

**For information  
on 16 April 2013**

**Legislative Council Panel on Commerce and Industry**

**Support Measures for Small and Medium Enterprises**

This paper briefs Members on the progress of the implementation of the special concessionary measures under the SME Financing Guarantee Scheme operated by the Hong Kong Mortgage Corporation Limited, and seeks Members' views on the proposal to increase the cumulative grant ceiling for each small and medium enterprise (SME) under the SME Export Marketing Fund.

**Progress of the Special Concessionary Measures under the SME Financing Guarantee Scheme (SFGS)**

2. To tide enterprises especially SMEs over financing difficulties due to possible credit tightening in the light of the prevailing uncertain external economic environment, the Government has provided a total loan guarantee commitment of \$100 billion for the Hong Kong Mortgage Corporation Limited (HKMC) to implement special concessionary measures under its SFGS<sup>1</sup>. Under the special concessionary measures which were launched on 31 May 2012, a loan guarantee ratio of 80% is offered at a concessionary guarantee fee rate. The maximum amount of loans in respect of which each enterprise can obtain loan guarantee under the SFGS (including the special concessionary measures) is \$12 million at any point in time (including both term loans and revolving facilities without any restriction on the proportion between the two). The maximum guarantee period is five years. The Panel has asked us to report the progress of the implementation of the special concessionary measures.

3. The response to the special concessionary measures was very good. As at the end of March 2013, over 6 400 applications have been approved, involving a total loan guarantee amount of over \$22 billion. The average loan

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<sup>1</sup> The SFGS is a market-based loan guarantee scheme launched by the HKMC on 1 January 2011, with a view to helping Hong Kong enterprises, particularly SMEs, to obtain financing to meet their business needs. Under the SFGS, the HKMC provides up to 70% guarantee for approved loans taken out by enterprises from the participating lending institutions. A guarantee fee is payable by the participating lending institution / the enterprise. Under the special concessionary measures, the loan guarantee ratio is increased to 80% and the guarantee fee is substantially reduced by around 70%.

size of the approved applications was around \$4.4 million and the average loan guarantee period is about 4.8 years. About 72% and 28% of the approved applications come from the non-manufacturing sector and the manufacturing sector respectively. Over 4 600 enterprises employing over 120 000 people have benefitted.

4. The original application period for the special concessionary measures was 9 months until the end of February 2013. As the external economic environment remains uncertain, the Financial Secretary announced in the 2013-14 Budget that the application period of the special concessionary measures would be extended for one year up to the end of February 2014, with the continuous support of the \$100 billion total loan guarantee commitment from the Government. We trust that the special concessionary measures will continue to assist enterprises in obtaining loans in the commercial lending market to meet their financing needs.

#### **Increasing the Cumulative Grant Ceiling for Each SME under the SME Export Marketing Fund (EMF)**

5. The EMF, administered by the Trade and Industry Department (TID), aims at encouraging SMEs to participate in export promotion activities, including participating in exhibitions and business missions and placing advertisements on printed trade publications targeting export markets and eligible trade websites. The maximum amount of grant for each application is 50% of the total approved expenditure, subject to a ceiling of \$50,000. The cumulative grant ceiling for each SME under the EMF is \$150,000.

6. Since its launch in 2001, the EMF has been well-received by SMEs. As at the end of March 2013, the EMF has approved over 158 000 applications with a total grant amount of about \$2.36 billion. Over 37 500 SMEs employing about 260 000 people have benefitted.

7. The weak economic performance of Europe and the United States in recent years has brought tough challenges to the export business of SMEs. To tide enterprises over the difficulties and encourage them to explore new business opportunities, the Financial Secretary proposed in the 2013-14 Budget to raise the cumulative grant ceiling for each SME under the EMF from \$150,000 to \$200,000, subject to the meeting of relevant additional conditions. The grant ceiling of each application (\$50,000) remains unchanged.

8. We propose that the additional grant of \$50,000 must be used by SMEs to participate in new export promotion activities, i.e. the applicant enterprises must use the additional grants to participate in export promotion activities other than their activities previously subsidised by the EMF. For

example, the applicant enterprise may participate in different exhibitions, place advertisements on different printed trade publications, or participate in business missions to other places, etc. In other words, applicant enterprises cannot use the additional grants to participate in the same activities previously subsidised by the EMF. This is to encourage SMEs to find new business partners or to try different modes of export promotion activities in order to explore more business opportunities. Around 4 800 SMEs which have exhausted their current cumulative grant ceiling under the EMF can benefit from this proposal immediately, and more SMEs will benefit from the additional grants after they have exhausted their current cumulative grant ceiling.

### Financial Implications

9. Assuming that the around 4 800 SMEs which have exhausted their current cumulative grant ceiling under the EMF will all apply for and exhaust the proposed additional grant of \$50,000, the relevant estimated expenditure is around \$240 million. The expenditure will further increase as more SMEs apply for the additional grants after they have exhausted their current cumulative grant ceiling of \$150,000. The relevant expenditure will be met by the total commitment of \$3.75 billion for the SME Export Marketing and Development Funds. It is estimated that the total commitment can sustain until mid-2015. Additional manpower and administrative expenditure arising from the proposal would be absorbed by the existing resources of TID.

### Public Consultation

10. We briefed the Small and Medium Enterprises Committee on 19 March 2013 on the proposal to increase the cumulative grant ceiling of each SME under the EMF with relevant additional conditions. Members were generally supportive.

### Implementation Timetable

11. Subject to Members' views, we plan to submit the proposal to the Finance Committee in May 2013, with a view to implementing the proposal in June 2013.

### **Background**

12. SMEs are the pillar of Hong Kong's economy. They make up the majority of enterprises in Hong Kong and employ over 1.2 million people, accounting for about half of the private sector workforce. In the face of

persistently weak export markets and a challenging external economic environment, the Financial Secretary announced in the 2013-14 Budget a number of measures to assist SMEs in raising capital and tapping new markets, including the extension of the application period of the special concessionary measures under the SFGS and the proposal to increase the cumulative grant ceiling for each SME under the EMF. Other SME support measures mentioned in the 2013-14 Budget include the opening of more Design Gallery Shops by the Hong Kong Trade Development Council in the Mainland, the introduction of a “Small Business Policy” scheme by the Hong Kong Export Credit Insurance Corporation (ECIC), and the continued implementation of the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund). As regards the operation of the BUD Fund since its launch in June 2012, we will report to the Legislative Council Panel on Commerce and Industry in detail in May 2013.

### **Advice Sought**

13. Members are invited to note this paper and offer views on the proposal of increasing the cumulative grant ceiling for each SME under the EMF as set out in paragraphs 5 to 11 of this paper.

**Commerce and Economic Development Bureau  
Trade and Industry Department  
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