

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 62 – HOUSING DEPARTMENT**

#### **Subhead 700 General non-recurrent**

**New Item “Rent payment for public housing tenants”**

### **HEAD 147 – GOVERNMENT SECRETARIAT :**

#### **FINANCIAL SERVICES AND THE TREASURY BUREAU (THE TREASURY BRANCH)**

#### **Subhead 700 General non-recurrent**

**Item 881 Electricity charges subsidy for eligible residential accounts**

### **HEAD 156 – GOVERNMENT SECRETARIAT :**

#### **EDUCATION BUREAU**

#### **Subhead 700 General non-recurrent**

**New Item “Provision of a subsidy to day-school students in 2019/20 school year”**

### **HEAD 170 – SOCIAL WELFARE DEPARTMENT**

#### **Subhead 700 General non-recurrent**

**New Item “One-off extra allowance to social security recipients”**

### **HEAD 173 – WORKING FAMILY AND STUDENT FINANCIAL ASSISTANCE AGENCY**

#### **Subhead 700 General non-recurrent**

**New Items “One-off extra allowance to Working Family Allowance recipients”; and “One-off extra allowance to Individual-based Work Incentive Transport Subsidy recipients”**

### **HEAD 152 – GOVERNMENT SECRETARIAT :**

#### **COMMERCE AND ECONOMIC DEVELOPMENT BUREAU (COMMERCE, INDUSTRY AND TOURISM BRANCH)**

#### **Subhead 700 General non-recurrent**

**New item “SME Financing Guarantee Scheme – 90% Guarantee Product”**

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**HEAD 181 – TRADE AND INDUSTRY DEPARTMENT****Subhead 700 General non-recurrent****Item 836 Dedicated Fund on Branding, Upgrading and Domestic Sales****Item 524 Export Marketing and Trade and Industrial Organisation Support Fund**

Members are invited to approve –

- (a) a new non-recurrent commitment of \$1,433 million under Head 62 Housing Department Subhead 700 General non-recurrent for providing one month's rent for lower-income tenants living in the public rental units of the Hong Kong Housing Authority and the Hong Kong Housing Society;
- (b) an increase in commitment by \$5,569 million from \$22,300 million to \$27,869 million under Head 147 Government Secretariat: Financial Services and the Treasury Bureau (The Treasury Branch) Subhead 700 General non-recurrent Item 881 for the provision of a one-off electricity charges subsidy to eligible residential households;
- (c) a new non-recurrent commitment of \$2,250 million under Head 156 Government Secretariat: Education Bureau for provision of a subsidy of \$2,500 for each day-school student in the 2019/20 school year;
- (d) (i) a new non-recurrent commitment of \$3,888 million under Head 170 Social Welfare Department Subhead 700 General non-recurrent for providing a one-off extra allowance to recipients of –

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- (1) Comprehensive Social Security Assistance, that is equivalent to one month of the Comprehensive Social Security Assistance standard rates; and
  - (2) Social Security Allowance, that is equivalent to one month of Old Age Allowance (including those payable under the Guangdong Scheme and Fujian Scheme), Old Age Living Allowance (including Normal Old Age Living Allowance and Higher Old Age Living Allowance and Disability Allowance (including Normal Disability Allowance and Higher Disability Allowance);
- (ii) a new non-recurrent commitment of \$136 million under Head 173 Working Family and Student Financial Assistance Agency Subhead 700 General non-recurrent for providing a one-off extra allowance to recipients of Working Family Allowance, that is equivalent to the average monthly amount of approved months payable to the recipients in their most recently submitted Working Family Allowance applications during the applicable period <sup>1</sup> and eventually approved;

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<sup>1</sup> The applicable period is from the first day of the month in which the Finance Committee (FC) approves this funding proposal to the date when FC's funding approval is obtained, and the six calendar months before that month.

- (iii) a new non-recurrent commitment of \$19 million under Head 173 Working Family and Student Financial Assistance Agency Subhead 700 General non-recurrent for providing a one-off extra allowance to recipients of Individual-based Work Incentive Transport Subsidy, that is equivalent to the average monthly amount of approved months payable to the recipients in their most recently submitted Individual-based Work Incentive Transport Subsidy applications during the applicable period<sup>1</sup> and eventually approved;
- (e)
  - (i) a new loan guarantee commitment of \$33 billion with an expected maximum expenditure of \$5.4 billion under Head 152 Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch) Subhead 700 General non-recurrent for the HKMC Insurance Limited to introduce a new loan guarantee product under its SME Financing Guarantee Scheme;
  - (ii) an increase in commitment by \$2 billion from \$2.5 billion to \$4.5 billion under Head 181 Trade and Industry Department Subhead 700 General non-recurrent Item 836 Dedicated Fund on Branding, Upgrading and Domestic Sales;

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- (iii) extend the coverage of the funding support to economies with which Hong Kong has signed Free Trade Agreements at the time of application under the Dedicated Fund on Branding, Upgrading and Domestic Sales; and
- (iv) an increase in commitment by \$1 billion from \$6.25 billion to \$7.25 billion under Head 181 Trade and Industry Department Subhead 700 General non-recurrent Item 524 Export Marketing and Trade and Industrial Organisation Support Fund.

## PROBLEM

We need to implement a package of measures announced by the Financial Secretary (FS) in August and September 2019 to relieve people's financial burden and support enterprises, especially small and medium enterprises (SMEs) in Hong Kong.

## PROPOSAL

2. We propose to –

- (a) provide the necessary funding to the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HKHS) so that their lower-income tenants will not be required to pay rent for one month. Details are at Enclosure 1;  
Encl. 1
- (b) provide a one-off electricity charges subsidy of \$2,000 to each eligible residential electricity account<sup>2</sup>. Details are at Enclosure 2;  
Encl. 2

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<sup>2</sup> A “residential electricity account” refers to an account to which domestic tariff applies. In determining the applicable tariff, the electricity companies will consider the nature of occupancy. The electricity companies will process the opening and termination of accounts as well as other account-related matters in accordance with their established mechanisms.

Encl. 3 (c) provide a one-off grant of \$2,500 for each student enrolled in secondary day-school, primary school or kindergarten in the 2019/20 school year. Details are at Enclosure 3;

- (d) (i) provide a one-off extra allowance that is equivalent to one month of the Comprehensive Social Security Assistance (CSSA) standard rates for CSSA recipients, and one month of Old Age Allowance (OAA) (including those payable under the Guangdong Scheme and Fujian Scheme), Old Age Living Allowance (OALA) (including Normal OALA and Higher OALA) or Disability Allowance (DA) (including Normal DA and Higher DA) for Social Security Allowance recipients;
- (ii) provide a one-off extra allowance to recipients of Working Family Allowance (WFA) equivalent to the average monthly amount of approved months payable to the recipients in their most recently submitted WFA applications during the applicable period<sup>1</sup> and eventually approved;
- (iii) provide a one-off extra allowance to recipients of Individual-based Work Incentive Transport Subsidy (I-WITS) equivalent to the average monthly amount of approved months payable to the recipients in their most recently submitted I-WITS applications during the applicable period<sup>1</sup> and eventually approved;

Encl. 4 Details are at Enclosure 4.

- (e) (i) introduce a new loan guarantee product under the existing SME Financing Guarantee Scheme (SFGS) administered by the HKMC Insurance Limited (HKMCI) under which 90% guarantee will be provided for approved loans taken out by eligible enterprises from participating lending institutions;
- (ii) inject a total of \$2 billion into the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund), including the \$1 billion injection announced in the 2019-20 Budget;
- (iii) extend the BUD Fund's geographical coverage so as to provide financial support to non-listed Hong Kong enterprises in their exploring and developing markets in the Mainland, the Association of Southeast Asian Nations (ASEAN) and any other economies with which Hong Kong has signed Free Trade Agreements (FTAs), including those to be signed in future; and

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- (iv) inject \$1 billion into the Export Marketing and Trade and Industrial Organisation Support Fund (EMTSF)<sup>3</sup> to further step up the support to SMEs to explore markets outside Hong Kong through the SME Export Marketing Fund (EMF).

Encl. 5

Details are at Enclosure 5.

## JUSTIFICATION

3. Having regard to the current economic situation and outlook in Hong Kong and to counter the challenging external and local economic environments, the FS announced on 15 August and 4 September 2019 two rounds of measures, as set out in paragraph 2 above, to relieve people's financial burden, support enterprises (especially SMEs) and safeguard jobs. The detailed justifications of each supporting measure are set out in the corresponding enclosures.

## FINANCIAL IMPLICATIONS

4. The estimated one-off expenditure and the number of beneficiaries for the measures are as follows –

	<b>Measure</b>	<b>Estimated Expenditure (\$ million)</b>	<b>Estimated Number of Beneficiaries</b>
(a)	Pay one month's rent for lower-income tenants living in the public rental units of HA and HKHS	1,433	About 780 000 tenants
(b)	Provide a one-off electricity charges subsidy of \$2,000 to each eligible residential electricity account	5,569	Over 2.7 million eligible households
(c)	Provide a subsidy to kindergarten, primary and secondary full-time students in Hong Kong at \$2,500 per head in the 2019/20 school year to alleviate parents' financial burden in defraying education expenses	2,250	About 900 000 students

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<sup>3</sup> The EMTSF covers expenditures of the EMF and the Trade and Industrial Organisation Support Fund.

Measure		Estimated Expenditure (\$ million)	Estimated Number of Beneficiaries
(d)	Provide an extra allowance to social security recipients, that is equivalent to one month of the CSSA standard rates, OAA, OALA or DA  Similar arrangements will apply to recipients of WFA and I-WITS	4,043	About 1.33 million eligible social security recipients, 57 000 eligible household receiving WFA and 32 000 eligible I-WITS recipients
(e)	(i) Introduce a new loan guarantee product under HKMCI's SFGS, under which 90 per cent guarantee will be provided for approved loans	5,400	Smaller-sized enterprises, business with relatively less operating experience as well as professionals seeking to set up their own practices
	(ii) Inject another \$1 billion into the BUD Fund and double the funding ceiling per enterprise under its Mainland Programme to \$2 million for supporting enterprises to explore development opportunities, further to the proposal in the 2019-20 Budget to inject \$1 billion into the BUD Fund and to extend the geographical coverage of the funding support to include all economies with which Hong Kong has signed Free Trade Agreements, including those to be signed in future	2,000	Non-listed enterprises
	(iii)		
	(iv) Inject \$1 billion into EMTSF	1,000	SMEs
<b>Total</b>		<b>21,695</b>	



**PUBLIC CONSULTATION**

5. The Transport and Housing Bureau briefed the Legislative Council (LegCo) Panel on Housing on the rent payment proposal on 4 November 2019; the Financial Services and the Treasury Bureau consulted the LegCo Panel on Financial Affairs on the electricity charges subsidy on 4 November 2019; the Education Bureau briefed the LegCo Panel on Education on the student subsidy proposal on 1 November 2019; the Labour and Welfare Bureau briefed the LegCo Panel on Welfare Services on one-off extra allowance to social security, WFA and I-WITS recipients on 11 November 2019; and the Commerce and Economic Development Bureau and Trade and Industry Department consulted the LegCo Panel on Commerce and Industry on the proposed support measures for Hong Kong enterprises on 16 April 2019 (for the proposed injection announced in the 2019-20 Budget) and 29 October 2019. Members were generally supportive of the measures.

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Commerce and Economic Development Bureau  
Education Bureau  
Financial Services and the Treasury Bureau  
Labour and Welfare Bureau  
Transport and Housing Bureau  
Social and Welfare Department  
Trade and Industry Department  
Working Family and Student Financial Assistance Agency

November 2019

## **One month's rent payment for lower-income tenants living in public rental units**

To relieve people's financial burden, we propose to provide the necessary funding to the Hong Kong Housing Authority (HA) and Hong Kong Housing Society (HKHS) to pay one month's rent for lower-income tenants living in their public rental units as announced by the Financial Secretary in August 2019.

### **Implementation details**

2. We propose to pay one month's rent for tenants of HA, tenants of HKHS Group A estates, and tenants of Elderly Persons' Flats of HKHS Group B estates paying normal rent<sup>1,2</sup>. As the measure is intended to ease the burden of lower-income families, it will not be applicable to tenants of HA and HKHS who are required to pay additional rent<sup>3,4</sup> and tenants of non-Elderly Persons' Flats of

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<sup>1</sup> Including tenants receiving rent reduction under Rent Assistance Scheme of HA and HKHS.

<sup>2</sup> HA's tenants also include HA's licencees, who are mainly those living in HA's interim housing. HA's interim housing is allocated to people who are deprived of their living accommodation as a result of natural disasters, Government clearance operations or enforcement actions, but who are not immediately eligible for public rental housing (PRH) allocation.

<sup>3</sup> HA's Housing Subsidy Policy and the Policy on Safeguarding Rational Allocation of Public Housing Resources are commonly referred to as the "Well-off Tenants Policies". Under HA's "Well-off Tenants Policies", households who have lived in PRH for ten years are required to declare their household income and assets (including whether they have ownership of any domestic property in Hong Kong), and thereafter biennially. Those with household income exceeding the prescribed income limits have to pay 1.5 times or double net rent plus rates. Starting from the declaration cycle in October 2017, households with domestic property ownership in Hong Kong, or with household income or net asset value exceeding the prescribed income or net asset limits are required to vacate their PRH flats. If tenants have difficulties to move out by the specified date, HA may issue a licence to allow them to temporarily stay in their flats for a period of not more than 12 months, during which they need to pay a licence fee equivalent to double net rent plus rates or market rent (whichever is higher). Net rent refers to normal rent exclusive of rates.

<sup>4</sup> HKHS has implemented the "Well-off Tenants Policy" since 1 September 2018. The policy is only applicable to the new tenants of HKHS rental estates, and in cases of transferring tenancy to a family member other than the spouse. These households are required to declare their income and assets after residing in the estate for ten years and on a biennial basis afterward. Those who do not have domestic property ownership in Hong Kong but with household income exceeding the prescribed income limits are required to pay 1.5 times or double rent. Households with domestic property ownership in Hong Kong, or with household income or net asset value exceeding the prescribed income or net asset limits, are required to vacate their flats. As at end-October 2019, no tenant was required to pay additional rent to HKHS.

HKHS Group B estates<sup>5</sup>. The proposed arrangement is in line with the practice of the Government's rent payment for public housing tenants in 2015-16.

3. We propose to make the rent payment directly to HA and HKHS. If the Finance Committee (FC) approves the above proposal by end-November 2019, taking into account that HA and HKHS require about one month to one and a half months to conduct the preparatory work, including computer system adjustment, verification of tenancy records and adjustment of auto payment with banks, etc., it is estimated that the concerned tenants of HA and HKHS will not be required to pay the rent for the month of January 2020. The effective rent-free month will be deferred if the proposal is approved by FC after end-November 2019.

### **Financial implications**

4. The one-month rent payment for lower-income public housing tenants will entail one-off expenditure of the Government. The estimated number of beneficiaries and the estimated expenditure in 2019-20 are as follows –

<b>Estimated number of beneficiaries</b>	<b>Estimated one-off expenditure (\$ million)</b>
About 750 000 households living in HA's public rental flats	1,376
About 30 000 households living in public rental flats of HKHS Group A estates and Elderly Persons' Flats of HKHS Group B estates	57
Total	1,433

### **Consultation**

5. The Transport and Housing Bureau briefed the Panel on Housing on the proposal on 4 November 2019. Members were generally supportive of the proposal and urged the Government to implement the measure as soon as practicable. Some Members proposed that the Government consider extending

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<sup>5</sup> As compared to HKHS Group A estates, HKHS Group B estates cater for tenants of relatively higher income.

the scope of the measure to include tenants of HA and HKHS paying additional rent and tenants of non-Elderly Persons' Flats of HKHS Group B estates. The Government has duly considered Members' views and is of the view that the present proposal is appropriate as the one-off helping measure aims to relieve the hardship of lower-income public housing tenants. The Panel also passed a motion urging the Government to appeal to HA and HKHS to provide rent concessions for tenants of their carparks. We have conveyed such views to HA and HKHS for consideration.

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## **One-off electricity charges subsidy to eligible residential households**

To relieve people's financial burden, we propose to provide a one-off electricity charges subsidy of \$2,000 to each eligible residential electricity account<sup>1</sup> (the "new subsidy scheme") as announced by the Financial Secretary in August 2019. The proposed subsidy can be used together with the existing subsidy schemes<sup>2</sup> to cover billed electricity charges of eligible households up to 31 December 2022 or the close of the account, whichever is earlier.

### **Implementation details**

2. In addition to the existing subsidy schemes, we propose to inject a subsidy of \$2,000 into each eligible residential electricity account in 12 instalments under the new subsidy scheme. Based on similar eligibility criteria and operational parameters of the existing subsidy schemes, we propose to credit \$160 to each residential electricity account with CLP Power Hong Kong Ltd or The Hongkong Electric Co., Ltd in existence on the first day<sup>3</sup> of each month for 11 consecutive months and \$240 in the 12<sup>th</sup> month. Subject to funding approval by late November 2019, the first instalment will be injected on 1 January 2020. The credits can only be used for the purpose of offsetting billed charges for electricity consumed under the same account up to 31 December 2022 or the close of the account<sup>4</sup>, whichever is earlier.

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<sup>1</sup> A "residential electricity account" refers to an account to which domestic tariff applies. In determining the applicable tariff, the electricity companies will consider the nature of occupancy. The electricity companies will process the opening and termination of accounts as well as other account-related matters in accordance with their established mechanisms.

<sup>2</sup> The existing subsidy schemes refer to the electricity charges subsidy schemes implemented in 2008, 2011, 2012 and 2013.

<sup>3</sup> Where a change of account holder occurs on the first day of the month, the customer taking up the account will be entitled to the credit. In respect of any one meter, only one account will be eligible for the subsidy in a month.

<sup>4</sup> Residential electricity account holders living in (i) public rental housing (PRH) units of the Hong Kong Housing Authority (HA) or the Hong Kong Housing Society (HS); and (ii) squatters, who will be moved to PRH units of HA/HS owing to redevelopment and major repairs/improvement works and the Government's development clearance exercises respectively, will be allowed to carry forward their unused subsidy to their new electricity accounts on removal up to 31 December 2022. For (i), this will be provided for under the existing commitment of Item 835 Supplementary electricity charges subsidy for eligible public housing tenants affected by redevelopment, major repair or improvement works under Head 147 - Government Secretariat: Financial Services and the Treasury Bureau (The Treasury Branch) Subhead 700 General non-recurrent. For (ii), this will be provided by a separate commitment to be created under delegated authority.

3. As with the existing subsidy schemes, any unused credits in a month under the new subsidy scheme can be carried forward to cover billed electricity charges under the same account. The existing subsidy schemes were approved by the Finance Committee (FC) for operation until 30 June 2016, which was subsequently extended twice to 30 June 2020. We propose to extend the expiry date of the unused credits under the existing subsidy schemes to 31 December 2022 or the close of the account, whichever is earlier, for alignment with that under the new subsidy scheme. We will further review the need to extend the expiry date of unused credits as and when necessary.

4. Apart from the existing subsidy schemes, the Government currently credits \$50 to each eligible residential electricity account with the two electricity companies in existence on the first day of each month for 60 consecutive months, commencing from 1 January 2019, under the Electricity Charges Relief Scheme. Unused credits under the existing subsidy schemes and under the Electricity Charges Relief Scheme will be utilised first in offsetting billed charges. Credits from the new subsidy scheme will only be utilised after the unused credits under the existing subsidy schemes and the Electricity Charges Relief Scheme are exhausted or expired.

5. As with the existing subsidy schemes, we will set out in proper documentation the operating parameters of the subsidy and the obligation of parties involved for compliance by the electricity companies. As part of the control mechanism, the companies will continue to be required to provide the Government with monthly reports on the number of accounts eligible for the subsidy, the amount of credits used in the month and the amount of unused credits carried forward. They will also be required to provide the Government with confirmation from external auditors that the Government has been charged according to the terms of the scheme.

### **Financial implications**

6. As at the end of September 2019, the two electricity companies maintained about 2.76 million residential electricity accounts in total. With the estimated growth pattern<sup>5</sup>, the total subsidy to be granted under the new subsidy scheme will be around \$5.6 billion.

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<sup>5</sup> Drawing on the data for 2016-2018, the number of electricity accounts was estimated to grow at about 1.3% per annum.

7. The total commitment approved by FC for the existing subsidy schemes amounts to \$22.3 billion. As at 31 March 2019, some \$21.7 billion was spent. Subject to FC's approval of the proposed increase in the commitment by \$5.6 billion for the new subsidy scheme, the total commitment will increase from \$22.3 billion to \$27.9 billion.

8. As the Government will pay the electricity companies as and when the billed charges become due, the payment to the companies will spread over the years. On the assumption that the first instalment under the new subsidy scheme will be injected on 1 January 2020, the estimated cash flow of the approved commitment after increase is as follows –

<b>Financial year</b>	<b>\$ billion</b>
Commitment spent up to 31 March 2019	21.74
2019-20	0.97
2020-21	4.29
2021-22	0.58
2022-23	0.29
<b>Total</b>	<b>27.87</b>

## **Consultation**

9. On 4 November 2019, the Financial Services and the Treasury Bureau consulted the Legislative Council Panel on Financial Affairs on the proposal. Members were generally supportive.

## **Background**

10. FC approved on 23 May 2008 a commitment of \$4.4 billion for providing each eligible residential electricity account with a subsidy of \$1,800 vide FCR(2008-09)18. FC subsequently agreed on 18 July 2008 vide FCR(2008-09)41 to increase the subsidy to \$3,600 and to raise the commitment to \$8.8 billion. On 10 June 2011, 1 June 2012 and 7 June 2013, FC agreed vide FCR(2011-12)21, FCR(2012-13)30 and FCR(2013-14)14 to further provide each eligible residential electricity account with a subsidy of \$5,400 in total and to increase the commitment to \$22.3 billion. As at 31 March 2019, the commitment had an unspent balance of about \$0.56 billion.

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**Provision of a Subsidy to Day-school Students in 2019/20 School Year**

To alleviate parents' financial burden in defraying education expenses, as announced by the Financial Secretary in August 2019, we propose to provide a one-off student grant of \$2,500 for each secondary day-school, primary school and kindergarten student in the 2019/20 school year (student grant or the grant), benefitting about 900 000 students in Hong Kong.

**Eligibility Criteria**

2. The student grant will be non-means-tested. All students, as at the date of application, who are enrolled in secondary day-schools, primary schools and special schools (including public sector schools, Direct Subsidy Scheme schools, English Schools Foundation schools, private schools) as well as kindergartens (regardless of whether joining the kindergarten education scheme) offering local or non-local curriculum in Hong Kong, are eligible for the grant. Students of evening schools, students of private studies, holders of student visa for entry into Hong Kong for studies and holders of Form of Recognizance issued by the Immigration Department are ineligible.

3. Taking into account that there are students who should meet the eligibility criteria stated in paragraph 2 above but are enrolled in other programmes owing to special circumstances or their/their parents' choices, the following students are also eligible for the grant –

- (a) Special Child Care Centre: Children at suitable age (i.e. at the age of two years and eight months or above as at 1 September 2019) for kindergarten education attending the Special Child Care Centres subsidised by the Social Welfare Department (SWD) owing to special needs should be treated on par with their counterparts in ordinary kindergartens;
- (b) Full-time Initiation Programme: Newly arrived children may enter mainstream schools direct, or they may choose to attend the six-month full-time Initiation Programme funded by the Education Bureau (EDB). The Initiation Programme aims to provide newly arrived children with learning experience in real classroom situation prior to entering mainstream schools, thereby facilitating their early adaptation to the local environment and fostering whole-person

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development. Students attending such programme should be treated on par with their counterparts who have chosen to enter mainstream schools direct; and

- (c) Full-time Programmes for Secondary 3 School Leavers offered by the Vocational Training Council (VTC): These programmes allow students concerned to choose the Diploma of Vocational Education (formerly named as the Diploma in Vocational Education) for articulation to the Higher Diploma programmes offered by VTC member institutions; students completing the Diploma of Vocational Baccalaureate programmes offered by the Youth College can choose to progress to local or overseas universities, or undergraduate degree and Higher Diploma programmes offered by VTC member institutions. Taking into account the nature of such programmes, these students should be treated on par with their counterparts enrolled in secondary schools offering the senior secondary curriculum.

4. Based on the information in the 2018/19 school year, the estimated number of beneficiaries in the 2019/20 school year will be about 900 000, comprising about 326 000 secondary day-school students, 373 000 primary school students, 9 000 special school students, 175 000 kindergarten students and about 9 000 students<sup>1</sup> of other programmes stated in paragraph 3 above.

### **Implementation Details**

5. To meet parents' expectations for early disbursement of the grant, the application and approval procedures will be simple. The information and supporting documents to be provided by parents will also be kept to a minimum. In this connection, EDB will distribute the application forms and verify the student status via schools; applicants can also download the application forms from the website or obtain them from the Regional Education Offices. As parents generally possess local bank accounts, the subsidy will be disbursed to parents via bank transfer.

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<sup>1</sup> Based on the information in the 2018/19 school year, it is estimated that other eligible students mainly include about 1 900 children attending the Special Child Care Centre funded by the SWD, about 800 students attending the full-time Initiation Programme for Newly Arrived Children funded by the EDB, and about 6 000 students of the VTC.

6. EDB will recruit about 30 non-civil service contract (NCSC) and post-retirement service contract (PRSC) staff to develop the IT systems concerned, handle financial matters, and set up a new office to handle and process applications for the 2019/20 school year, liaise with schools and applicants, arrange payments, handle enquiries and other related matters.

7. Subject to the approval of the Finance Committee (FC), having regard to the time required for the development of the relevant IT systems, staff recruitment and training, etc., EDB will start receiving applications in about six weeks after the approval. EDB expects to start disbursing the grant to parents of eligible students in about six weeks after receiving the applications.

### **Financial implications**

8. The disbursement of a grant of \$2,500 to 900 000 eligible students will involve about \$2.25 billion.

9. EDB will deploy existing resources to recruit NCSC and PRSC staff and to meet the operating expenses of about \$6 million<sup>2</sup> for handling the applications for the 2019/20 school year.

### **Consultation**

10. EDB briefed and consulted the Legislative Council Panel on Education on the proposal and implementation details of this proposal on 1 November 2019. Members generally supported this proposal and its submission to the FC for consideration. Members also requested early implementation. Some Members raised questions on the implementation details of the proposal such as the operating costs, procedures for application and the disbursement of the subsidy. EDB has taken them into account when finalising the implementation details.

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<sup>2</sup> This covers paying service charges to banks for effecting payment through bank accounts; Short Message Service (SMS) charges for SMS communication with applicants on acknowledgements, interim replies and results notification; procurement of services for data entry; and printing of application forms and guidance notes.

**One-off extra allowance for recipients of social security payments, Working Family Allowance and Individual-based Work Incentive Transport Subsidy**

To relieve people's financial burden as announced by the Financial Secretary in August 2019, we propose to provide a one-off extra allowance to recipients of social security payments, Working Family Allowance (WFA) and Individual-based Work Incentive Transport Subsidy (I-WITS).

**One-off extra allowance**

2. Comprehensive Social Security Assistance (CSSA) recipients will receive an extra allowance equivalent to one month of the standard rates for different categories of recipients, including elderly persons, children and able-bodied adults. For recipients of Old Age Allowance (OAA) (including those payable under Guangdong (GD) Scheme and Fujian (FJ) Scheme), Old Age Living Allowance (OALA) (including Higher OALA and Normal OALA), and Disability Allowance (DA) (including Higher DA and Normal DA), the extra allowance will be equivalent to one month of the allowance. The monthly standard rates for different types of CSSA recipients, the monthly rates of allowances under SSA Scheme and examples of one-off extra allowances to CSSA households are set out in the Annex.

Annex

3. Household recipients of WFA will receive an extra allowance equivalent to the average monthly amount of approved months payable to the recipients in their most recently submitted WFA applications during the applicable period<sup>1</sup> and eventually approved. The amount varies from case to case depending on the composition, income and working hours of the households of the applications<sup>2</sup>.

4. For I-WITS recipients, the extra allowance will be equal to the average monthly amount<sup>3</sup> of approved months payable to the recipients in their most recently submitted I-WITS applications during the applicable period<sup>1</sup> and eventually approved.

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<sup>1</sup> The applicable period is from the first day of the month in which the Finance Committee (FC) approves this funding proposal to the date when FC's funding approval is obtained, and the six calendar months before that month.

<sup>2</sup> Based on past payments of WFA, the average monthly amount ranges from around \$400 to \$10,200.

<sup>3</sup> Each I-WITS recipient receives \$300 or \$600 per claim month.

5. This one-off helping measure is estimated to benefit about 1.33 million persons<sup>4</sup> eligible for social security payments, including 320 000 CSSA recipients, 290 000 OAA (including GD Scheme and FJ Scheme) recipients, 570 000 OALA recipients<sup>5</sup> and 160 000 DA recipients<sup>6</sup>, as well as about 57 000 WFA households and 32 000 I-WITS recipients.

## **Implementation**

6. Subject to the approval of the FC of the Legislative Council, the Social Welfare Department and Working Family and Student Financial Assistance Agency will make the necessary adjustments to their computer systems. The one-off extra allowance will be disbursed a month after FC's funding approval is obtained at the earliest.

## **Financial implications**

7. The provision of a one-off extra allowance to eligible recipients of social security payments, WFA and I-WITS will entail a one-off expenditure of about \$3,888 million, \$136 million and \$19 million respectively in 2019-20.

## **Consultation**

8. On 11 November 2019, the Labour and Welfare Bureau briefed the Panel on Welfare Services on the proposal. Members supported the proposal in principle.

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<sup>4</sup> The number of recipients may not add up to the total owing to rounding.

<sup>5</sup> Including about 520 000 Higher OALA recipients and about 50 000 Normal OALA recipients.

<sup>6</sup> Including about 20 000 Higher DA recipients and about 140 000 Normal DA recipients.

**Standard rates under  
the Comprehensive Social Security Assistance (CSSA) Scheme  
and allowances under the Social Security Allowance Scheme**

**A. Standard rates under the CSSA Scheme**

*1. Elderly persons aged 65 or above and non-able-bodied recipients*

	Amount per month (\$)	
	Single person	Family member
<b>(a) Elderly person aged 65 or above</b>		
Able-bodied/50% disabled	3,585	3,375
100% disabled	4,335	3,830
Requiring constant attendance	6,095	5,590
<b>(b) Ill-health/Disabled adult aged under 65</b>		
Ill-health/50% disabled	3,585	3,375
100% disabled	4,335	3,830
Requiring constant attendance	6,095	5,590
<b>(c) Disabled child</b>		
50% disabled	4,030	3,510
100% disabled	4,780	4,270
Requiring constant attendance	6,535	6,035

/2. ....

2. *Able-bodied recipients aged under 65*

Category	Amount per month (\$)
<b>(a) Adult</b>	
<i>Single parent/Family carer</i>	
– in a family comprising not more than two able-bodied adults/children	2,740
– in a family comprising three able-bodied adults/children	2,475
– in a family comprising four or more able-bodied adults/children	2,195
<i>Others</i>	
Single person	2,525
Family member	
– in a family comprising not more than two able-bodied adults/children	2,250
– in a family comprising three able-bodied adults/children	2,030
– in a family comprising four or more able-bodied adults/children	1,810
<b>(b) Child</b>	
Single person	3,035
Family member	
– in a family comprising not more than two able-bodied adults/children	2,515
– in a family comprising three able-bodied adults/children	2,255
– in a family comprising four or more able-bodied adults/children	2,015

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**B. Allowances under the Social Security Allowance Scheme**

	<b>Amount per month (\$)</b>
<b>1. Old Age Allowance (including those payable under the Guangdong Scheme and Fujian Scheme)</b>	<b>1,385</b>
<b>2. Old Age Living Allowance (OALA)</b>	
(a) Normal OALA	2,675
(b) Higher OALA	3,585
<b>3. Disability Allowance (DA)</b>	
(a) Normal DA	1,770
(b) Higher DA	3,540

**C. Examples of one-off extra allowances for households under CSSA Scheme**

1. Single elderly person (aged 65 or above)	\$3,585
2. Single able-bodied adult	\$2,525
3. A two-member CSSA family comprising one elderly person and one 100% disabled elderly person	\$7,205
4. A three-member CSSA family comprising one single parent and two school children	\$6,985
5. A four-member CSSA family comprising two able-bodied adults (one of them being a family carer) and two school children	\$8,035

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**Support measures for Small and Medium Enterprises**

The Hong Kong economy is facing significant downward pressure in 2019. Gross Domestic Product (GDP) fell by 2.9% in the third quarter from a year earlier, compared with an increase of 0.4% in the second quarter. For the first three quarters of 2019 as a whole, the economy contracted by 0.6% over a year earlier. Considering the actual outturn of a 0.6% contraction in the first three quarters of 2019 and the persistent notable downward pressures, the real GDP growth forecast for the year as a whole is revised downwards from 0-1% as announced in the August round of review to -1.3% in the current round. This would be the first annual decline since 2009.

2. Small and medium enterprises (SMEs) are hardest hit by this grave economic situation, brought about by the slowdown of the global economy arising from the trade conflict initiated by the United States (US) and more recently the social unrest. As SMEs account for about 98% of the business establishments in Hong Kong and employ about 45% of our workforce in the private sector, there have been growing demands from the business sector that the Government should introduce swift and effective measures to assist the trade.

3. To support enterprises, especially SMEs, as announced by the Financial Secretary in August and September 2019, we propose to –

- (a) introduce a new loan guarantee product under the existing SME Financing Guarantee Scheme (SFGS) administered by HKMC Insurance Limited (HKMCI) with a total loan guarantee commitment of \$33 billion. Under this new product, 90% guarantee will be provided for approved loans taken out by eligible enterprises from the participating lending institutions (PLIs). The expected maximum expenditure to be incurred by the Government is \$5.4 billion;
- (b) in addition to the \$1 billion injection announced in 2019-20 Budget, inject another \$1 billion into the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) to increase its approved commitment from \$2.5 billion to \$4.5 billion and extend its geographical coverage so as to provide financial support to non-listed Hong Kong enterprises for their exploring and developing markets in the Mainland, the Association of Southeast Asian Nations (ASEAN)<sup>1</sup>

/and .....

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<sup>1</sup> ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.



and any other economies with which Hong Kong has signed Free Trade Agreements (FTAs), including those to be signed in future, through developing brands, upgrading and restructuring their operations and promoting sales in these markets; and

- (c) inject \$1 billion into the Export Marketing and Trade and Industrial Organisation Support Fund (EMTSF)<sup>2</sup> to increase its approved commitment from \$6.25 billion to \$7.25 billion to further step up the support to SMEs to explore markets outside Hong Kong through the SME Export Marketing Fund (EMF).

## **Justifications**

### ***90% Loan Guarantee Product under the SFGS***

4. In order to tide enterprises over potential financing difficulties amidst the economic downturn, and provide additional support to smaller-sized enterprises and businesses with relatively less operating experience, as well as professionals seeking to set up their own practices, which/who often have limited credit history and lack the expertise or resources to produce financial statements, we will introduce a new loan guarantee product under the SFGS through which the HKMCI will provide 90% guarantee for approved commercial loans to these target beneficiaries. The application period will last until 30 June 2022. Major features of this new loan guarantee product (90% guarantee product) are set out below.

### ***Eligibility***

5. Under the existing special concessionary measures of the SFGS (80% guarantee product), applicants must have at least one year of business operation in Hong Kong on the date of guarantee application. Some smaller-sized enterprises and enterprises with less operating experience not meeting this requirement are not eligible for this product. Nor are professionals seeking to set up their own practices. In order to bridge this gap, the proposed 90% guarantee product will lift the requirement on the one year's minimum operation of applicants, and accordingly, also the requirement on submission of financial statements by applicants to that effect.

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<sup>2</sup> The EMTSF covers expenditures of the EMF and the Trade and Industrial Organisation Support Fund.

### *Low Guarantee Fee*

6. The SFGS is a market-based and sustainable loan guarantee scheme. Under the existing 80% guarantee product, lending institutions/enterprises have to pay a guarantee fee, the rate of which is linked to the annual interest rate of the loan and the loan guarantee ratio offered. We consider that a limited guarantee fee payable is in line with the market-based principle of the SFGS and will help share the default risks amongst PLIs, enterprises and the Government.

7. The rate of annual guarantee fee of approved loans under the 90% guarantee product will be set at the same level as the 80% guarantee product, which has been reduced to 0.045 to 0.054 of the annual loan interest rate since November 2018. For example, for a loan of \$1 million at an annual interest rate of 5%, the annual guarantee fee under the new loan guarantee product will be \$2,250.

### *Maximum Loan Guarantee Period and Loan Ceiling*

8. The maximum loan guarantee period for each approved loan under the 90% guarantee product is proposed to be five years from the first drawdown of the facility.

9. Having regard to the needs of smaller-sized enterprises which often have relatively limited credit history and resources to produce financial statements, and those of professionals striking out to set up their own practices, as well as the need to control risk exposure of the Government, the maximum amount of loans each enterprise can obtain guarantee under the 90% guarantee product will be set at \$6 million at any point in time.

10. A comparison of major features of the existing 80% guarantee product and the new 90% guarantee product is at Annex 1.

Annex 1

### ***BUD Fund***

11. Since the introduction of a series of enhancement measures to the BUD Fund in August 2018<sup>3</sup>, the number of applications received and the amount of funding approved from the fourth quarter of 2018 to the third quarter of 2019

/increased .....

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<sup>3</sup> Including injecting \$1.5 billion into the BUD Fund; extending its geographical coverage to include the ASEAN markets, and providing a cumulative funding ceiling of \$1 million for each enterprise under the ASEAN Programme; as well as doubling the cumulative funding ceiling per enterprise under the Mainland Programme to \$1 million.

increased respectively by more than 120% and 210% year-on-year. The number of applications received under its Mainland Programme during the same period also increased significantly by 75% year-on-year, reflecting the enormous need of financial support for local enterprises to tap the huge Mainland market. As the development of the Guangdong-Hong Kong-Macao Greater Bay Area will further open up enormous business opportunities for Hong Kong enterprises, we consider that there is a need to provide more assistance under the BUD Fund to support projects targeted at the Mainland market.

12. At the same time, the US-China trade conflict and other external economic factors have raised market uncertainties in the global economy and impacted on Hong Kong enterprises, especially those engaging in external trade. The trade has expressed concern over business outlook and called for further expansion of the geographical coverage of the BUD Fund to help them diversify and develop new markets.

13. It is the policy objective of the Government to forge closer economic ties with our trading partners in order to provide more opportunities for Hong Kong enterprises. As of October 2019, Hong Kong has signed eight FTAs covering 20 economies<sup>4</sup>. We propose further extending the geographical coverage of the BUD Fund to include all economies with which Hong Kong has signed FTAs such that Hong Kong enterprises can take full advantage of Hong Kong's FTA network, including enhanced legal certainty and better market access for trade in goods and services, in exploring new markets and new business opportunities. In tandem, we will continue our efforts to expand the FTA network. To help Hong Kong enterprises fully capitalise on the business opportunities with our new FTA partners, we further propose extending the geographical coverage of the BUD Fund automatically to our new FTA partners upon their signing of FTAs with Hong Kong in future. Eligible Hong Kong enterprises can apply for the BUD Fund to undertake projects to develop brands, upgrade and restructure business operations and promote sales in those new FTA economies on and after the date of signing of the relevant FTAs. Publicity and promotional activities will be carried out as and when there is geographical extension of the BUD Fund as a result of new FTAs signed.

14. We propose increasing the cumulative funding ceiling for each enterprise by 100% to \$4 million, including \$2 million for projects in the Mainland and \$2 million for projects in ASEAN and other FTA economies.

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<sup>4</sup> Mainland China, New Zealand, the four member states of the European Free Trade Association (i.e. Iceland, Liechtenstein, Norway and Switzerland), Chile, Macao, the ten member states of ASEAN, Georgia and Australia.

Annex 2

The Director-General of Trade and Industry (DGTI) will continue to review and adjust the funding ceilings for each enterprise and that under the Mainland or FTA Programme from time to time, in accordance with the changing market needs and situation. An overview of the proposed enhancement measures is at Annex 2.

### ***EMF***

15. Since the increase in the cumulative funding ceiling from \$200,000 to \$400,000 for each enterprise in August 2018, the number of applications received under the EMF has increased by about 50% year-on-year from the fourth quarter of 2018 to the third quarter of 2019. It is a testimony to the effectiveness of the measure in supporting enterprises.

16. To assist SMEs in looking for business opportunities in the Mainland and other overseas markets as well as exploring new markets amid the current economic environment, we see a strong case to further step up our support to SMEs under the EMF. We therefore propose injecting \$1 billion into EMTSF and thereby further increasing the cumulative funding ceiling under the EMF from \$400,000 to \$800,000 per enterprise. DGTI will continue to review and adjust the funding ceiling and scope of the EMF from time to time, in line with the principles of the EMF and in accordance with the changing market and economic situation.

### ***Other Enhancements***

17. Apart from the above proposals, the trade has also been calling for more flexibility in the deployment of approved funds, a higher proportion of initial payment with less cumbersome application procedures, as well as shortening of processing time of applications of various funding schemes. We have therefore reviewed the operational arrangement of the BUD Fund and the EMF and will implement enhancements to the two funding schemes with a view to providing more timely, flexible and convenient support to enterprises. In particular, we will introduce a new option for applicants to apply for an initial payment of up to 75% of the approved government funding under the EMF to facilitate enterprises in implementing projects. For the BUD Fund, the ratio of initial payment will also be increased from the existing 25% to up to 75% of the approved government funding. A summary of the enhancements implemented/to be implemented is at Annex 3.

Annex 3

**/Control .....**

## **Control and safeguard mechanism**

### ***90% Loan Guarantee Product under the SFGS***

18. For prudent use of public money, the existing safeguard measures under the 80% guarantee product will continue to apply, so as to ensure that only those enterprises with genuine need and a reasonable business prospect will be able to benefit from the 90% guarantee product. The relevant safeguard measures are summarised as follows –

- (a) PLIs are required to exercise professional skill, judgment and care in processing the enterprise's application for a proposed facility to be covered by a guarantee under the SFGS<sup>5</sup>;
- (b) eligible enterprises must have business operation in Hong Kong and be registered in Hong Kong under the Business Registration Ordinance (Chapter 310);
- (c) personal guarantee will need to be provided by individual shareholder(s) who directly or indirectly hold more than 50% of the equity interest of the enterprise;
- (d) the enterprise should have no outstanding defaults at the time of loan application; and
- (e) the loan guaranteed under the SFGS cannot be used for repaying, restructuring or repackaging existing debts (except for allowing refinancing of facilities guaranteed under the SFGS).

19. The HKMCI will be responsible for operating the 90% guarantee product. Similar to the arrangement of the 80% guarantee product, the Government will sign an agreement with the HKMCI (the Agreement) which sets out clearly the rights and obligations of the two parties in connection with the operation of the 90% guarantee product. In particular, the HKMCI will be required to exercise due diligence in accordance with the 'Deed for the SME Financing Guarantee Scheme' entered into between the HKMCI and PLIs and other relevant procedures, and, where applicable, adopt similar principles and standards of care and diligence as those adopted by the HKMCI for other guarantee products under the SFGS. Besides, the Government will set out in detail in the Agreement requirements on the

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<sup>5</sup> PLIs have to abide by the terms and conditions as set out in the "Deed for the SME Financing Guarantee Scheme" entered into between the PLIs and the HKMCI, which is a legally binding document setting out the rights and obligations of the PLIs for participation in the SFGS.

HKMCI to, amongst others, report regularly to the Government on the operation of the 90% guarantee product including but not limited to the usage of the overall loan guarantee commitment, the number of applications approved, the number of beneficiary enterprises, guarantee fees collected, default claims lodged by the PLIs to the HKMCI and the associated payouts made and expenses incurred. The HKMCI will also be required to submit annual audited accounts for the operation of the 90% guarantee product audited by an independent auditor. The Government will closely monitor the operation of the 90% guarantee product to ensure the prudent use of public money.

### ***BUD Fund***

20. The Government has established a Programme Management Committee (PMC) and an Inter-departmental Committee (IDC) to consider applications and monitor the progress of approved projects under the BUD Fund, and engaged the Hong Kong Productivity Council (HKPC) to provide secretariat support for the BUD Fund. For each BUD Fund application, HKPC will provide a preliminary assessment for consideration by IDC, which will then make a recommendation to PMC for consideration and approval. HKPC will monitor and evaluate the progress and effectiveness of the approved projects, and submit progress reports and final reports of the approved projects to PMC after consulting the IDC. HKPC will also submit annual accounts for the operation of the BUD Fund as prepared by an independent auditor.

21. For those applications involving initial payments, given the higher proportion of funds to be disbursed before completion of projects and the package of relaxation arrangements to be introduced, we consider it prudent to put in place safeguard measures to ensure that only enterprises with genuine need will benefit from the enhancement measures and any excess payments could be returned by the grantees or be recouped<sup>6</sup>. We propose building in the requirement of personal guarantee if the aggregate amount of initial payments for each applicant exceeds \$1 million.

### ***EMF***

22. Currently, the EMF is operated on a reimbursement basis such that applicants may apply for reimbursement of expenditures incurred after completion of their promotion activity.

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<sup>6</sup> Circumstances warranting the return/recoupment of excess payments include, e.g., the grantees have received the initial payment but they do not carry out the project(s) eventually; the grantees have completed some but not all of the proposed project measures resulting in the initial payment disbursed exceeding the recognisable funding amount.

23. For applicants opting for initial payments, given the high proportion of funds to be disbursed before completion of activities, relevant safeguard measures will be put in place to minimise abuses and ensure that any excess payments of fund could be returned or recouped. These include requiring an applicant to sign a funding agreement to complete the export promotion activity approved and return the funding to the Government if it fails to complete the activity or if there is excess payment; putting in place a mechanism to recover funding from the applicant and suspend further applications if the applicant fails to return payment to the Government as requested; and setting a cap for initial payment for each applicant at any one time, etc.

24. To ensure transparency, all the rules and guidelines governing the operation of the BUD Fund and the EMF are promulgated on the websites of HKPC and Trade and Industry Department (TID) respectively. This practice will continue with the implementation of the above proposed enhancements. TID will continue to closely monitor the operation of the BUD Fund and the EMF, and review their utilisation and effectiveness from time to time, so as to ensure the prudent use of public money. The safeguard measures may be suitably adjusted as necessary having regard to the implementation situation.

### **Financial implications**

#### ***90% Loan Guarantee Product under the SFGS***

25. The guarantee fees collected by the HKMCI will be set aside to pay default compensations arising from defaulted loans as well as related out-of-pocket expenses under the 90% guarantee product. The remaining balance of guarantee fees, if any, will be returned to the Government. In the event of a shortfall, it will be borne by the Government.

26. The Government will provide a total guarantee commitment of \$33 billion for the 90% guarantee product. The estimated guarantee fees to be collected by the HKMCI will be around \$200 million. Based on the overall assumed default rate of about 16% and the necessary out-of-pocket expenses to be incurred by the HKMCI, which is estimated to be 4.5% of the total default claims, the Government's estimated maximum expenditure (net of guarantee fees collected) under the 90% guarantee product will be around \$5.4 billion.

27. For the sake of financial prudence, except with Members' further approval, the HKMCI will not provide any loan guarantee beyond the \$33 billion loan guarantee commitment or when the expenditure for settling default claims and related costs is about to reach \$5.4 billion, whichever happens earlier.

***/BUD .....***

### ***BUD Fund***

Annex 4

28. The approved commitment of the BUD Fund will increase by \$2 billion to \$4.5 billion and the proposed injection will be able to sustain its operation up to 2022-23 (see Annex 4). The actual annual cashflow will depend on the number of applications approved as well as the amount of funding provided each year.

Annex 5

29. HKPC, which has been administering the BUD Fund from the outset, will continue to operate the BUD Fund for the Government. Similar to the current funding arrangement, part of the administrative and promotion costs, and other necessary expenses for the enhanced measures will be funded by the BUD Fund while the remaining will be contributed by HKPC as the implementation partner. The Government will provide from the approved commitment of the BUD Fund about \$64.4 million annually to HKPC for covering staff and other operating costs of a dedicated team for programme management, administrative support and project monitoring. On-site inspections for selected approved projects will be arranged to help guard against misuse of funds or fraudulent claims. The Government will also disburse about \$19.1 million per annum to HKPC for various publicity and promotional activities, and other implementation expenses<sup>7</sup>. Such provisions to HKPC may be adjusted based on the actual number of applications received and when new markets are covered under the BUD Fund upon their signing of FTAs with Hong Kong in future. We will continue to ensure that the relevant administrative overheads will be reasonable and proportionate to the total approved project funding in the same year. HKPC will contribute about \$9 million per annum in terms of expenses in relation to professional manpower support to supervise, monitor and review the work of the dedicated team, venue rentals and other ancillary technical and support services. The annual estimate of implementation fees for the further enhanced BUD Fund is at Annex 5.

### ***EMF***

Annex 6

30. The approved commitment of the EMTSF will increase by \$1 billion to \$7.25 billion and the proposed injection will allow the EMTSF to operate up to 2024-25 (see Annex 6). The actual annual cashflow will depend on the number of applications received and approved, as well as the amount of funding provided each year.

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<sup>7</sup> Including, among others, the expenses for the development and maintenance of an electronic application and administration system, and engaging organisation(s) with local knowledge of the ASEAN and other FTA markets for providing advisory and support services in application vetting and project monitoring.



31. We expect that the implementation of the proposed enhancement measures of the BUD Fund and the EMF will bring about an increase in the number of applications and the related workload in vetting applications and monitoring approved projects. TID has been gradually redeploying its internal resources to cope with the increased workload of the two funding schemes. We will continue to closely monitor the implementation and seek additional manpower resources through the established mechanism when necessary.

### **Expected benefits**

32. The proposed injections and enhancements will provide additional support to Hong Kong enterprises to develop the Mainland and overseas market, as well as assistance to smaller-sized enterprises and businesses with relatively less operating experience, and professionals seeking to set up their own practices in obtaining financing. The funding provided could also help enhance the overall competitiveness of Hong Kong enterprises and benefit their business operations which could in turn create job opportunities. The number of beneficiaries will depend on a number of factors, including but not limited to the prevailing economic situation of Hong Kong as well as the export markets during the application period, financing needs of individual enterprises, etc.

### **Implementation timetable**

33. Subject to Members' approval of the proposed measures, we plan to launch the new measures proposed above in the first quarter of 2020.

### **Consultation**

34. The Commerce and Economic Development Bureau and TID have briefed the Trade and Industry Advisory Board and the trade, including major trade and industry organisations through our outreaching activities, on the proposed enhancements. They supported our proposals and called for their early implementation. We have also consulted the Legislative Council Panel on Commerce and Industry on 16 April 2019 and 29 October 2019 and Members supported the proposals.

**/Background .....**

## **Background**

### ***SFGS***

35. The Hong Kong Mortgage Corporation Limited<sup>8</sup> (HKMC) launched the market-based SFGS on 1 January 2011 with a view to helping Hong Kong enterprises, particularly SMEs, to obtain financing to meet their needs. In May 2012, to tide enterprises over financing difficulties as a result of possible credit crunch, the Government provided a total loan guarantee commitment of \$100 billion for the HKMC to launch the 80% guarantee product to provide 80% guarantee on loans at a substantially reduced guarantee fee. The expected maximum expenditure to be incurred by the Government under the 80% guarantee product is \$11 billion. The application period of the 80% guarantee product was initially nine months, which was then extended several times to 30 June 2022.

36. As at end-September 2019, a total of 16 712 applications have been approved, involving a total loan amount of about \$69.6 billion and a total guarantee amount of \$55.7 billion, benefitting more than 9 300 enterprises.

### ***BUD Fund***

37. Established in 2012, the BUD Fund provides funding support to non-listed Hong Kong enterprises to enhance their competitiveness and further business development in the Mainland and ASEAN markets through developing brands, upgrading and restructuring operations and promoting sales. The existing cumulative funding ceiling per enterprise is \$2 million, including \$1 million under the Mainland Programme, and \$1 million under the ASEAN Programme. As at end-September 2019, a total of 2 174 applications have been approved, representing a total funding amount of \$950.5 million, benefitting 1 789 enterprises.

38. According to the results of the project completion surveys and annual tracking surveys for the Mainland Programme, around 99% of the responded grantees considered the BUD Fund useful in supporting their business development. Enterprises generally considered that the funded projects helped them in enhancing their overall competitiveness, corporate image and awareness of their brands/projects/services, and increasing sales turnover, etc. Around 97% of the

/responded .....

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<sup>8</sup> To cope with the business development of the HKMC, effective from 1 May 2018, the SFGS business has been transferred to and carried out by the HKMCI, a wholly owned subsidiary of the HKMC. The transfer was reported to the Panel on Commerce and Industry on 20 March 2018 (LC Paper No. CB(1)684/17-18(03)).

responded grantees considered the BUD Fund useful to their long-term development. For the ASEAN Programme launched in 2018, some approved projects have been completed. Supported measures included procurement of samples and equipment, participation in local exhibitions and production of promotional materials, etc. Funded enterprises generally considered that the BUD Fund could enable them to allocate more resources to develop the ASEAN markets and enhance their competitive advantages in promoting their businesses in ASEAN.

### ***EMF***

39. Established in December 2001, the EMF provides financial support to encourage SMEs to expand their markets outside Hong Kong through participation in export promotion activities. The existing cumulative funding ceiling per enterprise is \$400,000. As at end-September 2019, a total of 231 600 applications have been approved, representing a total funding amount of about \$3.65 billion, benefitting about 49 000 enterprises.

40. The trade considers that the EMF has been effective in assisting them in export promotion. About 96% and 98% of the respondents of the ongoing customer satisfaction survey of the EMF are satisfied with the EMF and consider that the EMF has helped increase their marketing activities respectively.

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**Comparison of the Existing 80% Guarantee Product under  
the SME Financing Guarantee Scheme (SFGS) and  
the Proposed 90% Guarantee Product**

<b>Feature</b>	<b>Existing 80% Guarantee Product</b>	<b>Proposed New 90% Guarantee Product</b>
(a) Target Segment	Local small and medium sized enterprises (SMEs) and non-listed enterprises	Smaller-sized enterprises, businesses with relatively less operating experience as well as professionals seeking to set up their own practices
(b) Eligible Borrower	Eligible enterprises must have business operation in Hong Kong and be registered in Hong Kong under the Business Registration Ordinance (Chapter 310), and have good loan repayment record. Listed companies, lending institutions and affiliates of lending institutions are not eligible for the Scheme.	No change, but the requirement for having “good loan repayment record” is revised as having “sufficient repayment ability”.
	They must have business operation for at least one year on the date of guarantee application.	The requirement of having business operation for at least one year on the date of guarantee application, and financial statements is removed.
(c) Approval of Credit Facility	To be done by the lending institutions.	No change.
(d) Guarantee Coverage	80%	90%
(e) Maximum Guarantee Period	Seven years	Five years

<b>Feature</b>	<b>Existing 80% Guarantee Product</b>	<b>Proposed New 90% Guarantee Product</b>
(f) Maximum Amount of Credit Facility Per Enterprise (including its related companies) at any point in time	\$15 million, including credit facilities guaranteed under any guarantee products under the SFGS.	\$6 million, including credit facilities guaranteed under any guarantee products under the SFGS.
(g) Reuse of guarantee amount after loan repayment	Unlimited reuse of guarantee amount after loan repayment, subject to the loan ceiling of \$15 million at the time of application (per (f)).	Unlimited reuse of guarantee amount after loan repayment, subject to the loan ceiling of \$6 million at the time of application (per (f)).
(h) Form of Credit Facilities	Term loans and revolving credit lines, without any restriction on the proportion between the two.	Term loans only.
(i) Use of Credit Facilities	<p>The credit facility must be used for providing general working capital for the enterprise's business operations, or acquisition of equipment or assets (excluding residential properties) in relation to the enterprise's business.</p> <p>The credit facility must not be used for repaying, restructuring or repackaging existing debts (except for allowing refinancing of facilities guaranteed under the SFGS).</p>	<p>No change.</p> <p>Enterprises with credit facilities guaranteed under the existing SFGS may make new applications for switching to 90% guarantee coverage for the loans concerned during the application period of the 90% guarantee product.</p>

Feature	Existing 80% Guarantee Product	Proposed New 90% Guarantee Product
(j) Maximum Loan Interest Rate, which will be reviewed from time to time	10% per annum in general (loans with annual interest rate over 10% but not more than 12% will be considered on a case-by-case basis).	8% per annum for enterprises with operating history of more than three years.  10% for enterprises with operating history of three years or less.
(k) 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.	No change.
(l) Guarantee Fee	Guarantee fee is payable.	No change.
(m) Maximum Guarantee Commitment as provided by the Government	\$100 billion.	\$33 billion.

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**An overview of the proposed enhancement measures to the  
Dedicated Fund on Branding, Upgrading and Domestic Sales**

	<b>Current Arrangement</b>	<b>After Implementation of Further Enhancements</b>
<b>Total Approved Commitment</b>	\$2.5 billion	\$4.5 billion
<b>Geographical Scope</b>	Mainland and the Association of Southeast Asian Nations (ASEAN)	Mainland, ASEAN and other economies which have signed Free Trade Agreements (FTAs) with Hong Kong, now and in future
<b>Cumulative Funding Ceiling per Enterprise</b>	Mainland: \$1 million  ASEAN: \$1 million	Mainland: \$2 million  ASEAN and other FTA economies: \$2 million
<b>Funding Ceiling per Project</b>	\$1 million	\$1 million
<b>Maximum Number of Approved Projects</b>	Mainland: 10 ASEAN: 10	Mainland: 20 ASEAN and other FTA economies: 20

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**Enhancement measures implemented/to be implemented under  
the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund)  
and the SME Export Marketing Fund (EMF)**

**BUD Fund**

- Increasing the ratio of initial payment from 25% to up to 75% of the total approved government funding.
- Removing the requirements for the grantee to open and maintain a separate interest-bearing bank account and to deposit into the account the required amount of matching funds before receiving the initial payment.
- All projects, including those opting for initial payment, can commence upon submission of applications.
- Relaxing the budget cap of individual expenditure items (including procuring/leasing of additional machinery/equipment, producing samples/prototype, patent/trademark/design/utility model registration).
- Allowing more fundable items (including costs for setting up new business entity in the Mainland, procuring/leasing additional machinery/equipment for increasing production capacity under the Mainland Programme, etc.).
- Processing applications on a continual basis instead of by batches on a quarterly basis.

**EMF**

- Introducing an option for an applicant to apply for an initial payment of up to 75% of the total approved government funding.
- Expanding the scope of business mission funded under the EMF to include missions organised by the Government, Government-related or non-profit distributing trade and industrial organisations for the purpose of market expansion with business meetings with the local government, the local trade and industry or the local trade and industrial organisations, or includes factory or site visits.

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**Funding Position of the  
Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund)  
(as at end September 2019)**

Approved commitment	\$2.5 billion
Amount of project grant approved	\$1,213.5 million (BUD (Enterprise Support Programme)(ESP): \$950.5 million BUD (Organisation Support Programme)(OSP) <sup>Note</sup> : \$263.0 million)
Implementation fees provided to The Hong Kong Productivity Council (HKPC)	\$114.3 million
Remaining fund balance	\$1,172.2 million
Injection amount	\$2 billion
Total remaining fund balance	\$3,172.2 million
Estimated annual project grant to be approved after enhancement	\$1,034 million
Annual funding to be provided to HKPC for staff expenditure after enhancement	\$64.4 million
Annual funding to be provided to HKPC for publicity and promotional activities, and other implementation expenses after enhancement	\$19.1 million
Estimated date of fund exhaustion	June 2022

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<sup>Note</sup> The BUD(OSP) was merged with the former SME Development Fund to form the Trade and Industrial Organisation Support Fund (TSF) in October 2018. The amount of project grant approved under BUD(OSP) before the merger was \$263.0 million. After the merger, TSF is funded under the Export Marketing and Trade and Industrial Organisation Support Fund and the BUD Fund is focused on the BUD(ESP).

**Annual Estimate of Implementation Fees for the Dedicated Fund on Branding,  
Upgrading and Domestic Sales (BUD Fund)  
after Further Enhancement<sup>1</sup>**

Item	Funding by Government (\$'000)	Contribution by the Hong Kong Productivity Council (HKPC) (\$'000)	Total (\$'000)
<b>(I) Staff expenditure</b> <ul style="list-style-type: none"> <li>Programme management<sup>2</sup></li> <li>Programme administration, application handling and project monitoring<sup>3</sup></li> </ul> <b>Sub-total</b>	<p style="text-align: center;">-</p> <p style="text-align: center;">64,370</p> <p style="text-align: center;"><b>64,370</b></p>	<p style="text-align: center;">2,800</p> <p style="text-align: center;">4,200</p> <p style="text-align: center;"><b>7,000</b></p>	<p style="text-align: center;">2,800</p> <p style="text-align: center;">68,570</p> <p style="text-align: center;"><b>71,370</b></p>
<b>(II) Other expenditures</b> <ul style="list-style-type: none"> <li>Promotion, publicity, dissemination, computerisation, other support services, audit fees<sup>4</sup></li> <li>Expenses for engaging organisation(s) with local knowledge under the Free Trade Agreement (FTA) programme; travelling expenses for project monitoring<sup>5</sup></li> </ul> <b>Sub-total</b>	<p style="text-align: center;">7,100</p> <p style="text-align: center;">12,000</p> <p style="text-align: center;"><b>19,100</b></p>	<p style="text-align: center;">2,000</p> <p style="text-align: center;">-</p> <p style="text-align: center;"><b>2,000</b></p>	<p style="text-align: center;">9,100</p> <p style="text-align: center;">12,000</p> <p style="text-align: center;"><b>21,100</b></p>
<b>Total</b>	<b>83,470<sup>6</sup></b>	<b>9,000</b>	<b>92,470</b>

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- <sup>1</sup> The Government will continue to closely monitor the workload and expenditures of the HKPC as the implementation partner of the BUD Fund after the further enhancement. To ensure its reasonable allocation of manpower, HKPC submits every year its Annual Implementation Plan (AIP) to the Programme Management Committee (PMC), setting out its work in the following year and the relevant manpower arrangement. Besides, to allow timely monitoring of the overall operation progress and resource utilisation of the programme, HKPC is also required to submit quarterly operational reports to the PMC for endorsement regularly.

Furthermore, we will continue to maintain a cost management and control mechanism in the service agreement to be drawn up with HKPC for implementing the further enhanced programme to ensure that the fees for programme implementation are cost effective. Under the mechanism, the implementation fees to be provided for HKPC can be adjusted based on the actual number of applications received. In summary, if the actual number of applications received exceeds or falls short of the originally estimated number by 10%, either the Government or HKPC may trigger the mechanism and initiate adjustment to the implementation fees to be provided by the Government to HKPC upon review. Suitable provisions would continue to be included in the revised service agreement to ensure that the administrative fees do not exceed 15% of the total approved project funding in the same year.

- <sup>2</sup> HKPC will assign officer(s) at general manager grade or above to oversee the programme implementation. The costs would be contributed by HKPC. The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.
- <sup>3</sup> HKPC will engage a team comprising officers at consultant/assistant consultant and project officer grades to assist in the programme administration, application handling and project monitoring under the lead of dedicated officer(s) at senior consultant grade. Part of the manpower costs will be contributed by HKPC. The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.
- <sup>4</sup> Promotion and publicity expenditures include those for organising seminars, placing advertisements, production of promotion materials, digital marketing and promotional videos and other related expenses. Expenditures for dissemination and computerisation include those for maintenance of a website on the BUD Fund, organisation of symposia, production and distribution of guidebooks for sharing of experience and success stories, development and maintenance of an electronic application and administration system, etc. Other support services include those related to the monitoring of approved projects and recoupment of disbursed grants. Audit fees cover the audit work for HKPC to produce annual audited accounts to the PMC in relation to its provision of services for the BUD Fund. To safeguard the proper use of public money, HKPC will be required to submit audited accounts to the PMC annually.

Part of the above expenditures will be contributed by HKPC. HKPC will include the activities planned to be organised in the coming year and provide estimates for these activities in the AIP for prior approval by the PMC. The Government will disburse to HKPC the actual expenses incurred by the latter on a reimbursement basis.

- <sup>5</sup> For the implementation of the FTA programme, HKPC will engage organisation(s) with local knowledge to serve as its collaboration partner(s) for providing advisory and support services in application vetting and project monitoring. HKPC will also send staff to FTA markets as necessary to monitor the work progress of the above mentioned local partner(s), and to the Mainland for conducting on-site checks of the on-going projects. The Government will disburse to HKPC the actual expenses incurred by the latter on a reimbursement basis.
- <sup>6</sup> The Government will provide about \$64.4 million annually to HKPC for covering the staff cost of a dedicated team for programme management, administrative support and project monitoring. The Government will also disburse about \$19.1 million for various publicity and promotional activities, and other implementation expenses. The above costs are estimated on the basis of the annual implementation fees provided by the Government to HKPC for implementing the BUD Fund upon its enhancement in 2018 and also the actual implementation situation during August 2018 to September 2019 as well as the expected operation situation upon the proposed further enhancement.
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**Funding position of the  
Export Marketing and Trade and Industrial Organisation Support Fund  
(EMTSF)  
(as at end of September 2019)**

Approved commitment	\$6.25 billion
Amount of project grant approved <sup>Note</sup>	\$4,344.4 million
Remaining fund balance	\$1,905.6 million
Injection amount	\$1 billion
Total remaining fund balance	\$2,905.6 million
Estimated annual project grant to be approved after EMF enhancements	\$554 million (TSF: \$74 million EMF: \$480 million)
Estimated date of fund exhaustion	December 2024

<sup>Note</sup> In calculating the approved project grant under the EMTSF, apart from the TSF and EMF, the approved project grant of \$260.7 million under the then SME Training Fund, which was met by the approved commitment of the EMTSF, is also included. The SME Training Fund has ceased to receive application since 1 July 2005.

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