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Panel on Commerce and Industry

Meeting on 19 May 2020

Background brief on support measures for small and medium enterprises

Purpose

This paper provides background information on various support measures provided by the Administration for small and medium enterprises ("SMEs"). It also provides a summary of views and concerns expressed by members of the Panel on Commerce and Industry ("the Panel") during previous discussions on related subjects.

Background

2. There are about 340 000 SMEs¹ in Hong Kong, covering over 98% of Hong Kong's business establishments and employing about 45% of the workforce in the private sector. Their vitality and business performance are of crucial importance to the development of Hong Kong's economy.

3. Over the years, the Administration has implemented a number of measures in market promotion, development of markets and production bases, export credit insurance, etc. to support the local enterprises, especially SMEs.² Details of the measures are set out in the ensuing paragraphs.

¹ According to the Trade and Industry Department, 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.

² The Administration also assists enterprises in obtaining financing through the SME Financing Guarantee Scheme and the SME Loan Guarantee Scheme.

Market promotion, development of markets and production bases

4. According to the Administration, it has been assisting enterprises in exploring markets and enhancing their overall competitiveness through the SME Export Marketing Fund ("EMF") and the Dedicated Fund on Branding, Upgrading and Domestic Sales ("BUD Fund"), and from time to time making injections and introducing enhancement measures to the funding schemes having regard to the needs and circumstances of the trade.

SME Export Marketing Fund

5. Launched in 2001, EMF provides financial assistance to encourage SMEs to expand their markets outside Hong Kong through participation in export promotion activities. The amount of grant for each application is 50% of the approved expenditure of the export promotion activity concerned, capped at HK\$100,000 per application. With effect from 20 January 2020, the cumulative funding ceiling per SME under EMF has been increased from HK\$400,000 to HK\$800,000.³

6. The total approved commitment for the Export Marketing and Trade and Industrial Organisation Support Fund (which covers the expenditure of EMF)⁴ is HK\$7.25 billion.⁵ As at 1 May 2020, a total of 238 307 EMF applications had been approved and the total amount of grants approved was over HK\$3.8 billion.

Dedicated Fund on Branding, Upgrading and Domestic Sales

7. 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 the 2011-2012

³ The Finance Committee ("FC") approved the relevant funding proposal on 6 December 2019.

⁴ Export Marketing and Trade and Industrial Organisation Support Fund also covers the expenditure of the Trade and Industrial Organisation Support Fund ("TSF"). TSF 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.

⁵ FC last approved the increase of the approved commitment from HK\$6.25 billion to HK\$7.25 billion on 6 December 2019.

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 the approval by the Finance Committee ("FC") on the relevant funding proposal in May 2012, the BUD Fund was launched on 25 June 2012. In August 2018, the BUD Fund's geographical coverage was extended from the Mainland to also include the Association of Southeast Asian Nations ("ASEAN") markets.

8. In January 2020, with FC's support, the Administration further expanded the scope of the ASEAN Programme to become the Free Trade Agreement ("FTA") Programme, under which the geographical coverage was extended from the 10 ASEAN countries to cover other economies with which Hong Kong had signed FTAs, now and in future. An eligible enterprise can obtain a maximum funding of HK\$2 million on a matching basis for carrying out up to 20 Mainland projects and another HK\$2 million on a matching basis for carrying out up to 20 projects in other economies with which Hong Kong has signed FTAs. The funding ceiling per project is HK\$1 million.

9. The total approved non-recurrent commitment of the BUD Fund is HK\$4.5 billion.⁶ As of end September 2019, the total amount of project grant approved was about HK\$1.2 billion.⁷ The application period of the BUD Fund was extended in 2017 for five years to 24 June 2022.

10. Starting from 9 April 2020, the individual ceilings for the Mainland programme and the FTA programme have been removed, so that enterprises can flexibly make use of the total funding of up to HK\$4 million to expand to new markets.

Small and medium enterprise service centres

11. According to the Administration, it has, in response to the trade's opinion over the complexity of the funding schemes' application procedures, simplified the procedures and consolidated the services of the following SME centres to provide "four-in-one" integrated services from 1 October 2019:

⁶ FC last approved the increase of the approved commitment from HK\$2.5 billion to HK\$4.5 billion on 6 December 2019.

⁷ It includes the total project grant of HK\$263 million approved under the former Organisation Support Programme of the BUD Fund.

- (a) the Support and Consultation Centre for Small and Medium Enterprises under the Trade and Industry Department;⁸
- (b) the "SME Centre" under the Hong Kong Trade Development Council ("HKTDC");⁹
- (c) the "SME One" under the Hong Kong Productivity Council ("HKPC");¹⁰ and
- (d) the "TecONE" under the Hong Kong Science and Technology Parks Corporation.¹¹

12. SMEs can obtain information on the funding schemes at any of the above service points. The Administration has at the same time set up a one-stop referral system to answer enterprises' enquiries with a view to providing better tailored services. Starting from 1 January 2020, a dedicated service team entitled "SME ReachOut" has commenced operation to support SMEs in identifying suitable funding schemes, and answering questions relating to applications through face-to-face meetings.

⁸ The Support and Consultation Centre for Small and Medium Enterprises ("SUCCESS") provides free business information and consultation services to SMEs. The "Meet-the-Advisors" Business Advisory Service of SUCCESS arranges SMEs to meet with experts from various sectors for free advice on specific areas (including legal and accounting matters, etc.), so as to help SMEs tackle issues which they may encounter at various stages of their operation. SUCCESS also regularly organizes the SME Mentorship Programme, which aims at providing an opportunity for SME entrepreneurs who are at their early stage of business to learn from and be guided by accomplished entrepreneurs, senior executives, and professionals through one-on-one free counselling within a 12-month mentorship.

⁹ The "SME Centre" offers a comprehensive business library, meeting areas, function rooms, state-of-the-art facilities and business support services. It also serves as a one-stop shop for the Hong Kong Trade Development Council to introduce comprehensive services in export marketing to SMEs.

¹⁰ The "SME One" provides comprehensive information in relation to various government funding schemes, market financial proposals and the latest information technology solutions pertinent to enhance operation and efficiency to SMEs.

¹¹ The "TecONE" is the one-stop business support centre jointly run by the Hong Kong Science and Technology Parks Corporation and the Hong Kong Productivity Council. Located at the Hong Kong Science Park, "TecONE" provides technology SMEs with comprehensive advisory services. Talks and activities are organized to facilitate technology SMEs to learn more about various funding resources available in the community, and to get connected with industry partners for collaboration opportunities.

Export credit insurance

13. The Hong Kong Export Credit Insurance Corporation ("ECIC") was established in 1966 under the Hong Kong Export Credit Insurance Corporation Ordinance (Cap. 1115) to promote and support the export trade through the provision of insurance protection for Hong Kong exporters against non-payment risks arising from commercial and political events.

14. ECIC launched in 2013 the Small Business Policy ("SBP") scheme for Hong Kong enterprises with an annual business turnover of less than HK\$50 million which provided exporters with more flexibility in taking out insurance cover. ECIC also provided premium discount to assist SMEs in reducing operating costs. To strengthen protection for Hong Kong exporters affected by the United States ("US") tariff measures, ECIC introduced in June and September 2018 special enhanced measures including:

- (a) increasing the number of free buyer credit assessment from three to six for each Hong Kong exporter;
- (b) providing additional pre-shipment cover for free to SBP holders who have been affected by the US tariff measures;
- (c) increasing the discount on premium for SBP holders from 20% to 30%; and
- (d) for SBP holders with credit limits on US buyers, raising each of the credit limits by 20% to a maximum of HK\$5 million.

15. In view of the worsening business environment led by the unstable external economies, the continued trade conflict between China and the US and weakening external demands, ECIC extended in 2019 the above special enhanced measures to 30 June 2022.

Latest development

16. To strengthen support for enterprises facing operational difficulties amid the novel coronavirus outbreak, ECIC has announced on 9 April 2020 a new round of measures to support the export trade. The new measures, which will be effective until 31 March 2021, include:

For SBP holders:

- (a) providing free pre-shipment cover on approved buyers for SBP holders in all ECIC insured markets;

- (b) increasing the credit limits of all buyers for SBP holders in all ECIC-insured markets by 20%, with a maximum of HK\$5 million;
- (c) extending the premium payment period for SBP holders for one month;
- (d) providing an extra 20% discount on premiums for SBP holders, so that each SBP holder can enjoy a total of 50% discount on premiums;

For all policyholders:

- (e) waiving the annual policy fee of HK\$1,500;
- (f) extending across-the-board the payment period to 120 days for each approved credit limit (instead of 60 to 90 days in general);
- (g) waiving additional premium payments for changes to payment terms due to buyers' requests as a result of the pandemic situation;
- (h) handling expeditiously claims payments of HK\$1 million or below, with such cases processed within five days upon receipt of relevant documents;
- (i) simplifying procedures and exercising flexibility in processing claims cases of payment difficulties; and
- (j) providing 10 additional free buyer credit assessments.

Anti-epidemic Fund

17. To provide timely assistance or relief to enterprises and members of the public hard hit by the novel coronavirus epidemic or affected by anti-epidemic measures, the Administration has proposed to establish the HK\$30 billion Anti-epidemic Fund ("AEF"). FC approved the relevant funding proposal on 21 February 2020, and subsequently approved on 18 April 2020 the injection of another HK\$120.5 billion into AEF for rolling out additional relief measures. The measures under AEF are set out in **Appendix I**.

Previous discussions

18. The Administration sought the Panel's support for introducing various measures to support local enterprises, especially SMEs, at the meetings on 20 March 2018, 16 April and 29 October 2019. Members also discussed related issues at the joint meeting with the Panel on Economic Development, the Panel on Financial Affairs and the Panel on Information Technology and Broadcasting on 6 December 2019. The major views and concerns expressed by members are summarized in the ensuing paragraphs.

Provision of tailored services

19. At the meeting on 29 October 2019, members pointed out that SMEs often found it difficult to choose the most suitable funding scheme to apply from a series of similar funding schemes and initiatives. They asked whether the Administration would help individual SMEs identify funding schemes most suitable to their business needs for application.

20. The Administration advised that it was aware of the difficulties SMEs had encountered when making funding applications. In addition to making relevant information on all the funding schemes available on the Internet, the Administration: (a) had brought together nearly 50 funding schemes administered by the Government and public organizations in Hong Kong and the Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area") (with a total value of over HK\$35 billion) at different promotional events for introduction to SMEs to raise their awareness; (b) had since October 2019 consolidated the services of four SME service centres to provide "four-in-one" integrated services so that SMEs could obtain information on all funding schemes at any service point; (c) had extended its reach to enterprises by arranging visits to more than 30 trade and industrial associations; and (d) would establish a dedicated service team to provide support on funding applications from 1 January 2020. The implementation of such measures would provide a more tailored service for SMEs and at the same time allow the Administration to receive feedbacks directly from SMEs for further enhancing the effectiveness of the funding schemes.

21. At the same meeting, members suggested that the Administration should consider consolidating funding schemes with similar ambits (particularly schemes which were administered by different government departments and/or statutory bodies) to encourage SMEs to make applications. The Administration advised that any such proposals required FC's approval and the procedures would likely take considerable time. To meet the needs of SMEs, the Administration would continue to promote all the relevant funding schemes together, further simplify the application procedures and provide a larger proportion of upfront payments.

Vetting and approval procedures of various funding schemes

22. At the meeting on 20 March 2018, members opined that government officials were often over-rigid in the vetting and approval of funding applications under various funding schemes administered by different government bureaux/departments for fear of criticisms from the Audit Commission for mismanagement of public resources. They sought details of the Administration's improvement measures to the existing application and vetting procedures for the various SME funding schemes, including: (a) simplifying the application procedures and the information required in support of the application; (b) shortening the vetting and approval time; and (c) setting 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.

23. Members also suggested at the meeting on 16 April 2019 that the Administration should consider establishing a platform for applicants to share their application-related experience which would help raise the success rate of the funding applications.

24. The Administration advised that it had taken measures in the past few years to enhance the operation of various funding schemes. As an ongoing arrangement, HKPC, the programme secretariat of the BUD Fund, would meet with interested SMEs and answer their questions in relation to application procedures of the BUD Fund. Sharing sessions were also organized for SMEs to share information on successful and unsuccessful applications so as to facilitate their better understanding on the requirements of successful applications.

Expediting the vetting and approval procedures by using artificial intelligence technologies

25. At the joint meeting on 6 December 2019, some members pointed out that the HK\$1 billion Crunch Time Instant Relief Fund Project launched by the Li Ka Shing Foundation had processed 43 000 applications within three weeks with the help of cloud and artificial intelligence technologies. They suggested that the Administration should also make use of the Next Generation Government Cloud Infrastructure ("GovCloud") and Big Data Analytics Platform which had obtained HK\$530 million in funding as approved by FC in May 2018 to expedite the implementation of the Administration's helping measures.

26. The Administration advised that the GovCloud and Big Data Analytics Platform, which was under construction, aimed to support agile delivery of e-Government services using big data and cloud services.

Dedicated Fund on Branding, Upgrading and Domestic Sales

27. At the meeting on 16 April 2019, members enquired whether the BUD Fund grantees were required to meet certain quantitative performance requirements.

28. 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.

29. 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 their brands/products/services, including in the 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.

Council questions

30. At the Council meeting of 15 January 2020, Hon SHIU Ka-fai asked a written question on EMF. He asked whether the Administration would consider (a) raising the Government's funding ratio from 50% to 75% or 100% of the total approved expenditure for each export promotion activity; and (b) releasing up to 100% of the approved funding before the applicant enterprise commenced the concerned export promotion activity.

31. At the Council meeting of 13 November 2019, Hon Jimmy NG asked a written question on whether the Administration had plans to (a) further extend the BUD Fund's geographical scope to encompass all the countries and regions along the Belt and Road; and (b) correspondingly increase the manpower for handling BUD Fund and EMF applications, upon the rollout of various new enhancement measures, to cope with the possible influx of applications.

32. The relevant questions and the Administration's replies are hyperlinked in **Appendix II**.

Latest position

33. The Administration will brief the Panel on 19 May 2020 on the enhanced support for SMEs provided by the Government, HKTDC, ECIC and the various SME services centres.

Relevant papers

34. A list of relevant papers is shown in the **Appendix II**.

Council Business Division 1
Legislative Council Secretariat
12 May 2020

Measures under Anti-epidemic Fund

Measures as approved by the Finance Committee on 21 February 2020

Enhancing anti-epidemic capability

1. Enhancing support to the Hospital Authority in combatting the epidemic
2. Support local mask production
3. Global procurement of personal protective equipment
4. Support property management sector in anti-epidemic efforts
5. Technology applications to enable reusability of masks
6. Support construction sector in anti-epidemic efforts
7. Support cleansing and security staff engaged by Government and Hong Kong Housing Authority service contractors in anti-epidemic efforts
8. Installation of emergency alert system
9. Home quarantine support
10. Ex-gratia payment to households of the two public housing estates designated as quarantine centres

Providing relief to enterprises and individuals

11. Retail Sector Subsidy Scheme
12. Food Licence Holders Subsidy Scheme
13. Subsidy for the transport sector
14. Convention and Exhibition Industry Subsidy Scheme
15. Special allowance for eligible Working Family Allowance and Student Financial Assistance households
16. Additional student study grant for 2019-2020 school year
17. Rental waivers for tenants at the Science Park, industrial estates and Cyberport
18. Subsidies for live marine fish wholesale traders and fishing vessels with Mainland deckhands
19. Support to child care centres
20. Arts and Culture Sector Subsidy Scheme
21. Licensed Guesthouses Subsidy Scheme
22. Travel Agents Subsidy Scheme
23. Support to training bodies
24. Licensed Hawkers Subsidy Scheme

Measures as approved by the Finance Committee on 18 April 2020

Job retention, job creation, job advancement

1. Employment Support Scheme
2. Job creation
3. LAWTECH Fund
4. COVID-19 Online Dispute Resolution Scheme
5. Subsidy for encouraging early deployment of 5G
6. Distance Business Programme
7. Training subsidies for consultants in the construction sector
8. Matching Grant Scheme for Skills Upgrading

Provision of one-off relief for specific sectors

9. Relief grant for tutorial schools
10. Relief grants for providers of catering services for schools and post-secondary education institutions and providers of interest group and school bus services for schools
11. One-off grant to registered sports coaches
12. Relief grants for freelance workers hired by subvented non-governmental welfare organizations to provide training and coaching for service users
13. Subsidy for the refuse transfer station account holders for transporting municipal solid waste
14. Subsidies for local primary producers
15. Special subsidy to exchange participants and Securities and Futures Commission licensees
16. Cash subsidy for individual licensees in the estate agency sector
17. Subsidy for the passenger transport sector
18. Providing relief to creative industries
19. Tourism Industry Support Schemes
20. Relief measures for construction sector
21. Subsidy to operators of Revitalising Historic Buildings Through Partnership Scheme, PMQ and Fly the Flyover Operation
22. Subsidy for the aviation sector
23. Catering Business (Social Distancing) Subsidy Scheme
24. Subsidy schemes for premises affected by COVID-19

Provision of loans, rental concessions, fee waiver, fare reduction to ease the cash flow and burden of businesses and individuals

25. A 20% fare concession of MTR and temporary relaxation of the monthly threshold of the Public Transport Fare Subsidy Scheme

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" (LC Paper No. CB(1)684/17-18(03))</p> <p>Updated background brief on support measures for small and medium enterprises prepared by the Legislative Council Secretariat (LC Paper No. CB(1)684/17-18(04))</p> <p>Administration's follow-up paper (LC Paper No. CB(1)907/17-18(01))</p> <p>Minutes of meeting (LC Paper No. CB(1)1098/17-18)</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" (FCR(2018-19)15)</p> <p>Minutes of meeting (LC Paper No. FC147/18-19)</p>
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" (LC Paper No. CB(1)863/18-19(05))</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)863/18-19(06))</p> <p>Minutes of meeting (LC Paper No. CB(1)1166/18-19)</p>

Date of meeting	Meeting	Paper
29/10/2019	Panel on Commerce and Industry	<p>Administration's paper on "2019 Policy Address - Policy initiatives of Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau" (LC Paper No. CB(1)34/19-20(03))</p> <p>Administration's paper on "Enhanced support to small and medium enterprises" (LC Paper No. CB(1)34/19-20(06))</p> <p>Updated background brief on support measures for Hong Kong enterprises prepared by the Legislative Council Secretariat (LC Paper No. CB(1)34/19-20(07))</p> <p>Minutes of meeting (LC Paper No. CB(1)246/19-20)</p>
13/11/2019	Council	<p>Question No. 9 on "New measures to support enterprises" raised by Hon Jimmy NG (Government press release)</p>
29/11/2019 & 6/12/2019	Finance Committee	<p>Administration's paper on Dedicated Fund on Branding, Upgrading and Domestic Sales, Export Marketing and Trade and Industrial Organisation Support Fund and other funds (FCR(2019-20)39)</p>
15/1/2020	Council	<p>Question No. 10 on "Support for small and medium enterprises" raised by Hon SHIU Ka-fai (Government press release)</p>
21/2/2020	Finance Committee	<p>Administration's paper on Anti-epidemic Fund (FCR(2019-20)46)</p>
17/4/2020 & 18/4/2020	Finance Committee	<p>Administration's paper on Anti-epidemic Fund and other funds (FCR(2020-21)2)</p>