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Panel on Commerce and Industry

Meeting on 20 March 2012

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

Purpose

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

Background

2. The Trade and Industry Department (TID) administers the following four SME funding schemes –

- (a) the SME Loan Guarantee Scheme (SGS), which helps SMEs secure loans from participating lending institutions (PLIs) with the Government acting as guarantor for up to 50% of the approved loans;
- (b) the Special Loan Guarantee Scheme (SpGS) which helps enterprises secure loans from PLIs for meeting general business needs to tide over the liquidity problem during the global financial crisis with the Government acting as the guarantor for up to 80% of the approved loans;
- (c) the SME Export Marketing Fund (EMF), which provides cash subsidy to support SMEs' export promotion activities such as

exhibitions and business missions; and

- (d) the SME Development Fund (SDF), which supports non-profit-distributing organizations in carrying out projects to enhance the competitiveness of SMEs.

3. As at 29 February 2012, the cumulative amount of loan approved under the SGS amounted to \$37.4 billion. As for SpGS, the cumulative amount of loan approved since its implementation on 15 December 2008 was \$95.3 billion. As for EMF, the cumulative amount of grants approved was \$2 billion. Features of the various funding schemes are set out in the **Appendix I**.

Previous discussions

4. Members followed up closely at different forum the progress of the support measures for SMEs, in particular the SpGS, which was introduced in 2008 as a time-limited initiative to tackle the credit crunch problem arising from the global financial crisis.

Panel discussions

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

6. The CI Panel noted that the Board of the Hong Kong Mortgage Corporation Limited (HKMC) had approved the launching of a SME Financing Guarantee Scheme (SFGS) on 1 January 2011 to assist local enterprises in obtaining loans. While members in general welcomed the launching of the SFGS upon expiry of the SpGS, they were keen to ensure that the SFGS would provide timely assistance to SMEs in obtaining sustainable financing and that the processing of applications and interest rates charged under the SFGS should be as flexible as that of the SpGS. These members also urged the Administration to render more assistance to SMEs in tapping the Mainland domestic market.

7. At the meeting of the Panel on Financial Affairs (FA Panel) on 7 March 2011, the Hong Kong Mortgage Corporation (HKMC) briefed members on the SFGS launched by HKMC on 1 January 2011. The FA Panel noted that the SFGS aimed to provide a flexible, market-oriented scheme with a wider scope of guarantee protection to help local SMEs obtain more stable financing from banks for meeting their funding needs on working capital or acquisition of equipment and assets to support their business operations. The SFGS also helped banks better manage their lending risks and was instrumental in enhancing the stability of the banking sector. The major features of the SFGS and the comparison between the SFGS, SGS and SpGS provided by HKMC are given in **Appendix II** and **III**.

8. At the CI Panel meeting on 21 June 2011, the Administration briefed members on the Administration's proposals to inject an additional \$1 billion into EMF and SDF, and to increase the total guarantee commitment under SGS from \$20 billion to \$30 billion. The Panel supported in principle the Administration's proposals to inject additional funding into the SME funding schemes to sustain their continued operation.

9. The CI Panel also noted that HKMC, in consultation with the Commerce and Economic Development Bureau and TID, had announced on 30 May 2011 the introduction of a special arrangement under the SFGS to help local enterprises which were adversely affected by the earthquake and the related nuclear incidents in Japan in March 2011 to tide over the difficult period. Eligible enterprises would receive a waiver of three months' guarantee fee for loans with tenor of three years or less and a waiver of six months' guarantee fee for loans with tenor of more than three years. The special arrangement had come into effect on 1 June 2011 and would last until 31 December 2011.

10. The Administration's funding proposals for the SME funding schemes were approved by the Finance Committee on 18 July 2011.

Council meetings

11. At the Council meetings on 26 October, 9 November and 14 December 2011, Hon Jeffrey LAM and Dr Hon LAM Tai-fai raised questions on measures to assist Hong Kong enterprises, in particular SMEs, in relieving capital flow problems amidst the global financial turmoil. Members called on the Administration to consider relaunching the SpGS.

12. At the Council meeting on 9 November 2011, Dr Hon Philip WONG moved a motion on assisting the public in coping with economic fluctuations. During the motion debate, Members expressed the views that the

Administration should raise the maximum amount of loan guarantee and the guarantee ratio of the SME funding schemes, so that SMEs could be granted sufficient working capital in a timely manner. The Administration should also review the operation and funding criteria of EMF, so that SMEs could develop emerging markets through various channels and lessen their reliance on traditional markets.

Recent developments

13. In the 2012-2013 Budget, the Financial Secretary proposed special time-limited concessionary measures under the SFGS to tide local enterprises over potential financing difficulties in the light of the uncertain external economic environment. The loan guarantee ratio of approved loans would be increased from the existing ceiling of 70% to 80%, while guarantee fee would be reduced substantially, i.e. the guarantee fee payable for an 80% loan guarantee was only about 30% of the existing guarantee fee for a 70% guarantee for approved loans.

14. At the special meeting of the Finance Committee to examine the Estimates of Expenditure 2012-2013 on 7 March 2012, Members raised questions on the SME funding schemes and the SFGS. The Administration advised that in 2012-2013, TID would continue to implement the SGS, EMF and SDF, and the estimated expenditure was around \$320 million. Members noted that as at 31 January 2012, HKMC had received 250 applications and approved 246 applications under the SFGS, involving a total loan amount of around \$840 million and a total guarantee amount of around \$560 million. The remaining applications were under processing.

Latest position

15. The Administration will brief the CI Panel members on 20 March 2012 on the proposal in the 2012-2013 Budget to introduce time-limited concessionary measures under the SFGS.

Relevant papers

[Information paper provided by the Administration on progress update on the support measures for small and medium enterprises for the Commerce and Industry Panel meeting on 16 November 2010](http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci1116cb1-389-6-e.pdf)

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

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

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

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

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

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

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

Minutes of the Financial Affairs Panel meeting on 7 March 2011

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

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

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

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

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

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

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

Information paper provided by the Administration on small and medium enterprises funding schemes and impact of the Japan earthquake on Hong Kong enterprises for the Commerce and Industry Panel meeting on 21 June 2011

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci0621cb1-2481-7-e.pdf>

Updated background brief on the support measures for small and medium enterprises for the Commerce and Industry Panel meeting on 21 June 2011

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci0621cb1-2481-8-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 21 June 2011

<http://www.legco.gov.hk/yr10-11/english/panels/ci/minutes/ci20110621.pdf>

Council question raised by Hon Jeffrey LAM on 26 October 2011 on assistance to small and medium enterprises in relieving capital flow problems

<http://www.legco.gov.hk/yr11-12/english/counmtg/hansard/cm1026-translate-e.pdf>

Council question raised by Dr Hon LAM Tai-fai on 9 November 2011 on measures to assist Hong Kong enterprises

<http://www.legco.gov.hk/yr11-12/english/counmtg/hansard/cm1109-translate-e.pdf>

Council question raised by Dr Hon LAM Tai-fai on 14 December 2011 on measures to assist small and medium enterprises amidst global financial turmoil

<http://www.legco.gov.hk/yr11-12/english/counmtg/hansard/cm1214-translate-e.pdf>

Motion moved by Dr Hon Philip WONG on 9 November 2011 on assisting the public in coping with economic fluctuations

<http://www.legco.gov.hk/yr11-12/english/counmtg/hansard/cm1109-translate-e.pdf>

Administration's replies to initial written questions raised by Finance Committee Members in examining the Estimates of Expenditure 2012-2013: serial nos. CEDB(CIT)002, CEDB(CIT)013, CEDB(CIT)038 and CEDB(CIT)048

http://www.legco.gov.hk/yr11-12/english/fc/fc/w_q/cedb-cit-e.pdf

Council Business Division 1
Legislative Council Secretariat
14 March 2012

Features of the Special Loan Guarantee Scheme (SpGS)

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

Features of the SME Loan Guarantee Scheme (SGS)

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

Features of the SME Development Fund (SDF)

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

Features of the SME Export Marketing Fund (EMF)

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

Major Features of the SME Financing Guarantee Scheme (SFGS)

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

Appendix III

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

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

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