the difficulties, flexible approach will be adopted on top of the existing rent review mechanism in the coming few months. In case of need, factory tenants are allowed to continue their operation under a licence at the original rent fixed three years ago. This can enable both parties to have more time to arrive at the new market rent and to make reference from the latest rental evidence of the property market. Once both parties reach consensus to the new market rent, it will take retrospective effect from the original effective date of the renewed tenancy.

27. The HA will continue to keep a close watch at the local economy and will explore possible relief measures to assist the needy commercial tenants to ease their financial difficulties.

Holding over SMEs' provisional payment of profits tax for one year

28. Regarding the holdover of provisional tax, the Inland Revenue Ordinance has provisions that allow flexible arrangement to cater for changes in taxpayers' income. If a taxpayer estimates that his/her income or profits for the current year would be less than 90% of that of the previous year, he/she may, within 28 days before the due date for tax payment, apply to the Inland Revenue Department to hold over the whole or part of the provisional tax accordingly. If an individual taxpayer is unable to pay tax on time due to financial difficulties, he/she may also apply to the Department for paying tax by installment.

Discussing with the Central Government and governments of various provinces and municipalities on further measures for assisting Hong Kong-invested enterprises

29. The Special Administrative Region (SAR) Government has all along been maintaining close contact with the Central authorities and various provincial and municipal governments, especially Guangdong Province which is a popular base for Hong Kong-funded enterprises, to

reflect the difficulties of Hong Kong businesses operating in the Mainland and examine feasible measures to assist them.

30. In response to the impact of the global financial tsunami on Hong Kong's economy, we have in the recent months proposed to the Central Government a series of measures which could assist Hong Kong in overcoming the current difficulties and benefit the Mainland at the same time. These proposals cover the processing trade, Labour Contract Law, Regulations on Democratic Management by Enterprises, assistance to Hong Kong-funded enterprises to exploit the Mainland domestic market, financing problems faced by enterprises, trade settlement in renminbi, etc. The Central Government has actively and positively responded by implementing a package of measures to expand domestic demand and promote steady and relatively fast economic growth. The Central Government also announced in December last year 14 measures to support Hong Kong, including allowing renminbi trade settlement in Hong Kong, further increasing export tax rebate rates, improving the labour system to ease burden on enterprises, facilitating domestic sale of goods by processing trade enterprises, establishing a capital-raising guarantee system for SMEs, striving for early signing of the Supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement this year, etc. Concrete measures have been rolling out, such as announcing four rounds of upward adjustment of export tax rebate rates in 2008, suspending the requirement for paying standing book deposit for the processing trade, adjusting the catalogues of restricted and prohibited products for the processing trade, reducing or exempting administrative levies, reducing the burden of social insurance premium and severance payment for enterprises in difficulties, etc.

31. On the other hand, the Guangdong Province has also rolled out a series of measures to support enterprises, which include establishing a RMB 1 billion loan guarantee company; introducing special funds to support enterprises' restructuring and upgrading; streamlining procedures for enterprises to restructure in situ and relocate; improving the customs clearance procedures, permitting quality enterprises to "pay tax after successful domestic sales" and providing incentives and support for enterprises to exploit and expand domestic sales in the Mainland; clarifying the basis for calculating overtime payment, effective retrospective period and burden of proof as well as the conditions for settlement of economic compensation in respect of the labour system; and reducing the burden of social insurance for enterprises with hardship.

32. The SAR Government will continue to maintain close liaison

with the Central authorities and various provincial and municipal governments through different channels to reflect the trade's suggestions and examine further measures to provide appropriate assistance to Hong Kong businesses (SMEs in particular) to face the prevailing economic environment.

Providing more support for SMEs, including consultancy services and designated loan schemes, so as to assist them in meeting the operational needs of their businesses in the Mainland amid the difficult external environment

33. The Support and Consultation Centre for SMEs (SUCCESS) run by TID continues to provide free business information and consultation services to SMEs. It collaborates with various industrial and trade organisations, professional bodies, private enterprises and other Government agencies to provide SMEs (including new business starters) with a comprehensive range of practical and reliable business information, advice and facilities.

34. On consultation service, SUCCESS continues to operate a "Meet-the-Advisors" Business Advisory Service. Through this service, SMEs may obtain free advice and counseling through face-to-face interviews with accomplished businessmen, professionals and experts of all sectors. In addition, SUCCESS operates an SME Mentorship Programme which provides an opportunity for SME entrepreneurs to learn from and be guided by accomplished businessmen through one-to-one counseling within the one-year mentorship period. Many of the mentors are experienced entrepreneurs who will share with mentees their experiences during crisis situations.

35. SUCCESS also organises seminars, workshops and other activities to help broaden SMEs' business knowledge and enhance their entrepreneurial skills. The Government understands that SMEs are currently facing many challenges and in need of some practical knowledge and skills to tide over the difficult times. In the coming months, SUCCESS will organise more seminars on topics such as seeking new business opportunities, exploring new markets, reducing costs and enhancing productivity, risk and financial management, etc.

36. Through such platforms as "Luncheon Gatherings with Heads of Hong Kong's Trade and Industry Associations" and "Textiles Working Group Meetings", the Hong Kong Economic and Trade Office in Guangdong (GDETO) has actively reached out to the trade to discuss and

exchange views on how Hong Kong enterprises operating in the Mainland can overcome the financial difficulties brought about by the recent financial turmoil. The trade's concerns and views were conveyed to relevant Mainland authorities for their consideration.

37. In order to assist the trade to timely understand the impact of the latest Mainland policies and benefit from the favourable policies provided by the Mainland authorities, the GDETO disseminates latest policies promulgated by the Mainland authority through the GDETO Newsletter issued every week.

38. GDETO also organises or co-organises seminars, including the "Seminar on Labour Contract Law", the "Seminar on Processing Trade Policy" and the "Seminar on Latest Development of Mainland Anti-Tax Avoidance Regulations", etc, to help enhance the trade's understanding of the economic and trade-related policies/regulations and investment environment in the Mainland.

Further extending the scope of assistance provided under the SME Export Marketing Fund (EMF)

39. TID has extended the scope of the EMF twice in March and November 2008 respectively. As a result, the scope of the Fund now covers advertisements on printed trade publications targeting export markets and advertisements on websites of exhibition organisers. The expanded EMF has provided greater flexibility for SMEs to participate in more promotion activities. Response to the enhancement measures is overwhelming. Since the enhancement measures were introduced on 3 November 2008, the average number of applications for the months of November and December 2008 has increased by more than 300% compared with similar figures in the preceding year. TID would continue to monitor the effectiveness and utilisation of EMF and review the scheme from time to time.

Injecting capital into banks by the Government and designating such funds as loans for enterprises

40. Despite the ongoing global financial crisis, the capital adequacy ratios of locally incorporated AIs remain strong and are consistently above the local statutory requirement and international standard of 8%. Therefore, while the HKMA has established a Contingent Bank Capital Facility for the purpose of making available additional capital to locally incorporated banks should this become necessary, no bank has

approached the HKMA for capital support so far. As no capital has been injected into banks, the prerequisite for the UK's approach, i.e. capital investment into banks in return for banks' commitment to maintain certain lending levels to small enterprises and homebuyers, is absent in Hong Kong.

Reducing various types of business license fees across the board

41. In general, the Government's fees and charges policy is to apply the "user pays" principle to recover the full cost of services provided. The Government will continue to monitor the business environment and review the fees and charges as and when necessary.

**Financial Secretary's Office
Commerce and Economic Development Bureau
Financial Services and the Treasury Bureau
Food and Health Bureau
Transport and Housing Bureau
Trade and Industry Department**

February 2009