

立法會
Legislative Council

LC Paper No. CB(1)2481/10-11(08)(Revised)

Ref : CB1/PL/CI

Panel on Commerce and Industry

Meeting on 21 June 2011

**Updated background brief on the support measures
for small and medium enterprises**

Purpose

This paper gives an account of the support measures for small and medium enterprises (SMEs) and a summary of views and concerns expressed by Members during previous discussions on the subject.

Background

2. The Trade and Industry Department administers the following four SME funding schemes —

- (a) 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;
- (b) the Special Loan Guarantee Scheme (SpGS) which helps enterprises secure loans from PLIs for meeting general business needs to tide over the liquidity problem during the global financial crisis with the Government acting as the guarantor for up to 80% of the approved loans;

- (c) the SME Export Marketing Fund (EMF), which provides cash subsidy to support SMEs' export promotion activities such as exhibitions and business missions; and
- (d) the SME Development Fund (SDF), which supports non-profit-distributing organizations in carrying out projects to enhance the competitiveness of SMEs.

3. As at 20 May 2011, the cumulative amount of loan approved under the SGS amounted to \$34 billion. As for SpGS, the cumulative amount of loan approved since its implementation on 15 December 2008 was \$96.6 billion. As for EMF, the cumulative amount of grants approved was HK\$1.8 billion. Features of the various funding schemes are set out in the **Appendix I**.

Previous discussions

Panel on Commerce and Industry

4. The Panel on Commerce and Industry (CI Panel) followed up closely the progress of the support measures for SMEs, in particular the SpGS, which was introduced in 2008 as a time-limited initiative to tackle the credit crunch problem arising from the global financial crisis.

5. At the CI Panel meeting on 16 November 2010, Panel members noted that the Government had repeatedly extended the application period for the SpGS in response to demand. As the economy had significantly improved and the problem of credit crunch had been alleviated, the application period of the SpGS would be extended until 31 December 2010. After the closing of the application period, all approved loan guarantee would remain in force until expiry of their respective guarantee periods. The maximum guarantee period for each loan would be 60 months or up to 31 December 2015, whichever was earlier.

6. CI Panel members also noted that the Board of the Hong Kong Mortgage Corporation Limited (HKMC) had approved the launching of a SME Financing Guarantee Scheme (SFGS) on 1 January 2011 to assist local enterprises in obtaining loans. Moreover, the Hong Kong Export Credit Insurance Corporation had decided to extend insurance coverage to contracts between Hong Kong enterprises' wholly owned subsidiaries and their buyers starting early 2011. The extension would offer Hong Kong enterprises better credit risk protection. CI Panel members in general welcomed the launching of the SFGS upon expiry of the SpGS. They were keen to ensure

that the SFGS would provide timely assistance to SMEs in obtaining sustainable financing and that the processing of applications and interest rates charged under the SFGS should be as flexible as that of the SpGS. These members also urged the Administration to render more assistance to SMEs in tapping the Mainland domestic market.

Panel on Financial Affairs

7. At the meeting of the Panel on Financial Affairs (FA Panel) on 7 March 2011, the Hong Kong Mortgage Corporation (HKMC) briefed members on the SFGS launched by HKMC on 1 January 2011.

8. FA Panel members noted that the SFGS aimed to provide a flexible, market-oriented scheme with a wider scope of guarantee protection to help local SMEs obtain more stable financing from banks for meeting their funding needs on working capital or acquisition of equipment and assets to support their business operations. The SFGS also helped banks better manage their lending risks and was instrumental in enhancing the stability of the banking sector. The major features of the SFGS and the comparison between the SFGS, SGS and SpGS provided by HKMC are given in **Appendix II** and **III**.

Council meetings

9. At the Council meeting on 16 March 2011, Hon Jeffrey LAM raised a question on measures to enhance enterprises' competitiveness. He called on the Administration to consider setting up fund or loan schemes to assist SMEs in Hong Kong in tapping the domestic market in the Mainland.

10. At the Council meeting on 30 March 2011, Dr Hon LAM Tai-fai raised a question on the impact of recent political instability and natural disasters in other countries. Hon WONG Ting-kwong also moved a motion for debate on the impact of the earthquake in Japan on Hong Kong. During the motion debate, Members expressed the view that the Administration should closely monitor the impact of the disastrous crisis in Japan on the various industries in Hong Kong, and provide appropriate assistance to Hong Kong's SMEs which were facing operating difficulties, by making reference to the SpGS launched in 2008 arising from the global financial crisis.

Special Finance Committee meeting

11. At the special meeting of the Finance Committee to examine the Estimates of Expenditure 2011-2012 on 21 March 2011, questions were raised on the measures to support SMEs, in particular the EMF and SDF.

Members noted that the Trade and Industry Department reviewed its service from time to time to streamline the application procedures and shorten the processing time as far as possible. Since 1 January 2011, the processing time of EMF applications would be completed within 30 days upon receipt of all required documents. The processing time of SDF had been shortened from 70 to 60 working days. The number of applications received and the amount of grants approved under the EMF and SDF in 2008-2010 were summarized below:

SME Export Marketing Fund (EMF)

Year	2008	2009	2010
No. of applications	17 770	31 052	27 846
Amount of grants approved (in million)	\$194	\$388	\$351

SME Development Fund (SDF)

Year	2008	2009	2010
No. of applications	47	69	40
Amount of grants approved (in million)	\$11	\$25.6	\$17.2

Recent developments

12. At the CI Panel meeting on 19 April 2011, members agreed that the CI Panel should discuss at the June meeting the impact of the earthquake and radiation leakage in Japan on Hong Kong enterprises, and the provision of support measures, including funding schemes, for SMEs in coping with the difficulties during the incidents. CI Panel members requested the Administration to seek the views of Hong Kong Trade Development Council, major local trade and industry associations, on the impact of the incidents in Japan on local SMEs. The CI Panel also requested for relevant statistics and figures on Hong Kong's import and export trade before and after the incidents, and any proposed relief measures for SMEs.

Latest position

13. The Administration will brief the CI Panel members on 21 June 2011 on its proposal to increase the financial commitment of the EMF and SDF by \$1 billion, the guarantee commitment of SGS by \$10 billion, and its response to issues raised at the April meeting of the CI Panel.

Relevant papers

Information paper provided by the Administration on progress update on the support measures for small and medium enterprises for the Commerce and Industry Panel meeting on 16 November 2010

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci1116cb1-389-6-e.pdf>

Updated background brief on the support measures for small and medium enterprises for the Commerce and Industry Panel meeting on 16 November 2010

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci1116cb1-389-7-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 16 November 2010

<http://www.legco.gov.hk/yr10-11/english/panels/ci/minutes/ci20101116.pdf>

Information paper provided by the Administration on SME Financing Guarantee Scheme for the Financial Affairs Panel meeting on 7 March 2011

<http://www.legco.gov.hk/yr10-11/english/panels/fa/papers/fa0307cb1-1458-5-e.pdf>

Minutes of the Financial Affairs Panel meeting on 7 March 2011

<http://www.legco.gov.hk/yr10-11/english/panels/fa/minutes/fa20110307.pdf>

Council question raised by Hon Jeffrey LAM on 16 March 2011 on measures to enhance enterprises' competitiveness

<http://www.legco.gov.hk/yr10-11/english/counmtg/hansard/cm0316-translate-e.pdf>

Council question raised by Dr Hon LAM Tai-fai on 30 March 2011 on impact of recent political instability and natural disasters in other countries

<http://www.legco.gov.hk/yr10-11/english/counmtg/hansard/cm0330-translate-e.pdf>

Motion moved by Hon WONG Ting-kwong on 30 March 2011 on concern about the impact of the earthquake in Japan on Hong Kong

<http://www.legco.gov.hk/yr10-11/english/counmtg/hansard/cm0330-translate-e.pdf>

Administration's replies to initial written questions raised by Finance Committee Members in examining the Estimates of Expenditure 2011-2012: serial nos. CEDB(CIT)215

http://www.legco.gov.hk/yr10-11/english/fc/fc/w_q/cedb-cit-e.pdf

Council Business Division 1
Legislative Council Secretariat
17 June 2011

Features of the Special Loan Guarantee Scheme (SpGS)

- (a) The SpGS commenced operation on 15 December 2008.
- (b) The Government has pledged to provide loan guarantee of up to \$100 billion in support of enterprises in obtaining credit facilities from commercial banks.
- (c) SpGS is open to all enterprises (except listed companies) with substantive business in Hong Kong and registered in Hong Kong under the Business Registration Ordinance.
- (d) The loans should be used for meeting the needs of general business use of the applicants.
- (e) The original guarantee ratio is 70% of the approved loan, subject to a maximum loan amount of \$6 million for each enterprise. Within this limit, an enterprise may obtain a revolving credit line of up to \$3 million. With effect from 15 June 2009, the guarantee ratio has been increased to 80% for new loans approved under the scheme, and the maximum loan amount for each enterprise is increased to \$12 million. Within this limit, an enterprise may obtain a revolving credit line of up to \$6 million.
- (f) The original maximum guarantee period for each loan is 36 months or up to 30 June 2012, whichever is earlier. With effect from 15 June 2009, the maximum guarantee period for each loan has been extended to 60 months or up to 31 December 2014, whichever is earlier.

Features of the SME Loan Guarantee Scheme (SGS)

- (a) The SGS aims to help SMEs secure loans from participating lending institutions for acquiring business installations and equipment; and meeting working capital needs of general business uses.
- (b) The overall objective is to assist SMEs to enhance productivity and competitiveness.
- (c) The SGS covers the following two types of loans: Business Installations and Equipment Loans; and Working Capital Loans.
- (d) The amount of guarantee for an SME is 50% of the approved loan, subject to a maximum amount of \$6 million. The guarantee can be used to secure loans for either business installations and equipment or working capital, or a combination of both. The guarantee period is up to a maximum of five years, counting from the first drawdown date of the loan.
- (e) If an SME has fully repaid the business installations and equipment loan(s) or working capital loan(s) backed up by the guarantee under the Scheme, the SME is eligible for the respective guarantee amount one more time, subject to a maximum amount of \$6 million.

Features of the SME Development Fund (SDF)

- (a) The SDF aims at providing financial support to projects carried out by non-profit-distributing organizations operating as support organizations, trade and industrial organizations, professional bodies or research institutes to enhance the competitiveness of Hong Kong's SMEs in general or SMEs in specific sectors. Applicants shall either be a statutory organization, or a registered organization under the laws of Hong Kong Special Administrative Region.
- (b) SDF is administered by the Trade and Industry Department upon the advice of a vetting committee.
- (c) Non-profit-distributing organizations operating as support organizations, trade and industrial organizations, professional bodies or research institutes are eligible to apply. Applicants shall either be a statutory organization, or an organization registered under the laws of the Hong Kong Special Administrative Region.
- (d) Proposed projects should be conducive to the competitiveness of Hong Kong's SMEs in general or in specific sectors. The SDF Secretariat may from time to time invite project applications on specific themes.
- (e) Projects to be supported may include research studies, award schemes, codes of best practice, conferences, seminars, databases, exhibitions, service centres, support facilities and technology demonstration projects.
- (f) SDF will normally fund projects that will be completed in 2 years. Projects which are intended to be operated on a long-term basis have to demonstrate their financial viability subsequent to the cessation of funding support from SDF.
- (g) The maximum amount of funding support for any approved project will be HK\$2 million, or 90% of the total project expenditure (whichever is lower). The applicant organization will have to contribute the remaining amount, which may be in cash, in kind or in the form of third-party sponsorship.

Features of the SME Export Marketing Fund (EMF)

- (a) The EMF aims at helping SMEs expand their businesses through participation in export promotion activities.
- (b) The EMF provides grant to SMEs for their participation in trade fairs/exhibitions and business missions outside Hong Kong, as well as local trade fairs/exhibitions which are export-oriented. Such export promotion activities must be organized by bona fide organizations/companies and directly relevant to the business of the applicants.
- (c) Applicants must participate in the export promotion activities as Hong Kong SMEs and be directly represented by their employers and/or employees in the name of the applicants. Participation through any other means including third party commission will not be accepted. The organizer and any of its related or associated companies are not eligible for applying the EMF in respect of those export promotion activities organized or co-organized by them.
- (d) The EMF also provides grant to SMEs for their advertisements on printed trade publications targeting export markets; as well as advertisements placed on eligible trade websites.
- (e) The maximum amount of grant for each successful application will be 50% of the total approved expenditures incurred by the applicant or \$50,000, whichever is the less.
- (f) The maximum cumulative amount of grant that an SME may obtain from the EMF is \$150,000.

Major Features of the SME Financing Guarantee Scheme (SFGS)

(a) Target Segment and Eligibility	<p>Enterprise must have been in operation for at least one year in Hong Kong as at the date of guarantee application</p> <p>Enterprise shall have and continue to have business operation in Hong Kong and shall have been registered under the Business Registration Ordinance (Chapter 310) (excluding listed companies, lending institutions and affiliates of lending institutions)</p> <p>With sound loan repayment record</p>
(b) Facility Approval Decision	Approval of facility is to be done by the lenders
(c) Guarantee Coverage	50%, 60% or 70%
(d) Maximum Guarantee Period	5 years
(e) Maximum Facility Amount	<p>HK\$12 million</p> <p>(There is no ceiling on overall guarantee commitment by the HKMC under the Scheme)</p>
(f) Re-use of repaid facility amount	No restriction on the number of loan applications, headroom produced within the Maximum Facility Amount after repayment to term loans can be re-used for new credit facilities
(g) Forms of Facilities	Cover term loans and revolving credit lines without any limitation on the proportion between the two types of facilities
(h) Use of Proceeds	<p>The proceeds from the facility must be used for providing general working capital, or acquisition of equipment or assets (excluding residential properties) for the enterprise' business operations</p> <p>The proceeds from the facility must not be used for repaying, restructuring or repackaging existing debts</p>
(i) Maximum Loan Interest Rate	8% per annum in general
(j) Personal Guarantee by Individual Shareholder(s)	Personal guarantee by individual shareholder(s), directly or indirectly, holding more than 50% of the equity interest of the enterprise is required
(k) Guarantee Fee	<p>For core products, the annual guarantee fee rate ranges from around 0.5% to 2.5% of the facility amount</p> <p>Guarantee fee can be settled by single upfront payment or annual payment (it is an option to finance the single upfront guarantee fee payment by the initial drawdown of the facility)</p>

Appendix III

Comparison between the SME Financing Guarantee Scheme and the two loan guarantee schemes offered by the TID

Product Features	SME Loan Guarantee Scheme offered by the TID	Special Loan Guarantee Scheme offered by the TID (no new applications after 31 December 2010)	SME Financing Guarantee Scheme offered by the HKMC
Scheme Guarantee Commitment	HK\$20 billion	HK\$100 billion	No ceiling
Use of Proceeds	<ul style="list-style-type: none"> ▪ For acquiring business installations and equipment relating to the enterprise's business operations ▪ For meeting working capital needs of general business uses 	<ul style="list-style-type: none"> ▪ For meeting the needs of general business uses 	<ul style="list-style-type: none"> ▪ For meeting working capital needs of general business uses ▪ For acquiring equipment or assets relating to the enterprise's business operations (including industrial or commercial properties, but excluding residential properties)
Guarantee Ceiling under the Scheme	50% of the approved loan	70% or 80% of the approved loan (the former applicable to applications submitted to the TID before 15 June 2009, whereas the latter applicable to applications submitted on or after the date)	Options available: 50%, 60% and 70%
Maximum Guarantee Amount / Maximum Facility Amount	Maximum Guarantee Amount of <u>HK\$6 million</u>	Maximum Loan Amount of <u>HK\$12 million</u>	Maximum Loan Amount of <u>HK\$12 million</u>

Product Features	SME Loan Guarantee Scheme offered by the TID	Special Loan Guarantee Scheme offered by the TID (no new applications after 31 December 2010)	SME Financing Guarantee Scheme offered by the HKMC
Reuse of Guarantee Amount / Facility Amount after repayment	Maximum Guarantee Amount can be reused for <u>one time</u>	Not allowed	Unlimited reuse of Guarantee Amount
Form of Facilities	Term loans (<u>excluding</u> revolving credit facilities)	Term loans and revolving credit facilities, but the revolving credit facilities cannot exceed 50% of the Maximum Loan Amount (i.e. HK\$6 million)	Term loans and revolving credit facilities, without the 50% limit on revolving credit facilities
Eligibility	<ul style="list-style-type: none"> ▪ For SMEs only ▪ With substantive business operation in Hong Kong ▪ No need to have one year business operation history 	<ul style="list-style-type: none"> ▪ All enterprises registered in Hong Kong (excluding listed companies and lending institutions) ▪ With substantive business operation in Hong Kong ▪ Incorporated before 15 December 2007 	<ul style="list-style-type: none"> ▪ With one year business operation history in Hong Kong ▪ No restriction on the date of incorporation
Application Processing Time	Respond in 3 days		Respond in 3 days
Claim Processing Time	1 month		10 days