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Panel on Commerce and Industry

Meeting on 18 April 2017

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

Purpose

This paper provides updated background information on a series of support measures introduced by the Government for small and medium enterprises ("SMEs"), namely SME funding schemes, special concessionary measures under SME Financing Guarantee Scheme ("SFGS"), and the Dedicated Fund on Branding, Upgrading and Domestic Sales ("BUD Fund"). This paper also provides a summary of the views and concerns expressed by members on the subjects in previous discussions.

Background

2. There are about 320 000 SMEs¹ in Hong Kong which constitute over 98% of Hong Kong's business establishments and employ about 46% of the workforce in the private sector. Their vitality and business performance are of crucial importance to the development of Hong Kong's economy. Over the years, the Administration has been providing assistance to SMEs through various schemes having regard to prevailing economic situation to support their continuous development.

¹ Small and Medium Enterprises ("SMEs") are defined as any manufacturing businesses which employ fewer than 100 individuals in Hong Kong, or any non-manufacturing businesses which employ fewer than 50 individuals in Hong Kong.

Small and medium enterprise funding schemes

3. To help SMEs secure finance, expand export markets, upgrade human resources and enhance their competitiveness, four SME funding schemes, namely SME Loan Guarantee Scheme ("SGS"),² SME Export Marketing Fund ("EMF"),³ SME Development Fund ("SDF")⁴ and SME Training Fund,⁵ were established in December 2001/January 2002. In late 2008, the Administration further introduced the Special Loan Guarantee Scheme ("SpGS") to help enterprises secure loans from the participating lending institutions ("PLIs") for meeting general business needs to tide over the liquidity problem during the global financial crisis with the Government acting as the guarantor. SpGS subsequently ended in late 2010.

² SME Loan Guarantee Scheme aims to help SMEs secure loans from the participating lending institutions for acquiring business installations and equipment, and meeting working capital needs, with the Government acting as the guarantor. The amount of guarantee for an SME is 50% of the approved loan. The guarantee can be used to secure loans for either business installations and equipment or working capital, subject to a maximum amount of \$6 million. The guarantee period is up to five years. As at 28 February 2017, out of the 33 219 cumulative applications received, 30 219 applications were approved, the cumulative amount of loan approved was over \$50 billion.

³ SME Export Marketing Fund provides direct subsidy to SMEs for participation in export promotion activities, including local or overseas trade exhibitions, overseas business missions, and placing advertisements in printed trade publications or trade websites targeting export markets, so as to encourage enterprises in expanding their export business. For each successful application, the maximum amount of grant will be 50% of the total approved expenditures incurred by the applicant or \$50,000, whichever is the lower. The maximum cumulative amount of grants for each SME is \$200,000. As at 24 March 2017, out of the 244 942 cumulative applications received, 207 332 applications were approved, the total amount of grants approved was about \$3.2 billion.

⁴ SME Development Fund provides financial support to non-profit-distributing organizations to undertake projects which aim at enhancing the competitiveness of Hong Kong SMEs in general or in specific sectors. The amount of funding support for each approved project is \$5 million, or 90% of the total project expenditure, whichever is the lower. The successful applicant is required to contribute the remaining 10% of the total project expenditure, which may be in cash, in kind or in the form of sponsorship. Each project should be completed within three years. As at 28 February 2017, out of the 1 107 cumulative applications received, 271 applications were approved, the cumulative amount of grants approved was over \$322 million.

⁵ Launched in January 2002, the SME Training Fund ("STF") supported SME employers and employees to take up training courses relevant to their business operation. In view of the significant duplication between STF and other training and education initiatives which employers and employees of SMEs could obtain Government support, the Government ceased accepting new STF applications from July 2005.

Previous discussion

4. The Administration briefed the Panel on Commerce and Industry ("the Panel") at the meeting on 16 June 2015 on the Administration's proposal to inject \$1.5 billion into EMF and SDF; increase the maximum amount of funding support for each project under SDF from \$2 million to \$5 million, and extend the maximum duration of each project from two years to three years; and expand the scope of EMF to cover more types of export promotion activities as announced by the Financial Secretary ("FS") in the 2015-2016 Budget. With the Panel's support for the proposal, the Finance Committee ("FC") subsequently approved the funding at the meeting on 17 July 2015. Members' views and concerns are summarized in the ensuing paragraphs.

5. At the Panel meeting, members expressed concern about the decline in the number of EMF applications from some 27 000 in 2010 to some 17 000 in 2014. The Administration advised that in view of the sluggish performance of the traditional export markets in Europe and the United States since the global economic downturn induced by the worldwide financial turmoil in end 2008, SMEs were more prudent in carrying out export promotion activities, or had reduced promotion activities. The Administration also observed that, with the rapid advancement and prevalence of Internet technology to carry out export promotion activities, there had been a declining trend for SMEs to make use of traditional channels for export promotion.

6. Members were concerned about the low application success rate of SDF and enquired whether the objectives of SDF would overlap with that of the BUD Fund. The Administration advised that it had been encouraging non-profit-distributing organizations, in particular trade and industrial organizations to apply for SDF. In addition, unsuccessful applicants were informed of the reasons of rejection and meeting would be arranged to help them revise and re-submit their applications if they so wished. Many rejected applications were eventually approved. The Administration further explained that the Enterprise Support Programme ("ESP") of the BUD Fund aimed at assisting Hong Kong enterprises in exploring and developing the Mainland market while the Organization Support Programme ("OSP") of the BUD Fund provided funding support to non-profit-distributing organizations to undertake projects which could assist Hong Kong enterprises in developing brands, upgrading operations and developing domestic sales in the Mainland. On the other hand, SDF provided funding support for non-profit-distributing organizations to implement projects that could enhance the competitiveness of SMEs, including to explore overseas markets, without any geographical restriction.

Small and Medium Enterprise Financing Guarantee Scheme

7. The Hong Kong Mortgage Corporation Limited ("HKMC") launched the market-based self-financing SFGS on 1 January 2011, with a view to helping Hong Kong enterprises, particularly SMEs, obtain financing to meet their needs. Under SFGS, HKMC acts as guarantor for up to 70% of the approved loans that enterprises obtain from PLIs. A guarantee fee is payable by the PLIs/enterprises. The interest rate of each loan is a commercial decision made by the PLIs.

8. To tide enterprises, particularly SMEs, over a possible credit crunch as a result of credit tightening under the uncertain external economic environment, the Government provided a total loan guarantee commitment of \$100 billion for HKMC to launch time-limited special concessionary measures under SFGS on 31 May 2012. In accordance with the special concessionary measures, 80% guarantee is provided at a substantially reduced guarantee fee.

9. The special concessionary measures were initially open to application for nine months until 28 February 2013. As the uncertainties in the external economic environment prevailed, the application period of the special concessionary measures has since been extended thrice.⁶ FS announced in his 2016-2017 Budget the following three further measures –

- (a) extending the application period for the special concessionary measures under SFGS to 28 February 2017;
- (b) reducing the annual guarantee fee rate for the measures by 10 per cent; and
- (c) removing the minimum guarantee fee for the measures.

10. Upon implementation of the three measures above, starting from 1 June 2016, the annual guarantee fee rate factor for the special concessionary measures was reduced from 0.1 to 0.09 of the annual overall loan interest rate for loans with an annual overall loan interest rate not exceeding 10%, and from 0.12 to 0.108 of the annual overall loan interest rate for loans with an annual overall loan interest rate exceeding 10% but not more than 12%. The requirement of a minimum annual guarantee fee rate of 0.5% under the special concessionary measures was also removed commencing 1 June 2016, so that those loans with overall interest rate lower than 5% per annum could be benefited from the reduction of guarantee fee.

⁶ The application period of the special concessionary measures was extended thrice to 29 February 2016, as announced in the 2013-2014, 2014-2015 and 2015-2016 Budgets.

11. In his 2017-2018 Budget, FS announced further extension of the application period for the special concessionary measures under SFGS to 28 February 2018 to help enterprises tide over their liquidity needs.

Previous discussion

12. The Panel discussed the support measures for SMEs and Government assistance for SMEs affected by the "Occupy Central" movement, including SFGS, at the meetings on 16 April 2013 and 21 October 2014 respectively.

13. At the meeting on 16 April 2013, some members asked whether the Administration had taken any action to discuss the interest rate issue with the PLIs. The Administration advised that SFGS including the special concessionary measures was a market-based loan guarantee scheme. The interest rate of each commercial loan was a commercial decision made by the PLIs after taking into account a basket of factors including the borrower's operational, financial and repayment capability; the type and nature of credit facility; as well as the type and quality of any security pledged. The Administration had no plan to discuss the interest rate issue with the PLIs for the time being.

14. At the meeting on 21 October 2014, some members remarked that SGS and SFGS which offered guarantees for a loan size of up to \$12 million could not benefit SME retailers as most of these SMEs might require only a small loan size of under \$1 million, preferably interest-free and available quickly to address their pressing cash-flow problem. The Administration advised that SGS and SFGS provided guarantees for a loan of any size which was under \$12 million. As at the time of the meeting, over 1 400 approved cases of the special concessionary measures under SFGS involved a facility amount of \$1 million or below.

Dedicated Fund on Branding, Upgrading and Domestic Sales

15. The National 12th Five-Year Plan emphasizes expanding domestic demand as well as the upgrading and restructuring of industries. To help Hong Kong enterprises capture the opportunities arising from the National 12th Five-Year Plan, the Chief Executive announced in the 2011-2012 Policy Address the proposal to set up a \$1 billion BUD Fund to assist enterprises in exploring and developing the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland.

16. Following the funding approval by FC on 11 May 2012, the BUD Fund was launched on 25 June 2012. Subject to the funding balance, the BUD Fund was initially planned to be open for applications for five years, and the tenure may be reviewed and extended, if necessary. The BUD Fund comprises two programmes, namely ESP and OSP.

Enterprise Support Programme

17. ESP provides funding support to individual Hong Kong enterprises in undertaking projects to develop brands, upgrade and restructure their business operations and promote sales in the Mainland market, so as to enhance their competitiveness and facilitate their business development in the Mainland market. All non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Cap. 310) with substantive business operations in Hong Kong are eligible to apply for funding under ESP.

18. Funding is provided on a matching basis, i.e. the Government will cover a maximum of 50% of the total approved project cost and the enterprise has to contribute no less than 50% of the total approved project cost in cash. During the tenure of the BUD Fund, each enterprise may obtain funding for a maximum of three approved projects. Each project should be completed within 24 months. The cumulative funding ceiling per enterprise under ESP is \$500,000.

19. ESP launched the additional ESP Easy – Simplified Application Track ("ESP Easy") in August 2015. Under ESP Easy, applicant enterprises fill in a simplified application form. Funding will be provided on a matching basis after completion of projects, and the funding ceiling for each project is \$200,000. All ESP Easy projects must be completed within 12 months. Funding approved for projects under ESP Easy will be counted towards the cumulative funding ceiling per enterprise under ESP; and each enterprise can obtain funding for a maximum of three projects under the ESP (including ESP Easy).

20. Up to end of June 2016, ESP processed a total of 1 397 applications, among which 640 applications were approved/granted conditional approval. The total amount of funding approved was about \$240 million.

Organization Support Programme

21. OSP provides funding support to non-profit-distributing organizations to undertake projects which can assist Hong Kong enterprises in general or in specific sectors in developing their brands, upgrading and restructuring their business operations, and promoting domestic sales in the Mainland so as to enhance their overall competitiveness in the Mainland market.

22. The maximum amount of funding support for each approved project is \$5 million, or 90% of the approved project expenditure, whichever is the lower. The applicant has to contribute the remaining 10% of the project expenditure, which may be in cash, in kind or in the form of sponsorship. The maximum duration of a project is three years.

23. As at 28 February 2017, the cumulative number of applications received was 179, among which 59 applications were approved. The total amount of grants approved was over \$194 million.

Previous discussion

24. The Panel was briefed on the latest implementation progress of the BUD Fund at the meetings on 15 April 2014 and 17 March 2015 respectively. The major views and concerns of members are summarized below.

Vetting of applications of the Enterprise Support Programme

25. At the meeting on 15 April 2014, members relayed the concerns by SMEs that the vetting criteria of ESP were unclear and the vetting process was unfair and non-transparent. The Administration advised that applications made under ESP would undergo a three-tier vetting process. Hong Kong Productivity Council ("HKPC"), which served as the secretariat of ESP, would provide a preliminary assessment on the applications for the consideration of the Inter-departmental Committee ("IDC"). IDC would then make recommendations on the applications to the Programme Management Committee for consideration and approval.

26. At the meeting on 17 March 2015, members noted the high rate of withdrawal of ESP applications, and questioned whether the application guidelines were sufficiently clear and whether there were adequate promotion and publicity to enhance the applicant enterprises' understanding of the application criteria and procedure.

27. The Administration advised that there were cases where the business plans of some applicant enterprises had not fully met the objectives and requirements of the BUD Fund. There were other cases where the enterprises were unable to provide the supplementary information requested by HKPC and hence decided not to proceed with their applications. Meanwhile, the Administration would review the withdrawn cases to consider how promotion and publicity might be enhanced to further help enterprises better understand the requirements for and the key to successful applications.

28. At the meeting on 17 March 2015, members noticed that some companies that assisted SMEs in applying for ESP had charged a considerable sum for their services provided. They urged the Administration to provide more assistance to the applicant enterprises in the application process, so that such enterprises would not have to seek the assistance of intermediaries, and could dedicate the approved funding to effectively implement the projects.

29. The Administration advised that while under ESP, enterprises might apply for funding to engage a qualified service provider to help them develop a holistic business plan, particular attention had been paid to expenses related to engagement of consultants when vetting the applications to ensure that they would not make up an unreasonably high proportion of the approved funding for a project.

Council question

30. At the Council meeting of 26 May 2016, Hon Jeffery LAM asked a written question on, among other things, whether the Administration had adequate preparation and formulated corresponding measures for assisting SMEs in tiding over economic downturn, and whether the Government would re-launch SpGS.

31. The Administration responded that to help SMEs secure loans in the commercial lending market and lower their loan cost, FS announced in the 2016-2017 Budget that the Administration would extend the application period of the special concessionary measures under SFGS to 28 February 2017 (details in paragraphs 9 and 10). The Administration would also continue to implement various SME funding schemes to assist SMEs in obtaining financing, opening up markets and enhancing competitiveness, including the BUD Fund (details in paragraphs 15 to 23). Since amid the uncertain external economic environment, the Administration had implemented the special concessionary measures under SFGS, and that SMEs might obtain loans under the regular SGS, the Administration considered that there was no need to re-launch SpGS.

Latest position

32. The Administration will brief the Panel on 18 April 2017 on the extension of the application period of and latest implementation progress of the Bud Fund and the special concessionary measures under SFGS, as well as other support measures for SMEs.

Relevant papers

33. A list of relevant papers is in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
12 April 2017

Appendix

List of relevant papers

Date of meeting	Meeting	Paper
16/4/2013	Panel on Commerce Industry	<p>Administration's paper on "Support measures for small and medium enterprises" (LC Paper No. CB(1)832/12-13(07))</p> <p>Background brief on support measures for small and medium enterprises prepared by the Legislative Council Secretariat (LC Paper No. CB(1)832/12-13(08))</p> <p>Minutes of meeting (LC Paper No. CB(1)1280/12-13)</p>
15/4/2014	Panel on Commerce and Industry	<p>Administration's paper on "Progress report on the implementation of the Dedicated Fund on Branding, Upgrading and Domestic Sales" (LC Paper No. CB(1)1236/13-14(03))</p> <p>Updated background brief on the Dedicated Fund on Branding, Upgrading and Domestic Sales prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1236/13-14(04))</p> <p>Minutes of meeting (LC Paper No. CB(1)1593/13-14)</p>
21/10/2014	Panel on Commerce and Industry	<p>Administration's paper on "Government assistance for small and medium enterprises affected by 'Occupy Central'" (LC Paper No. CB(1)53/14-15(08))</p> <p>Minutes of meeting (LC Paper No. CB(1)212/14-15)</p>

Date of meeting	Meeting	Paper
17/3/2015	Panel on Commerce and Industry	<p>Administration's paper on "Report on the progress of implementation of the Dedicated Fund on Branding, Upgrading and Domestic Sales" (LC Paper No. CB(1)632/14-15(03))</p> <p>Background brief on the Dedicated Fund on Branding, Upgrading and Domestic Sales prepared by the Legislative Council Secretariat (LC Paper No. CB(1)632/14-15(04))</p> <p>Minutes of meeting (LC Paper No. CB(1)819/14-15)</p>
16/6/2015	Panel on Commerce and Industry	<p>Administration's paper on "Funding Injection and Enhancement Measures for SME Development Fund and SME Export" (LC Paper No. CB(1)971/14-15(05))</p> <p>Background brief on the increase in commitment and enhancement measures for SME Development Fund and SME Export Marketing Fund prepared by the Legislative Council Secretariat (LC Paper No. CB(1)971/14-15(06))</p> <p>Minutes of meeting (LC Paper No. CB(1)1223/14-15)</p>
17/7/2015	Finance Committee	<p>Administration's paper on "SME Export Marketing and Development Funds" (FCR(2015-16)26)</p> <p>Minutes of meeting (LC Paper No. FC67/15-16)</p>
21/4/2016 (issue date)	Panel on Commerce and Industry	<p>Administration's paper on "SME Financing Guarantee Scheme – Special Concessionary Measures" (LC Paper No. CB(1)831/15-16(01))</p>

Date of meeting	Meeting	Paper
25/5/2016	Council	Question No. 10 on "Assisting SMEs in tiding over economic downturn" raised by Hon Jeffery LAM (Hansard) (page 10228 – 10233)