

立法會
Legislative Council

LC Paper No. CB(1)403/08-09(01)

Ref : CB1/PL/CI

Panel on Commerce and Industry

Meeting to be held on 16 December 2008

Information on
"Support measures for small and medium enterprises arising
from the global financial turmoil"

Purpose

This paper summarizes the deputations' views received at the special meetings held on 27 October and 1 December 2008 (at the **Appendix**).

Council Business Division 1
Legislative Council Secretariat
15 December 2008

**Support measures for small and medium enterprises arising
from the global financial turmoil**

**Summary of deputations' views received
at the special meetings of the Panel on Commerce and Industry
held on 27 October and 1 December 2008**

1. Bank Credit Facilities

- (a) Financial institutions remained reluctant to grant loans to SMEs despite the increase in Government loan guarantee ratio to 70% under the Special SME Loan Guarantee Loan Scheme (SpGS).
- (b) Cautioned that the indiscriminate tightening of credit by banks would adversely affect otherwise financially viable enterprises, leading to massive business closures, hence aggravating unemployment and undermining social stability.
- (c) Urged lending institutions to fulfill their social responsibility and perform their essential financial intermediation role which included the provision of credit to SME.
- (d) Urged financial institutions to review its lending policy of relying solely on assets/property/orders received as loan security, and to consider approving loans on basis of taxable income/profit of enterprises in the past three years, taking into account the unique nature and needs of individual industries/trades.
- (e) Suggested the Administration to impress upon the banking sector the urgency of providing financial support to SMEs during this difficult time and apply a lower interest rate for SpGS, say 2% or lower.
- (f) Concerned about the long processing time required by banks in vetting loan applications of SME applicants who were already their long-time customers.
- (g) Criticized lending institutions for charging their existing SME customers a high administrative/application fee and a high interest rate (5%+the prevailing commercial lending rate) for loans under the SpGS.
- (h) Urged banks to stop cutting loans, withdrawing standby credit facilities and calling for immediate repayment of existing loans from SMEs.
- (i) Urged the financial institutions to suspend the arrangement to defer payment to retail merchants in respect of credit card transactions.

- (j) The Government should consider providing loans and credit facilities directly to SMEs if the banking sector remained reluctant to provide financial support to SMEs.
- (k) Urged the financial institutions to relax their credit grips on SMEs and to be more flexible in providing robust credit facilities to ease SMEs' hardship during the global financial turmoil.
- (l) The Administration should consider setting up an import and export bank, similar to that adopted by some overseas jurisdictions, so as to provide one-stop-service of export credit insurance, currency exchange and other related financial and credit facilities to exporters.
- (m) The Administration should liaise with the banking sector to consider extending the repayment deadline of loans and the provision of a revolving loan with a longer maturity period for healthy enterprises.
- (n) The Administration should discuss with financial institutions ways to improve the liquidity of enterprises by making reference to account receivable provided by the enterprises concerned when approving loans.

2. Further enhancement to the Small and Medium Enterprise Funding Schemes

- (a) The Administration should consider increasing the loan guarantee ratio of the SME Loan Guarantee Scheme (SGS) from the current 50% to 80% to replace the SpGS under which the Government would provide up to 70% loan guarantee.
- (b) The Administration should consider increasing Government guarantee ratio for SpGS from current 70% to 90% or even 100% to boost banks' confidence in lending to SMEs.
- (c) As an alternative to increasing the Government guarantee ratio which gave lending institutions extra safety margin in lending money, the Administration should consider providing loans to SMEs direct instead of acting merely as a guarantor.
- (d) The Administration should assume a leading role in vetting and approving loan applications for SGS and SpGS instead of relying on lending institutions to approve loan applications.
- (e) Suggested that the Inland Revenue Department be responsible for vetting and approving loan applications on the basis of tax returns for income/profit tax submitted by enterprises for the past three years.

- (f) Hoped that the Commercial Credit Reference Agency would allow a longer grace period and be more flexible over the definition of "default" (failure to make payment in accordance with the terms and conditions of the approved credit facilities with a lapse of more than 60 days after the due date, instead of blacklisting those enterprises which failed to make repayment within the time limit.
- (g) The Administration should consider expanding the remit of the SME Funding Schemes, which aimed at supporting manufacturing industry, to include the wholesale, retail and catering industries.
- (h) The Administration should consider making an industry-specific and short-term arrangement, such as providing 100% credit guarantee for SMEs with difficulties by making reference to the "Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries" introduced in 2003.
- (i) Suggested that while maintaining the overall maximum guarantee for each SME at \$6 million under SGS, the Government should provide loans directly to enterprises up to a limit of \$500,000 each or provide 100% guarantee for the first \$500,000 of the loan arranged by banks, followed by 70% guarantee for the next \$1.5 million and 50% guarantee for the remaining \$4 million. The guarantee could be recycled within two years after the loan was fully paid back.

3. Function of the Hong Kong Export Credit Insurance Corporation (ECIC)

- (a) Consideration should be given to expand the remit of ECIC to cover local sales and provide guarantee to Hong Kong-owned enterprises operating in the Mainland for transactions relating to the Mainland domestic market.
- (b) ECIC should expand its remit to provide cover for the payment risks arising from the buyers' failure to take delivery of goods.
- (c) ECIC should increase indemnity ratios for exporters' insured items.

4. Business Operating Environment

- (a) The Government should formulate long-term policies on the development of commerce and industry and implement measures to stimulate economy, encourage local consumption, and create employment opportunities.
- (b) The Government should suspend the introduction of legislation on minimum wage so as to ease the financial burden of SMEs. The Administration should consider establishing a committee to study how to formulate the

criteria and mechanism for setting the level of minimum wage.

- (c) Consideration should be given to extending the domestic sales of local SMEs in the Mainland market. The Administration should also strengthen support to the logistics sector so as to benefit Hong Kong-owned enterprises operating in the Mainland.
- (d) The Administration should formulate measures to allow the change of vacant industrial buildings to attract Hong Kong-owned enterprises in the Mainland to relocate their production base back to Hong Kong, thus providing more job opportunities.
- (e) The Administration should help enterprises explore business opportunities in emerging markets.
- (f) The Administration should establish a business-friendly environment to attract more investment into the local economy and set up a council to foster the development of SMEs.

5. Business Operating Costs

- (a) The Administration should waive Government rates/rents, lower/freeze the fees of public services relating to business operation such as charges for water, electricity, gas, sewage disposal, etc.
- (b) The Administration should consider allowing businesses to hold over the payment of provisional profit tax and to pay profit tax for 2007-2008 by phases, extending the deadline for tax payment, and waiving penalty for late payment of taxes.
- (c) Urged the Link Management Limited (LML) to suspend rent increase of its shopping arcades. The Administration should take the lead in waiving/reducing rents so as to set an example for LML and the private sector to follow.
- (d) The Government should consider buying back the shares of the Link Real Estate Investment Trust so that the Government could resume the role of a major shareholder and take over the control of the rental policy for shopping arcades under LML.
- (e) Measures on lowering retail prices for fresh pork and chicken should be introduced to help alleviate the burden of SMEs in the catering industry. The Administration should also monitor the fees of public utilities directly affecting the operation costs of the catering industry.

6. Mainland Laws and Regulations

- (a) The Administration should convey SMEs' requests to the Mainland authorities for suspending the implementation of laws/policies with possible adverse impacts on Hong Kong-owned enterprises operating in the Mainland. Consideration should also be given to reducing fees as well as providing concessions to the enterprises concerned.
- (b) Hoped that the Central People's Government (CPG) would increase the export tax rebate for metals manufacturing industry.

7. Other support measures

- (a) The HKSAR Government should take similar positive initiatives to provide greater support to SMEs by making reference to the stimulus package to ease the hardship of enterprises as announced by CPG.
- (b) Urged the Administration to consider handing out cash voucher of \$3,000 and implement broad-stroke measures to encourage spending to ease the hardship of the catering and retail industries and prevent massive business closures.
- (c) The Administration should consider setting up an insurance scheme and a protection fund for the industry.
- (d) Suggested the Administration to create employment opportunities through developing a green community, expanding elderly services, providing school-based child care service and counselling on school-work, improving community facilities and expediting the launch of small scale and minor works projects.
- (e) Urged the Administration to consider relaxing enforcement of illegal hawking, issuing temporary hawker licences, setting up designated area for holders of temporary hawker licences, waiving sewage charge and water charges.
- (f) Called on the Government to launch more mechanical engineering work projects and to consider relaxing requirements on bid bond, retention bond and performance bond in respect of Government projects.
- (g) In view of the crucial role of the logistic industry in the export trade, the Administration should introduce a registration and licensing system to regulate the industry, such as by way of establishing a new regulatory authority.

- (h) As the requirement for undergoing various test on safety, quality and efficacy of products for the registration of Proprietary Chinese Medicines imposed great financial burden on the industry concerned, the Administration should suspend such testing requirement so as to alleviate the hardship of the industry amidst the financial turmoil.
- (i) The Administration should consider removing the hurdles, which had been affecting the development of the beauty and hairdressing industry, by suspending the introduction of accreditation of qualifications in the industry and reviewing the current regulation on beauty treatment devices.
- (j) The Administration should consider increasing the subsidy under the Continuing Education Fund so as to strengthen the competitiveness of local employees. To address the emotional problems arising from the financial turmoil and the subsequent deterioration of economic climate, the Administration should consider deploying more resources on counselling services.

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