

**For information
on 16 November 2010**

Legislative Council Panel on Commerce and Industry

Progress Update on the Support Measures for Small and Medium Enterprises

This paper appries Members of the latest progress of Government's support to small and medium enterprises (SMEs).

Background

2. SMEs are the pillar of Hong Kong's economy. The Government is committed to supporting the continuous development of SMEs. We would introduce additional support measures in a timely manner to deal with exceptional economic conditions.

Special Loan Guarantee Scheme

3. The Special Loan Guarantee Scheme (SpGS) is a time-limited initiative introduced to tackle the credit crunch problem arising from the global financial crisis. The Government has pledged to provide a total loan guarantee commitment of \$100 billion under the scheme.

4. Since its launch in December 2008, the SpGS has been well received by the trade and has achieved prominent results. As at end October 2010, nearly 37 000 applications have been approved under the SpGS, involving a total loan amount of \$89.5 billion and Government guarantee of \$69.6 billion. The scheme has benefited nearly 20 000 enterprises, of which over 95% are SMEs. It has helped preserve some 330 000 jobs, contributing positively to "supporting enterprises and preserving employment".

5. As at end October 2010, we have received 168 default claims with a total claim amount of \$166 million. The default rate is 0.24% in terms of value. As the majority of the loans under the SpGS have only been approved for about one year and the maximum guarantee period is five years, we expect the number of default claims will increase with time.

6. The economic situation of Hong Kong has shown remarkable improvements in 2010. The financing and cashflow problems faced by enterprises have been largely relieved. The overall labour market has also been stabilised. As far as we understand, the situation in the credit market has by and large returned to the pre-crisis level. According to Hong Kong Monetary Authority's Half-yearly Monetary and Financial Stability Report published in September 2010, domestic loans returned to their pre-crisis peak in the first quarter and grew at a pace of 14% in the second quarter compared with a year earlier. Many SMEs also inform us that the lending environment has greatly improved. In fact, in recent months, there is also a reduction in the number of applications under the SpGS (see **Annex I** for details).

7. As the economy has significantly improved and the problem of credit crunch has been alleviated, the Financial Secretary announced in April this year that the SpGS would be extended for six months for the last time until 31 December 2010. In other words, we will no longer accept new SpGS applications from the participating lending institutions (PLIs) with effect from 1 January 2011, whereas applications received before that date will continue to be processed. After the closing of the application period, all approved loan guarantee will remain in force until expiry of their respective guarantee periods. The maximum guarantee period for each loan will be 60 months or up to 31 December 2015, whichever is earlier. The Trade and Industry Department (TID) has written to all PLIs in mid November, reminding them that the SpGS would soon be closed for applications and the PLIs should make preparation in good time. They should aim to finalise the details of loans with their potential clients well in advance and submit the applications to TID on or before 31 December 2010. TID will also remind the trade of the same through different channels.

SME Loan Guarantee Scheme

8. The existing SME Loan Guarantee Scheme (SGS) will continue to operate and render assistance to SMEs in obtaining loans from PLIs. Under the SGS, the maximum amount of guarantee for each SME is \$6 million. Based on the maximum guarantee ratio of 50%, the corresponding loan amount is \$12 million. The maximum guarantee period is 60 months. The maximum loan amount and guarantee period are the same as those under the SpGS.

9. Since the introduction of the SGS in 2001, the Government has from time to time reviewed its parameters having regard to the needs of SMEs. To cope with the changing economic environment, the SGS has been enhanced many times in terms of the usage of the loan, guarantee ceiling, maximum guarantee period and total guarantee commitment (details of which are set out at **Annex II**). In fact, the guarantee ceiling has been increased by six times, from \$1 million initially to \$6 million at present, and the maximum guarantee period has been extended from 2 to 3 years initially to 5 years at present. The total guarantee commitment has also been raised by over three times.

10. We last introduced a series of enhancement measures¹ in November 2008 to provide SMEs with more support and flexibility in using loans. These enhancement measures were well-received by the trade. Following the enhancement, the number of applications received has increased two to three fold (see **Annex I** for details). It reflects that the enhancement measures can effectively address the needs of the trade.

11. As at end October 2010, the amount of guarantee approved under the SGS is \$14.9 billion. We would continue to closely monitor the utilisation of the scheme as well as the needs of the trade, so as to provide continual support to SMEs.

Market-based Loan Guarantee Scheme

12. In response to suggestions from the market, the Hong Kong Mortgage Corporation Limited is studying the feasibility of launching a market-based loan guarantee scheme for SMEs (including all non-listed enterprises) to provide sustainable support for SME loan financing through the Authorised Institutions in Hong Kong. The scheme would draw reference to the key features of the SpGS, with appropriate adaptation to provide more coverage and flexibility. The introduction of this market-based scheme is expected to complement the SGS in encouraging the Authorised Institutions to extend sustainable financing for the SMEs in Hong Kong.

¹ We introduced the following enhancement measures in November 2008:

- (a) removing the guarantee sub-ceilings for the Business Installations and Equipment Loan and Working Capital Loan, while the overall maximum amount of guarantee for each SME is maintained at \$6 million (i.e. a loan amount of \$12 million) ;
- (b) extending the maximum guarantee period for Working Capital Loan from two years to five years;
- (c) allowing each SME to recycle the guarantee once after it has fully paid up the loan backed up by the guarantee (i.e. each SME will be able to obtain a maximum amount of loan of \$24 million); and
- (d) increasing the indicative ceiling of guarantee exposure for each PLI from \$1.25 billion to \$1.5 billion in order to provide more “quota” for the PLIs in granting loans.

The Hong Kong Export Credit Insurance Corporation (ECIC)

13. In view of the fact that many Hong Kong enterprises have relocated production processes outside Hong Kong and set up subsidiaries in the Mainland or overseas, we consider that ECIC could extend its insurance coverage to support our enterprises in tapping overseas and the Mainland markets. After careful study and discussions with the Government, ECIC considers that it could extend insurance coverage to contracts between Hong Kong enterprises' wholly owned subsidiaries and their buyers. The extension would offer Hong Kong enterprises better credit risks protection when developing businesses in new markets. ECIC is now working on the implementation details and will consult the Members of its Advisory Board on 16 November 2010. It is expected that the new arrangements could commence early next year. We hope that this new measure could further assist SMEs in their trade financing and risk management.

Other Support Measures for SMEs

14. The "SME Export Marketing Fund"² (EMF) and "SME Development Fund"³ (SDF) of TID have been well received by the SMEs. We intend to seek approval from the Finance Committee of the Legislative Council for allocating an additional \$1 billion to these two funding schemes in mid 2011 to provide SMEs with continual support in export promotion and enhancing their competitiveness.

15. The Government has been monitoring market needs closely, so as to ensure that the funds can effectively support the development of SMEs. In the past few years, we have adjusted the coverage of the funds having regard to the needs of the trade. We would continue to keep in view the needs of the trade. For instance, some SMEs are seeking to build their own brands and develop emerging markets. In the coming year, we will encourage eligible applicants to utilise the SDF to initiate projects that could empower SMEs in brand-building and developing emerging markets in the Mainland and overseas.

² The EMF was set up in 2001 to provide grants for SMEs' participation in export promotion activities, including exhibitions and business missions, and placing advertisement on printed trade publications and eligible websites targeting export markets. For each successful application, the maximum amount of grant is 50% of the total approved expenditures, subject to a ceiling of \$50 000. The maximum cumulative amount of grant an SME may obtain is \$150 000.

³ The SDF aims at providing financial support to non-profit-distributing organisations, such as trade and industrial organisations, professional bodies or research institutes to carry out projects which aim at enhancing the competitiveness of SMEs in general or in specific sectors. The maximum amount of funding support for each approved project is 90% of the total project expenditure, subject to a ceiling of \$2 million.

16. In addition, the Support and Consultation Centre for SMEs (SUCCESS) run by TID provides SMEs with free and accessible information and consultation services. SUCCESS organises seminars, workshops and other activities regularly to help SMEs enhance their knowledge and entrepreneurial skills. It also introduces to SMEs useful business strategies and skills relating to survival in adversities and turning crises into opportunities. Through its "Meet-the-Advisors" Business Advisory Service, SUCCESS arranges SMEs (including business start-ups) to meet with experts of various sectors to receive free advice and suggestions. SUCCESS also operates an SME Mentorship Programme which matches SME entrepreneurs with accomplished businessmen as mentors. Through this service, SMEs can learn from and be guided by their mentors through one-on-one counselling during a 12-month mentorship period.

17. The Government has also launched a number of programmes to help enterprises to raise their competitiveness through enhancing product design and applied research. The Government set up the Innovation and Technology Fund (ITF) in 1999 to finance projects that contribute to innovation or technology upgrading in our industries. The ITF has so far approved over 2 200 projects with a total funding of \$5.5 billion. One of the funding programmes under the ITF is the Small Entrepreneur Research Assistance Programme (SERAP) targeted at assisting entrepreneur engaged in technology business. It provides pre-venture capital stage financing to support these entrepreneurs and technology companies⁴ to undertake applied R&D that can be introduced into the commercial market within two years' time. A grant of up to \$4 million will be provided on a dollar-for-dollar matching basis per approved project. From January to October 2010, 16 new R&D projects have been approved under SERAP with a total funding of \$24.21 million.

18. The Government launched the Research and Development Cash Rebate Scheme on 1 April this year, under which enterprises conducting applied R&D projects with the support of the ITF or in partnership with local designated research institutions will enjoy a cash rebate equivalent to 10% of their investments. As at end of October 2010, the Innovation and Technology Commission received 144 applications for cash rebate of some \$4.87 million.

**Commerce and Economic Development Bureau
Trade and Industry Department
November 2010**

⁴ The companies should have less than 100 employees

**Number of Applications Received
under the Special Loan Guarantee Scheme (SpGS) and
SME Loan Guarantee Scheme (SGS)
(January 2008 to October 2010)**

	Month	SpGS	SGS	
2008	January	-	112	
	February	-	62	
	March	-	82	
	April	-	148	
	May	-	156	
	June	-	152	
	July	-	165	
	August	-	119	
	September	-	134	
	October	-	55	
	Implementation of enhancement measures for SGS	→ November	-	97
		→ December	161	402
2009	January	1 074	316	
	February	1 874	115	
	March	2 484	123	
	April	2 100	115	
	May	2 091	114	
	June	2 988	114	
	July	4 023	87	
	August	3 295	65	
	September	2 713	64	
	October	1 858	42	
	November	1 621	52	
	December	1 649	76	
2010	January	1 694	80	
	February	1 271	72	
	March	1 684	121	
	April	1 329	94	
	May	1 289	86	
	June	1 236	70	
	July	831	88	
	August	930	82	
	September	844	81	
	October	742	68	
		Total :	39 781	3 809

Implementation
of enhancement
measures for SGS

Introduction of
SpGS

Development of the SME Loan Guarantee Scheme

Effective Date	Type of Loan⁵	Guarantee Ceiling	Maximum Guarantee Period	Total Commitment
November 2001	BIE	\$1 million	3 years	\$6.6 billion
February 2003	BIE, AWC & ARL	BIE: \$2 million AWC & ARL: \$1 million	BIE: 5 years AWC & ARL: 2 years	\$6.6 billion
May 2005	no change	no change	no change	\$10.6 billion
March 2008	BIE & WCL ⁶	BIE: \$5 million WCL: \$1 million	BIE: 5 years WCL: 2 years	\$12.6 billion
November 2008	no change	\$6 million for BIE or WCL, or a combination of both	BIE & WCL: 5 years	\$12.6 billion
June 2009	no change	no change	no change	\$20 billion

⁵ Names of the different types of loans in full are as follows:

- BIE – Business Installations and Equipment Loan;
- AWC – Associated Working Capital Loan;
- ARL – Accounts Receivable Loan; and
- WCL – Working Capital Loan.

⁶ WCL has replaced AWC and ARL since March 2008.