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Panel on Commerce and Industry

Meeting on 16 April 2013

**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 summarises views and concerns expressed by Members during previous discussions on the subject.

Background

2. SMEs are an important pillar of Hong Kong's economy and employment market. They form the majority of enterprises in Hong Kong and employ over 1.2 million people or half of the private-sector workforce. The Administration has been providing assistance to SMEs through various schemes having regard to prevailing economic situation to support their continuous development.

SME funding schemes administered by Trade and Industry Department

3. Four SME funding schemes namely, SME Export Marketing Fund (EMF), SME Development Fund (SDF), SME Loan Guarantee Scheme (SGS) and Special Loan Guarantee Scheme (SpGS)¹ are currently administered by the Trade and Industry Department providing financial support for SMEs.

¹ The SpGS ceased to receive applications from 1 January 2011. The cumulative amount of loan approved under SpGS since its implementation on 15 December 2008 was \$94.7 billion.

4. Following Finance Committee (FC)'s approval at its meeting on 18 July 2011, the total loan guarantee commitment for SGS was increased from \$20 billion to \$30 billion, and the assumed default rate was revised from 7.5% to 5%. The total commitment for EMF and SDF was also increased from \$2.75 billion to \$3.75 billion.

5. As at 28 February 2013, the cumulative amount of guarantee committed under SGS amounted to around \$19.3 billion while the cumulative amount of grants approved under EMF and SDF were around \$2.34 billion and \$0.23 billion respectively.

SME Financing Guarantee Scheme operated by Hong Kong Mortgage Corporation Limited

6. Separately, the Hong Kong Mortgage Corporation Limited (HKMC) launched the SME Financing Guarantee Scheme (SFGS) on 1 January 2011. The SFGS provides 50% to 70% loan guarantee to help enterprises obtain loans from commercial lending market to meet their financial needs in the rapidly changing business environment.

7. To help solve the liquidity problem faced by SMEs in the light of uncertain external economic environment, the Financial Secretary (FS) proposed in the 2012-2013 Budget to introduce a special time-limited 80% guarantee product under the SFGS at a concessionary fee rate. With the Government's support providing a total loan guarantee commitment of \$100 billion, HKMC introduced the special SFGS concessionary measures on 31 May 2012 for a period of nine months up to end of February 2013.

8. According to the Administration, the concessionary measures were well received by the trade. Up to the end of March 2013, over 6 400 applications had been approved, benefiting more than 4 600 enterprises with total loan guarantee of more than \$22 billion.

9. The major features of the four funding schemes administered by TID and the SFGS offered by HKMC are in **Appendix I**.

Previous discussions

10. Members followed up closely at different forums the progress of the support measures for SMEs, in particular the special time-limited concessionary measures under SFGS introduced in May 2012.

Panel discussions

11. At the meeting of the Panel on Commerce and Industry (the Panel) on 20 March 2012, members were briefed on the proposed special concessionary measures under the SFGS. While members generally supported the special time-limited concessionary measures, some members expressed concern whether banks would be reluctant to offer loans to enterprises amidst the credit crunch. Given that the application period of the special concessionary measures would only last for nine months up to the end of February 2013, some members were concerned whether the Administration would continue to provide assistance to SMEs in obtaining sustainable financing. The Panel also called on the Administration to step up publicity and speed up the processing of applications for the benefit of SMEs. The Administration advised that the increase in loan guarantee ratio under the special concessionary measures would reduce the credit risks shouldered by PLIs and help maintain the stability of the banking system thereby providing greater incentives to lending institutions to grant loans to enterprises during times of lending market stress and adverse economic climate. PLIs would be required to sign an agreement with HKMC confirming their participation in SFGS. The Panel noted that the Administration would work closely with HKMC to monitor changes in economic environment and to review the special concessionary measures as and when necessary.

Council meetings

12. 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.

13. At the Council meeting on 19 December 2012, Hon CHUNG Kwok-pan moved a motion on "Small and Medium Enterprises Financing Guarantee Scheme" urging the Administration to, inter alia, negotiate with banks to lower the interest rates and extend the loan tenor under the SFGS so as to alleviate the loan burden on SMEs; extend the application period of the special concessionary measures under the SFGS; relax the application restrictions and lower the approval threshold of SFGS; and consider re-launching the SpGS to assist SMEs in resolving the capital flow problems. The motion as amended by Hon Jeffrey LAM, Hon TANG Ka-piu and Hon Dennis KWOK was passed.

14. The Administration advised that the special concessionary measures were effective in lowering the lending cost of enterprises as the average overall interest rate of loans and the average annual guarantee fee rate under the special concessionary measures were much lower than those before the launch of the special measures. The Administration considered that the current arrangement could strike a balance between prudent use of public money and helping SME. As such, there was no need to relaunch the SpGS which was a time-limited initiative introduced as an exceptional measure during exceptional times. Meanwhile, the Administration and HKMC would continue monitoring changes in external economic environment and the market situation, and consider the need to suitably extend the application period of the special concessionary measures.

Recent developments

15. In the face of persistently weak export markets and challenging external environment, FS announced in the 2013-2014 Budget that the Administration shall assist SMEs in six areas to help enterprises raise capital and tap new markets. These included, among others, extending the application period for the special concessionary measures under the SFGS for one year to the end of February 2014 and increasing the cumulative amount of the grant for SMEs under EMF from \$150,000 to \$200,000, subject to the meeting of relevant additional conditions.

Latest position

16. The Administration will brief the Panel on 16 April 2013 on measures to assist SMEs as announced in the 2013-2014 Budget.

Relevant papers

17. A list of relevant paper is in **Appendix II**.

**Major Features of the SME Funding Schemes offered by the Trade and Industry Department (TID)
and the SME Financing Guarantee Scheme offered by the Hong Kong Mortgage Corporation Limited (HKMC)**

Product Features	SME Export Marketing Fund (EMF) offered by the TID	SME Development Fund (SDF) offered by the TID	SME Loan Guarantee Scheme (SGS) offered by the TID	Special Loan Guarantee Scheme (SpGS) offered by the TID (no new applications after 31 December 2010)	SME Financing¹ Guarantee Scheme (SFGS) offered by the HKMC
Approved Commitment/ Loan Guarantee Commitment	3.75 billion		HK\$30 billion	HK\$100 billion	No ceiling
Use of Proceeds	<ul style="list-style-type: none"> ▪ For supporting SMEs' export promotion activities, including participation in trade fairs/exhibitions and business missions, and placing advertisements in trade publications targeting export markets as well as on eligible trade websites 	<ul style="list-style-type: none"> ▪ For supporting non-profit-distributing organisations (such as industrial and trade organisations, professional bodies, research institutes, etc.) in carrying out projects to enhance the competitiveness of SMEs in general or in specific sectors. 	<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	(N.A)	(N.A)	<ul style="list-style-type: none"> ▪ 50% of the approved loan 	<ul style="list-style-type: none"> ▪ 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) 	<ul style="list-style-type: none"> ▪ Options available: 50%, 60% and 70%

¹ With the Government's support, the HKMC introduced the time-limited special concessionary measures under the SFGS on 31 May 2012 for a period of nine months up to end of February 2013 to provide 80% guarantee protection to eligible loan facilities at a low guarantee fee that ranges from 0.1 to 0.12 of the annual interest rate of the loan. The total loan guarantee commitment provided by the Government for the special concessionary measures is \$100 billion.

Product Features	SME Export Marketing Fund (EMF) offered by the TID	SME Development Fund (SDF) offered by the TID	SME Loan Guarantee Scheme (SGS) offered by the TID	Special Loan Guarantee Scheme (SpGS) offered by the TID (no new applications after 31 December 2010)	SME Financing Guarantee Scheme (SFGS) offered by the HKMC
Maximum Grant / Guarantee / Loan Amount	<ul style="list-style-type: none"> • For each successful application, the maximum amount of grant is 50% of the total approved expenditure, subject to a ceiling of \$50,000. • The maximum cumulative amount of grant an SME may obtain is \$150,000 	<ul style="list-style-type: none"> • The maximum amount of grant for each project is 90% of the total approved project expenditure, subject to a ceiling of \$2 million 	<ul style="list-style-type: none"> • Maximum Guarantee Amount of HK\$6 million 	<ul style="list-style-type: none"> • Maximum Loan Amount of HK\$12 million 	<ul style="list-style-type: none"> • Maximum Loan Amount of HK\$12 million
Eligibility	<ul style="list-style-type: none"> • Business ² registered in Hong Kong and fulfill the Government's definition of SMEs as follows: <ul style="list-style-type: none"> (a) any manufacturing business which employs fewer than 100 persons in Hong Kong; or (b) any non-manufacturing business which employs fewer than 50 persons in Hong Kong • With substantive business operation in Hong Kong 	<ul style="list-style-type: none"> • Non-profit-distributing organizations ³ operating as support organizations, trade and industrial organizations, professional bodies or research institutes • Applicants shall either be a statutory organization, or an organization registered under the laws of the Hong Kong Special Administrative Region • Project in receipt of other public funding will not be funded 	<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"> • For SMEs and non-listed enterprises with one year business operation history in Hong Kong • No restriction on the date of incorporation

² For the purpose of EMF, "business" refers to any form of trade, commerce, craftsmanship, professional, calling or other activity carried on for the purpose of gain. Non-profit-distributing organizations are not eligible for applying the EMF.

³ A non-profit-distributing organization is defined as an organization of which profits are not distributed to its directors, shareholders, employees or any other persons.

Support measures for small and medium enterprises

List of relevant papers

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
16/11/2010	Panel on Commerce and Industry	<p>Administration's paper</p> <p>Updated background brief</p> <p>Minutes of meeting</p>	<p>CB(1)389/10-11(06)</p> <p>http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci1116cb1-389-6-e.pdf</p> <p>CB(1)389/10-11(07)</p> <p>http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci1116cb1-389-7-e.pdf</p> <p>CB(1)1017/10-11</p> <p>http://www.legco.gov.hk/yr10-11/english/panels/ci/minutes/ci20101116.pdf</p>
7/3/2011	Panel on Financial Affairs	<p>Administration's paper</p> <p>Background brief</p> <p>Minutes of meeting</p>	<p>CB(1)1458/10-11(05)</p> <p>http://www.legco.gov.hk/yr10-11/english/panels/fa/papers/fa0307cb1-1458-5-e.pdf</p> <p>CB(1)1457/10-11</p> <p>http://www.legco.gov.hk/yr10-11/english/panels/fa/papers/fa0307cb1-1457-e.pdf</p> <p>CB(1)2037/10-11</p> <p>http://www.legco.gov.hk/yr10-11/english/panels/fa/minutes/fa20110307.pdf</p>
21/6/2011	Panel on Commerce and Industry	<p>Administration's paper</p> <p>Updated background brief</p>	<p>CB(1)2481/10-11(07)</p> <p>http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci0621cb1-2481-7-e.pdf</p> <p>CB(1)2481/10-11(08)</p> <p>http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci0621cb1-2481-8-e.pdf</p>

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
		Minutes of meeting	CB(1)3077/10-11 http://www.legco.gov.hk/yr10-11/english/panels/ci/minutes/ci20110621.pdf
18/7/2011	Finance Committee	Administration's paper Minutes of meeting	FCR(2011-12)43 http://www.legco.gov.hk/yr10-11/english/fc/fc/papers/f11-43e.pdf FC167/11-12 http://www.legco.gov.hk/yr10-11/english/fc/fc/minutes/fc20110718a.pdf
26/10/2011	Council meeting	Question No. 2 raised by Hon Jeffrey LAM	Hansard (Page 544-547) http://www.legco.gov.hk/yr11-12/english/counmtg/hansard/cm1026-translate-e.pdf
9/11/2011	Council meeting	Question No. 4 raised by Dr Hon LAM Tai-fai	Hansard (Page 1724-1735) http://www.legco.gov.hk/yr11-12/english/counmtg/hansard/cm1109-translate-e.pdf
14/12/2011	Council meeting	Question No. 6 raised by Dr Hon LAM Tai-fai	Hansard (Page 3475-3486) http://www.legco.gov.hk/yr11-12/english/counmtg/hansard/cm1214-translate-e.pdf
20/3/2012	Panel on Commerce and Industry	Administration's paper Updated background brief Minutes of meeting	CB(1)1298/11-12(05) http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0320cb1-1298-5-e.pdf CB(1)1298/11-12(06) http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0320cb1-1298-6-e.pdf CB(1)1787/11-12 http://www.legco.gov.hk/yr11-12/english/panels/ci/minutes/ci20120320.pdf

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
20/4/2012	Finance Committee	Administration's paper Minutes of meeting	FCR(2012-13)12 http://www.legco.gov.hk/yr11-12/english/fc/fc/papers/f12-12e.pdf FC182/11-12 http://www.legco.gov.hk/yr11-12/english/fc/fc/minutes/fc20120420.pdf
19/12/2012	Council meeting	Motion moved by Hon CHUNG Kwok-pan Administration's progress report on the motion	Hansard (Page 4112-4184) http://www.legco.gov.hk/yr12-13/english/counmtg/hansard/cm1219-translate-e.pdf http://www.legco.gov.hk/yr12-13/english/counmtg/hansard/cm1220-translate-e.pdf http://www.legco.gov.hk/yr12-13/english/counmtg/motion/cm1219-m3-prpt-e.pdf