

# 立法會 *Legislative Council*

LC Paper No. CB(1)34/19-20(07)

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## **Panel on Commerce and Industry**

**Meeting on 29 October 2019**

### **Updated background brief on support measures for Hong Kong enterprises**

#### **Purpose**

This paper provides updated background information on various government support measures for Hong Kong enterprises, in particular small and medium enterprises ("SMEs"). This paper also provides a summary of the views and concerns expressed by members of the Panel on Commerce and Industry ("the Panel") on related subjects.

#### **Background**

2. There are about 340 000 SMEs<sup>1</sup> in Hong Kong, covering over 98% of Hong Kong's business establishments and employing about 45% of the workforce in the private sector.<sup>2</sup> Their vitality and business performance are of crucial importance to the development of Hong Kong's economy.

3. The Administration has been strengthening its support for Hong Kong enterprises, especially SMEs, through various funding schemes. To help Hong Kong enterprises in market development and risk diversification, the Administration has established the Export Marketing and Trade and Industrial Organisation Support Fund ("EMTSF") and the Dedicated Fund on Branding, Upgrading and Domestic Sales ("BUD Fund"). EMTSF comprises two funding schemes, namely the SME Export Marketing Fund ("EMF") (aiming to

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<sup>1</sup> According to the Trade and Industry Department ("TID"), small and medium enterprises ("SMEs") are manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees in Hong Kong.

<sup>2</sup> The figures as provided by TID are updated as at September 2019.

assist SMEs) and the Trade and Industrial Organisation Support Fund<sup>3</sup> ("TSF") (aiming to assist non-profit-distributing organizations). The Administration has also implemented other support measures, such as the SME Loan Guarantee Scheme<sup>4</sup> ("SGS") and the special concessionary measures under the SME Financing Guarantee Scheme ("SFGS"), to help relieve the financial burden of local enterprises.

### Latest development

4. The Financial Secretary ("FS") announced on 15 August and 4 September 2019 that in view of the significant downward pressure faced by the Hong Kong economy in the second quarter of 2019 due to external and domestic factors, the Government will roll out various measures to support enterprises, safeguard jobs and relieve people's financial burden. These measures include the proposed injection into EMTSF and the BUD Fund, and the proposed enhancements of EMF, the BUD Fund and the special concessionary measures of SFGS.<sup>5</sup>

5. Details of EMF, the BUD Fund and SFGS and the relevant enhancement measures as announced by FS are set out below.

### **SME Export Marketing Fund**

6. Launched in 2001, EMF provides financial assistance to encourage

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<sup>3</sup> The Trade and Industrial Organisation Support Fund was launched on 1 October 2018 by merging the Organisation Support Programme under the Dedicated Fund on Branding, Upgrading and Domestic Sales ("BUD Fund") and the SME Development Fund. It provides financial support to non-profit-distributing organizations for implementing projects for enhancing the competitiveness of Hong Kong enterprises in general or in specific sectors, including assisting them in developing any markets.

<sup>4</sup> The Government launched the SME Loan Guarantee Scheme ("SGS") in 2001 to provide a total loan guarantee commitment of HK\$30 billion to facilitate SMEs in securing loans from the participating lending institutions ("PLIs") for acquiring business installations and equipment or meeting working capital needs of general business uses. The maximum loan guarantee amount for each SME is HK\$6 million. Based on the maximum guarantee ratio at 50%, the corresponding loan amount is HK\$12 million. The maximum guaranteed period of each loan is five years. As at 30 September 2019, 32 049 applications were approved and the cumulative amount of loan approved was over HK\$54 billion.

<sup>5</sup> Following the announcement of the Financial Secretary, both existing and new SME borrowers under SGS may apply to PLIs for principal moratorium of up to six months which is renewable, subject to a maximum of 12 months in total. This new relief measure took effect from 4 September 2019 and will last for one year.

SMEs to expand their markets outside Hong Kong through participation in export promotion activities, including local and overseas trade fairs and exhibitions, business missions, advertisements on printed trade publications, promotion through electronic platforms or media, and setting up or enhancing a corporate website. The amount of grant for each application is 50% of the approved expenditure of the export promotion activity concerned. In August 2018, with support of the Finance Committee ("FC"), the Administration had increased EMF's cumulative funding ceiling per SME from HK\$200,000 to HK\$400,000. In addition, the maximum funding per application was doubled from HK\$50,000 to HK\$100,000 and the condition of use for the last HK\$50,000 of the grants was also removed.

7. EMTSF's total approved commitment is HK\$6.25 billion.<sup>6</sup> As at 27 September 2019, a total of 231 553 EMF applications were approved and the total amount of grants approved was over HK\$3.6 billion.

8. FS announced on 15 August 2019 the proposed injection of HK\$1 billion into EMTSF and the following enhancement measures on EMF:

- (a) to double EMF's cumulative funding ceiling for each enterprise to HK\$800,000; and
- (b) to provide more comprehensive support to SMEs for participating in business missions organized by the Government and related organizations for market expansion.

### **Dedicated Fund on Branding, Upgrading and Domestic Sales**

9. 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 then Chief Executive announced in his 2011-2012 Policy Address the proposal to set up a HK\$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. Following FC's funding approval in May 2012, the BUD Fund was launched on 25 June 2012. The application period was extended in 2017 for five years to 24 June 2022.

10. With the implementation of the enhancement measures to the BUD Fund in August 2018, the BUD Fund currently focuses on the Enterprise Support Programme, under which there are two programmes, namely, the Mainland

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<sup>6</sup> The Finance Committee ("FC") last approved the increase of the approved commitment from HK\$5.25 billion by HK\$1 billion to HK\$6.25 billion on 1 June 2018.

Programme and the ASEAN Programme. Through the two programmes, the BUD Fund provides funding support to individual non-listed Hong Kong enterprises to undertake projects for enhancing their competitiveness and furthering business development in the Mainland and the Association of Southeast Asian Nations ("ASEAN") markets. An eligible enterprise can obtain a maximum funding of HK\$1 million on a matching basis for carrying out up to 10 Mainland projects and another HK\$1 million on a matching basis for carrying out up to 10 ASEAN projects. The funding ceiling per project is HK\$1 million. Currently, the total approved non-recurrent commitment of the BUD Fund is HK\$2.5 billion.<sup>7</sup> As of end March 2019, the total amount of project grant approved was about HK\$1.03 billion.

11. To support local enterprises in tiding over uncertainties under the global economic and trade environment, FS proposed in the 2019-2020 Budget the injection of HK\$1 billion into the BUD Fund and the following enhancement measures:<sup>8</sup>

- (a) to further extend the geographical scope of the BUD Fund to include all economies which had entered into a free trade agreement ("FTA") with Hong Kong, thereby enabling enterprises to take advantage of the FTAs to explore new markets and new business opportunities; and
- (b) to further increase the funding ceiling per enterprise under the BUD Fund to HK\$3 million, including HK\$1 million for the Mainland market and HK\$2 million for other FTA markets.

12. To better support enterprises in exploring business opportunities, FS further announced on 15 August 2019 his proposal to inject another HK\$1 billion into the BUD Fund and to double the funding ceiling per enterprise under the Mainland Programme to HK\$2 million.

#### Implementation partner

13. The Administration has engaged the Hong Kong Productivity Council ("HKPC") as the implementation partner for the BUD Fund. According to the information submitted by the Administration to FC in May 2019, HKPC will receive about HK\$36.9 million annually from the approved commitment of the BUD Fund for covering staff and other operating costs of a dedicated team for

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<sup>7</sup> FC approved the creation of a non-recurrent commitment of HK\$1 billion on 11 May 2012 to set up the BUD Fund and later approved the increase of the approved commitment to HK\$2.5 billion on 1 June 2018.

<sup>8</sup> The relevant funding proposal has not yet been approved by FC.

programme management, administrative support and project monitoring. The Administration will also disburse about HK\$8.5 million per annum to HKPC for various publicity and promotional activities, and other implementation expenses.<sup>9</sup> HKPC will contribute about HK\$4.8 million per annum to provide professional support in supervising, monitoring and reviewing the work of the dedicated team, venue rentals and other ancillary technical and support services. As of end March 2019, HKPC has been provided with the total implementation fees of HK\$82.54 million.

### **SME Financing Guarantee Scheme**

14. The Hong Kong Mortgage Corporation Limited<sup>10</sup> ("HKMC") launched the market-based self-financing SFGS on 1 January 2011 with a view to helping enterprises, particularly SMEs, to obtain financing to meet their needs. Under SFGS, HKMC acts as guarantor for up to 70% of the approved loans that enterprises obtain from the participating lending institutions ("PLIs"). A guarantee fee is payable by the PLIs/enterprises. The interest rate of each loan is a commercial decision made by PLIs.

#### Special concessionary measures: 80% Guarantee Product

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

16. With effect from 19 November 2018 and valid until end June 2020, the Government launched the following three enhancement measures to further relieve the financing burden of local SMEs and help them to obtain financing:

- (a) halving the annual guarantee fee rate;
- (b) increasing the maximum facility amount from HK\$12 million to HK\$15 million; and

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<sup>9</sup> Under the mechanism, the implementation fees to be provided for the Hong Kong Productivity Council ("HKPC") can be adjusted based on the actual number of applications received.

<sup>10</sup> To cope with the business development of the Hong Kong Mortgage Corporation Limited ("HKMC"), effective from 1 May 2018, the SME Financing Guarantee Scheme business has been transferred to and carried out by the HKMC Insurance Limited, a wholly owned subsidiary of HKMC.

- (c) lengthening the maximum guarantee period from five years to seven years.

FS announced on 15 August 2019 the extension of the application period for the special concessionary measures under SFGS for the ninth time<sup>11</sup> and the validity period of these three enhancement measures to 30 June 2022.

17. As at 20 September 2019, 16 647 applications were approved and the total loan amount involved was over HK\$69 billion. The cumulative expenditure for settling default claims, expected default claims under processing and out-of-pocket expenses incurred were about HK\$2 billion (up to 31 August 2018), representing around 18% of the HK\$11 billion expected maximum expenditure to be incurred by the Government under the special concessionary measures.

#### *New relief measure*

18. According to the HKMC Insurance Limited ("HKMCI"), with effect from 4 September 2019, both existing and new SME borrowers may apply to their PLIs under SFGS for principal moratorium of up to six months which is renewable, subject to a maximum of 12 months in total. During such period, only interest payments have to be made. The guarantee period can be extended correspondingly, but should not exceed the maximum guarantee period of seven years, with guarantee fee payable to cover the extension of the guarantee period. The new relief measure will last for one year.

#### 90% Guarantee Product

19. As announced by FS on 15 August and 4 September 2019, HKMCI will introduce a new loan guarantee product under SFGS, under which the Government would provide for a 90% guarantee for approved loans to help individuals looking to set up new businesses, businesses with relatively less operating experience, as well as professionals seeking to set up their own practices, to obtain financing.

#### **Previous discussions on related subjects**

20. The Administration briefed the Panel on the implementation progress of (a) EMF and SFGS and (b) the BUD Fund at the meetings on 20 March 2018 and 16 April 2019 respectively. Members also discussed issues related to SFGS at the special meeting of FC for examination of the Estimates of

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<sup>11</sup> The original application period for the special concessionary measures was 9 months until end of February 2013.

Expenditure 2019-2020 on 10 April 2019. The major views and concerns expressed by members are summarized in the ensuing paragraphs.

### Vetting and approving of funding applications

21. At the Panel meeting on 20 March 2018, members expressed concern that government officials were often over-rigid in the vetting and approving of funding applications under various funding schemes for fear of criticisms from the Audit Commission for mismanagement of public resources. Members urged the Administration to simplify the application procedure and the supporting information required; shorten the vetting and approval time; set up a centralized frontline office to promote the funding schemes and provide a one-stop service to assist SMEs in submitting applications for the various schemes; and work with trade associations to promote the funding schemes to SMEs.<sup>12</sup>

### Dedicated Fund on Branding, Upgrading and Domestic Sales

22. At the Panel meeting on 16 April 2019, members enquired whether the BUD Fund grantees were required to meet certain quantitative performance requirements. They also suggested that the Administration should include in its funding proposal to FC more quantitative data on the contributions of the BUD Fund to the local economy and/or employment situation.

23. The Administration advised that according to the results of the project completion surveys and annual tracking surveys, an overwhelming majority (99%) of the responded grantees considered the BUD Fund useful in supporting their business development. The grantees generally considered that the funded projects had helped them in various areas such as recruitment and expanding their markets.

24. Besides, according to the results of the surveys up to March 2019, under the Mainland Programme, over 60% of the responded grantees indicated that they had hired new staff in Hong Kong or the Mainland during the project period, reflecting that the BUD Fund had contributed to increasing economic activities and employment opportunities. The grantees generally considered that the funded projects had enhanced their sales turnover and the awareness of

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<sup>12</sup> Since 1 October 2019, the Administration has consolidated the services of various SME centres, including the "Support and Consultation Centre for SMEs" under TID, the "SME Centre" under the Hong Kong Trade Development Council, "SME One" under HKPC and "TecONE" under the Hong Kong Science and Technology Parks Corporation, to provide "four-in-one" integrated services for SMEs to obtain information of all funding schemes at any service point. The Administration will also establish a dedicated service team to provide support on funding applications and reach out to SMEs by visiting local trade and industrial associations to promote the funding schemes.

their brands/products/services, including in the Guangdong-Hong Kong-Macao Greater Bay Area. Around 70% of the responded grantees indicated that the Fund was useful to the development of other industry sectors in Hong Kong.

### SME Financing Guarantee Scheme

25. At the special meeting of FC on 10 April 2019, in view of the uncertain global economic outlook coupled with the escalating trade conflict between the China and the United States, members urged the Administration to regularize the special concessionary measures under SFGS to help enterprises tackle potential credit squeeze.

26. At the Panel meeting on 20 March 2018, in response to members' enquiry about the details of HKMC's plan to transfer the SFGS business to HKMCI, the Administration advised that HKMC was then holding a general business authorization for operating general insurance business, including SFGS. To introduce the Life Annuity Scheme ("LAS") announced in April 2017, HKMC had to apply for a long term business authorization from the Insurance Authority. As insurance companies other than professional reinsurer were not allowed to operate these two businesses in parallel, HKMC had established two subsidiaries, one to apply for long term business authorization to operate the LAS business, the other (i.e. HKMCI) to apply for general business authorization for taking over from HKMC all its existing general insurance business, including SFGS.

### Other issues

27. At the Panel meeting on 20 March 2018, some members suggested that besides assisting SMEs in export promotion, the Administration should help SMEs develop their brands locally so that they would have a solid domestic foundation to buttress their branding effort overseas. In response to members' enquiry about the assistances rendered to SMEs for developing electronic commerce and online business, the Administration advised that the scope of EMF had been extended to helping SMEs establish corporate websites and implement their export promotion activities through electronic platforms and media.

### **Latest position**

28. The Administration will brief the Panel on 29 October 2019 on the proposed enhancements to EMF and the BUD Fund, as well as the proposed introduction of a new loan guarantee product under SFGS. Subject to members' view, the Administration will submit the relevant financial proposal to FC for approval.



**Relevant papers**

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

Council Business Division 1  
Legislative Council Secretariat  
22 October 2019

## List of relevant papers

Date of meeting	Meeting	Paper
20/3/2018	Panel on Commerce and Industry	<p>Administration's paper on "Progress of the implementation and proposed enhancements of the Dedicated Fund on Branding, Upgrading and Domestic Sales and other funding schemes" (<a href="#">LC Paper No. CB(1)684/17-18(03)</a>)</p> <p>Updated background brief on support measures for small and medium enterprises prepared by the Legislative Council Secretariat (<a href="#">LC Paper No. CB(1)684/17-18(04)</a>)</p> <p>Administration's follow-up paper (<a href="#">LC Paper No. CB(1)907/17-18(01)</a>)</p> <p>Minutes of meeting (<a href="#">LC Paper No. CB(1)1098/17-18</a>)</p>
1/6/2018	Finance Committee	<p>Administration's paper on "SME Export Marketing and Development Funds and Dedicated Fund on Branding, Upgrading and Domestic Sales" (<a href="#">FCR(2018-19)15</a>)</p> <p>Minutes of meeting (<a href="#">LC Paper No. FC147/18-19</a>)</p>
30/10/2018 (issue date)	Panel on Commerce and Industry	<p>Administration's information paper on "SME Financing Guarantee Scheme – special concessionary measures" (<a href="#">LC Paper No. CB(1)117/18-19(01)</a>)</p>
13/11/2018 (issue date)	Finance Committee	<p>Administration's information paper on "SME Financing Guarantee Scheme – special concessionary measures" (<a href="#">FCRI(2018-19)9</a>)</p>

<b>Date of meeting</b>	<b>Meeting</b>	<b>Paper</b>
16/4/2019	Panel on Commerce and Industry	<p>Administration's paper on "Further enhancements to the Dedicated Fund on Branding, Upgrading and Domestic Sales" <a href="#">(LC Paper No. CB(1)863/18-19(05))</a></p> <p>Updated background brief on the Dedicated Fund on Branding, Upgrading and Domestic Sales prepared by the Legislative Council Secretariat <a href="#">(LC Paper No. CB(1)863/18-19(06))</a></p> <p>Minutes of meeting <a href="#">(LC Paper No. CB(1)1166/18-19)</a></p>