

Legislative Council Panel on Commerce and Industry
Note on Proposed Enhancement Measures to the
Small and Medium Enterprise Funding Schemes

PURPOSE

This note seeks Members' views on the proposed enhancement measures to the SME Funding Schemes, with a view to strengthening support to the SMEs in the midst of the current financial turmoil.

BACKGROUND

2. The Trade and Industry Department administers the following three SME Funding Schemes —

- (i) the SME Loan Guarantee Scheme (SGS), which helps SMEs secure loans from participating lending institutions (PLIs) with the Government acting as guarantor for up to 50% of the approved loans;
- (ii) the Export Marketing Fund (EMF), which provides cash subsidy to support SMEs' export promotion activities such as exhibitions and business missions; and
- (iii) the SME Development Fund (SDF), which supports non-profit-distributing organisations in carrying out projects to enhance the competitiveness of SMEs.

3. In January 2008, the Finance Committee of the Legislative Council approved an injection of \$500 million into the SME funding schemes to extend the operation of the three schemes. In addition, certain enhancement measures were introduced. For SGS, the maximum amount of loan guarantee for each SME was increased from \$4 million to \$6 million, which consists of (i) a Business Installations and

Equipment Loan (BIE) with a guarantee ceiling of \$5 million (increased from \$2 million); and (ii) a newly introduced Working Capital Loan (WCL) with a guarantee ceiling of \$1 million. For EMF, the maximum cumulative amount of grant an SME may obtain was increased from \$80,000 to \$100,000 (with the ceiling of \$30,000 per application remaining unchanged). The scope of the EMF was also extended to include advertisement on printed trade publications targeting export market, on the condition that such publications were published by exhibition organisers.

4. Details of the three funding schemes are at **Annex I**. The latest funding position and utilisation of the schemes are at **Annex II**.

PROPOSALS

5. The current global financial turmoil has brought about great challenges to many SMEs in Hong Kong. In particular, a number of SMEs are facing liquidity problems, mainly due to poor business, suppliers' unwillingness to grant credit, and lengthening of major buyers' repayment period. As a result, there are calls that the Government should enhance the SME funding schemes to provide greater support to SMEs during this difficult time.

6. Having reviewed the operation of the funding schemes and the demands put forth by the business community, we propose to introduce the following measures to improve the schemes:

SGS

7. For SGS, we propose to —

- (i) do away with the sub-ceilings for BIE and WCL, while maintaining the overall maximum guarantee for each SME at \$6 million. In other words, Government's guarantee can be used to secure loans for either BIE only or WCL only, or a combination of both. This is to address the SMEs' concern that in the prevailing business climate their primary financial

need is to get loans for working capital rather than to buy machines and equipment;

- (ii) extend the maximum guarantee period for WCL from 2 years to 5 years^{Note};
- (iii) increase the indicative ceiling of guarantee exposure for each PLI from \$1.25 billion to \$1.5 billion. As a few PLIs have nearly used up their indicative ceilings, increasing the ceiling can provide additional “quota” for these PLIs in granting loans; and
- (iv) allow each SME to recycle the guarantee once after it has fully paid up the loan backed up by the guarantee. (Under current arrangement, each SME can only use the guarantee limit of \$6 million once.)

EMF

8. For EMF, we propose to —
- (i) increase the overall grant ceiling for each SME from \$100,000 to \$150,000, and the sub-ceiling for each successful application from \$30,000 to \$50,000; and
 - (ii) extend the reimbursable items to include expenditure on advertisements placed on the websites of exhibition organizers, as well as advertisements placed on printed trade publications targeting export markets (i.e. to relax the existing requirement that the publications must be published by exhibition organizers).

^{Note} The maximum guarantee period for BIE is 5 years.

SDF

9. Given the scope of the SDF, it has no direct relevance to the current financial problems faced by the SMEs. The Fund has been operating smoothly and there is no demand from users to change its scope or subsidy level. Since over 70% of the approved projects have a budget below \$1.5 million, the current ceiling of \$2 million should be sufficient. Therefore, we do not propose to introduce any change to the scheme.

FINANCIAL AND STAFFING IMPLICATIONS

10. Finance Committee's approval is required to give effect to the proposals in paragraphs 6 to 8 above. On funding, as we have sought Finance Committee's approval in January this year to inject \$500 million to the three funding schemes, we do not propose a further increase in financial commitment at this stage. The three schemes now have a total approved commitment of \$2.7 billion, with a total financial/guarantee commitment of \$14.35 billion (assuming a 7.5% default rate for the SGS). Based on our original projection, the funding commitment for SGS and EMF/SDF will be used up in 2010 and 2011 respectively. With the implementation of the above enhancement measures, the existing funding commitment will likely be utilized at a quicker pace. We will be monitoring the spending position closely and seek additional funding as and when necessary.

11. Implementation of the enhancement measures will be met by existing staffing resources.

IMPLEMENTATION TIMETABLE

12. Subject to Members' views, we would proceed to seek Finance Committee's approval to the recommendations set out in paragraphs 6 to 8 above. Subject to the approval of Finance Committee, we will implement the enhancement measures as soon as possible upon completion of the necessary legal procedures with the PLIs.

ADVICE

13. We welcome Members' views on the proposals in this note.

Commerce and Economic Development Bureau
Trade and Industry Department
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SME Funding Schemes

SME Loan Guarantee Scheme (SGS)

- SGS helps SMEs secure loans from participating lending institutions (PLIs). Under the SGS, the Government acts as guarantor for up to 50% of the approved loans. The maximum amount of loan guarantee for each SME is \$6 million (i.e. each SME can borrow up to \$12 million from the PLIs).
- SGS consists of two types of loans: (i) a Business Installations and Equipment Loan (BIE) with a guarantee ceiling of \$5 million; and (ii) a Working Capital Loan (WCL) with a guarantee ceiling at \$1 million. The maximum guarantee periods for BIE and WCL are 5 years and 2 years respectively.
- All SMEs with valid business registrations and substantive business in Hong Kong are eligible to apply.
- All applications must be lodged through the PLIs.

SME Export Marketing Fund (EMF)

- EMF supports SMEs' export promotion activities, including participation in exhibitions and business missions, and placing advertisement on printed trade publications targeting export markets, on condition that such publications are published by exhibition organisers.
- For each successful application, the maximum amount of grant is 50% of the total approved expenditure (e.g. exhibition fees, costs for construction of booths, air ticket and hotel charges for exhibitions held outside Hong Kong etc.), subject to a ceiling of \$30,000. The maximum cumulative amount of grant an SME may obtain is \$100,000.

SME Development Fund (SDF)

- SDF supports non-profit-distributing organisations (such as industrial and trade organisations, professional bodies, research institutes etc.) in carrying out projects to enhance the competitiveness of SMEs in general or in specific sectors. Examples of project include seminars, workshops, code of best practices, database etc.
- The maximum amount of grant for each project is 90% of the total approved project expenditure, subject to a ceiling of \$2 million.

**Funding position of the SME Funding Schemes
(as at 30 September 2008)**

	SME Loan Guarantee Scheme	SME Export Marketing Fund	SME Development Fund	SME Training Fund*	Total
Applications approved	20 514	59 477	115	68 677	148 783
Total approved commitment	\$12.6 billion	\$1.75 billion			\$14.35 billion
Amount of guarantee/grant approved	\$10.32 billion	\$967 million	\$128 million	\$263 million	\$11.68 billion
Remaining balance	\$2.28 billion	\$392 million			\$2.67 billion
Utilisation rate	82%	78%			81%
Number of SME beneficiaries	10 680	21 693	N.A.	30 498	NA

* The SME Training Fund has ceased to receive new applications as from 1 July 2005.