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**Legislative Council**

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**Panel on Commerce and Industry**

**Meeting on 16 March 2021**

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

**Purpose**

This paper provides updated 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 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. 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 financing, market promotion, development of markets and production bases, etc. to support local enterprises, especially SMEs. Details of the measures are set out in the ensuing paragraphs.

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

## **Financing**

### SME Financing Guarantee Scheme

4. The Hong Kong Mortgage Corporation Limited ("HKMC")<sup>2</sup> launched the market-based self-financing SME Financing Guarantee Scheme ("SFGS") on 1 January 2011 with a view to helping Hong Kong 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 participating lending institutions ("PLIs"). The interest rate of each loan is a commercial decision made by PLIs.

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

5. In May 2012, the Government provided a total loan guarantee commitment of \$100 billion for HKMC to launch time-limited special concessionary measures under SFGS to tide enterprises over a possible credit crunch as a result of credit tightening under the uncertain external economic environment. The application period of the special concessionary measures was initially nine months, and has been extended several times to 30 June 2022.

#### *90% Guarantee Product*

6. In December 2019, the Government further introduced the 90% Guarantee Product under SFGS, with a total loan guarantee commitment of \$33 billion, to provide additional support to smaller-sized enterprises and businesses with relatively less operating experience, as well as professionals seeking to set up their own practices. The application period of the 90% Guarantee Product will last up to 30 June 2022.

#### *Special 100% Guarantee Product*

7. Following the approval by the Finance Committee ("FC") on 20 March 2020, the Special 100% Guarantee Product was launched in April 2020 to support enterprises and safeguard jobs under the tough economic environment. The application period of the Special 100% Guarantee Product was initially six months and has been extended to 12 months (i.e. until 19 April 2021).

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<sup>2</sup> To accord with HKMC's business development, 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.

*Financial commitment and estimated expenditure*

8. FC approved on 18 April 2020 the increase of the total guarantee commitment for the Special 100% Guarantee Product from \$20 billion to \$50 billion. At the same meeting, approval of FC was also given for the HKMC Insurance Limited ("HKMCI") to use the financial commitments approved under the three guarantee products interchangeably, on condition that the Government's total commitment for guaranteeing loans under SFGS would remain within \$183 billion. Other major enhancements to SFGS introduced by the Administration since 2018 are in **Appendix I**.

9. As at 19 February 2021, 19 607 applications for 80% Guarantee Product, 2 982 applications for 90% Guarantee Product and 28 080 applications for Special 100% Guarantee Product had been approved. The aggregate guaranteed amount of the approved loans was over \$116 billion.

*Proposed enhancements to the Special 100% Guarantee Product in the 2021-2022 Budget*

10. In the 2021-2022 Budget, the Financial Secretary ("FS") has proposed to (a) extend the application period of the Special 100% Guarantee Product to the end of 2021; (b) increase the maximum loan amount per enterprise from the total amount of employee wages and rents for 12 months to that for 18 months and raise the loan ceiling from \$5 million to \$6 million; (c) extend the maximum repayment period from five years to eight years; and (d) extend the maximum duration of principal moratorium from 12 months to 18 months.

**Market promotion, development of markets and production bases**

11. The Administration 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

12. 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 \$100,000 per application. Starting from 20 January 2020, the Administration has doubled the cumulative funding ceiling per SME from

\$400,000 to \$800,000 and introduced a new option to allow enterprises to apply for an initial payment of up to 75% of the total approved government funding. EMF was further extended on 9 April 2020 to cover SMEs participating in virtual exhibitions organized by government-related organizations or reputable exhibition organizers with good track records.

13. FC last approved the increase of the approved commitment of the Export Marketing and Trade and Industrial Organisation Support Fund ("EMTSF") (which covers the expenditure of EMF)<sup>3</sup> by \$1 billion to \$7.25 billion on 6 December 2019. As at 26 February 2021, a total of 246 798 EMF applications had been approved and the total amount of grants approved was over \$3.9 billion.

14. In the 2020 Policy Address, the Chief Executive has announced the Administration's plans to (a) expand the scope of EMF for two years to cover large-scale exhibitions organized by organizers with proven track records targeting the local market, as well as virtual exhibitions organized by the Hong Kong Trade Development Council ("HKTDC") and reputable exhibition organizers with good track records; and (b) relax the eligibility criteria to cover non-SMEs.

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

15. Following FC's approval in May 2012, the Administration launched a \$1 billion BUD Fund on 25 June 2012 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. The BUD Fund's geographical coverage was first extended in August 2018 to also include the Association of Southeast Asian Nations ("ASEAN") markets, followed by a further extension of the geographical coverage in January 2020 to cover other economies with which Hong Kong had signed Free Trade Agreements, now and in future. The funding ceiling per project is \$1 million.

16. FC last approved the increase of the approved non-recurrent commitment of the BUD Fund by \$2 billion to \$4.5 billion on 6 December 2019. As of end September 2019, the total amount of project grants approved was about \$1.2 billion.<sup>4</sup> The application period of the BUD Fund was extended in 2017 to 24 June 2022.

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<sup>3</sup> EMTSF 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.

<sup>4</sup> It includes the total project grant of \$263 million approved under the former Organisation Support Programme of the BUD Fund.

### *Latest development*

17. FS has proposed in the 2021-2022 Budget to (a) inject \$1.5 billion into the BUD Fund; (b) extend in phases the geographical coverage from 20<sup>5</sup> to 37 economies to include all those with which Hong Kong has entered into Investment Promotion and Protection Agreements; and (c) increase the funding ceiling for each enterprise from \$4 million to \$6 million.

### **Support measures for Hong Kong enterprises provided by Hong Kong Trade Development Council**

18. Established in 1966, HKTDC's mission is to explore potential markets for Hong Kong companies, especially SMEs, and connect them with business partners all around the world. With 50 offices globally, including 13 in the Mainland, HKTDC creates opportunities and promotes Hong Kong as a platform for doing business with the Mainland and throughout Asia. HKTDC's medium-term objectives for 2020-2021 to 2022-2023 are to:

- (a) cement Hong Kong as a global investment and business hub riding on Belt and Road and Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area") opportunities;
- (b) leverage Hong Kong's value-added and customized offerings to create and facilitate business opportunities worldwide; and
- (c) nurture an international entrepreneurial ecosystem for Hong Kong in the digital era.

### Recent developments

#### *Funding provisions*

19. In the 2020-2021 and 2021-2022 Budgets, FS proposed the allocation to HKTDC of (a) a funding of \$150 million for organizing various initiatives to promote Hong Kong; setting up Hong Kong Pavilion, Hong Kong Design Gallery and pop-up shops in major overseas cities; and organizing trade delegations; and (b) another sum of \$375 million in three years starting from

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<sup>5</sup> These economies include Mainland China, New Zealand, the four member states of the European Free Trade Association (including Iceland, Liechtenstein, Norway and Switzerland), Chile, Macao, the ten member states of ASEAN (including Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam), Georgia and Australia.

2021-2022 for developing virtual platforms to enhance its capability to organize online activities and to proceed with digitalization respectively.

*Providing business support in the Mainland*

20. The Chief Executive announced in the 2020 Policy Address that HKTDC will launch a one-stop "GoGBA" platform in collaboration with the Guangdong Province and related chambers of commerce, and set up a SME Centre in the Greater Bay Area, which will be its first outside Hong Kong, to provide multi-faceted support, including market information on the Greater Bay Area and related government policies, enquiry service and training, as well as business promotion, development and matching services.

21. In addition, HKTDC will help Hong Kong enterprises gain access to the large-scale e-commerce platforms in the Mainland through the provision of training and the operation of the "Online Design Gallery", with a view to allowing Hong Kong enterprises to acquire the necessary skills and knowledge on digital marketing, whilst promoting the awareness and image of Hong Kong products on these platforms. HKTDC will also use its physical network in the Mainland to provide business support for Hong Kong enterprises in handling operational issues such as import declaration, logistics and settlement of payment.

*Providing market information on Mainland's overseas Economic and Trade Co-operation Zones*

22. To support Hong Kong enterprises and professional services in setting up businesses in the Mainland's overseas Economic and Trade Co-operation Zones ("ETCZs"), HKTDC introduced the SME Transformation Sandbox (i.e. "T-box") in April 2020 to share ETCZs-related information with Hong Kong enterprises and provide assistance to interested entities.<sup>6</sup>

**Previous discussions**

23. The Administration sought the Panel's support for introducing various measures to support local enterprises, especially SMEs, at the meetings on 29 October 2019 and 17 March 2020. Members also discussed with the Administration the new and enhanced measures to support local enterprises at the meeting on 19 May 2020. The major views and concerns expressed by members are summarized in the ensuing paragraphs.

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<sup>6</sup> At the policy briefing on 15 January 2021, members noted that the Administration had preliminarily identified five Mainland's ETCZs in the ASEAN countries, including those in Thailand, Malaysia, Cambodia and Indonesia (two ETCZs); and were planning to promote pilot matching of interested Hong Kong enterprises with these ETCZs.

### Provision of tailored services

24. Members pointed out that SMEs often found it difficult to identify the most suitable funding scheme to apply from a series of similar funding schemes and initiatives, and asked whether the Administration would provide assistance to individual SMEs in this regard.

25. 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 (including EMF and BUD Fund) 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 Greater Bay Area (with a total value of over \$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.

26. 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.

### SME Financing Guarantee Scheme

27. Members expressed concern whether under the Special 100% Guarantee Product, PLIs would still adopt stringent loan vetting and approval criteria as they had in the past under the 80% and 90% Guarantee Products. Members pointed out that some PLIs had required real estate collaterals from the enterprises concerned under the 80% and 90% Guarantee Products. They enquired about the need for such collaterals as the loans concerned had been 80% to 90% guaranteed by the Government. Some members further urged HKMCI/the Hong Kong Monetary Authority ("HKMA") to liaise closely with

PLIs to provide support to SMEs of certain sectors such as construction subcontractors, whose tangible assets (i.e. construction machinery) might not be of much mortgage value to PLIs in considering their loan applications.

28. The Administration advised that under the Special 100% Guarantee Product, loan applicants were not required to fulfil the normal criteria for credit application. PLIs would not be required to assess the borrowing SME's repayment ability under the Special 100% Guarantee Product as in the case of the 80% and 90% Guarantee Products. Under this special arrangement, the role of PLIs would be to assess, using their expertise, whether the loan applicants met the qualifying criteria for loan by following certain simplified procedures. As the relevant loans would be transferred to HKMC after drawing down by PLIs, HKMC would report the relevant progress to HKMA direct.

29. The Administration also advised that in the majority of the applications under SFGS, the requirement of collaterals had been dispensed with, although in some cases the requirement of collaterals might be necessitated by other pre-existing loans of the applicants.

30. Some members asked whether arts institutions such as music stores, dance and drawing studios, and sports institutions including gyms and martial arts training centres, as well as not-for-profit arts and recreational organizations would be eligible to apply for loans under the Special 100% Guarantee Product. They also enquired about the loan eligibility criteria with regard to the decline in sales turnover.

31. The Administration advised that the Special 100% Guarantee Product was targeted at SMEs of all sectors. Enterprises holding a valid Business Registration Certificate for at least three months by end December 2019, regardless of their business sectors, were welcome to apply. Loan applicants were required to provide proofs that they had suffered at least a 30% decline in sales turnover in any month since February 2020 compared to the monthly average of any quarter in 2019, but not loss, in order to qualify for the loan. Noting that SMEs might not be able to provide formal financial statements to substantiate a 30% decline in sales turnover, HKMCI would accept their management accounts or bank statements instead.

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

32. Some members suggested that the Administration should consider shortening the one-year timeframe for cashflow projection required from BUD Fund applicants to, say a quarter or even shorter. The Administration advised that a dedicated service team entitled "SME ReachOut" had commenced operation since January 2020 to help SMEs identify suitable funding schemes



and provide them with direct support on funding applications through face-to-face or online meetings. The Administration would continue to engage the trade through different channels, such as design thinking seminar, to refine the application procedures of the funding schemes.

### Supporting small and medium enterprises to explore new markets in the Mainland and overseas

33. Members opined that the Administration should, besides introducing an array of relief measures to cope with the economic situation faced by SMEs, implement more forward-looking measures to allow SMEs to "Go Global" when the pandemic came to an end.

34. The Administration advised that HKTDC had been reaching out to the trade and industry sectors to gauge their needs and aspirations in the aftermath of the pandemic. As the local and Mainland markets were expected to be the first to rebound, and due to Hong Kong's close trade and economic relationship with ASEAN member states, the sectors hoped that HKTDC should put more focus in these markets. In fact, HKTDC had made preparations for over 20 trade delegations comprising representatives from different industries and professional sectors, including the infrastructure and financial sectors as well as investors, to explore business and investment opportunities on the Mainland and ASEAN countries (with special focus on Indonesia), which could set off as soon as the pandemic subsided. In the latter half of 2020, HKTDC would also redouble efforts to promote the Convention and Exhibition Industry Subsidy Scheme in order to shore up participation in trade exhibitions and conventions.

### **Council questions**

35. At the Council meeting of 13 November 2019, Mr Jimmy NG asked a written question on whether the Administration had plans to further extend the BUD Fund's geographical scope to encompass all the countries and regions along the Belt and Road.

36. At the Council meeting of 15 January 2020, Mr SHIU Ka-fai asked a written question on whether the Administration would consider (a) raising the Government's funding ratio under EMF 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 under EMF before the applicant enterprise commenced the concerned export promotion activity.

37. At the Council meeting of 26 February 2020, Mr CHUNG Kwok-pan asked a written question on whether the Administration would discuss with the banking industry the simplification of the procedure for vetting and approval of loan applications under SFGS and the relaxation of the application criteria.

38. At the Council meeting of 9 December 2020, Mr Vincent CHENG asked a written question on the details and the implementation timetable of the proposed enhancements to EMF as announced in the 2020 Policy Address.

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

### **Latest position**

40. The Administration will brief the Panel on 16 March 2021 on the latest development of the support measures for SMEs. Subject to members' views, the Administration will submit relevant financial proposal to FC for approval.

### **Relevant papers**

41. A list of relevant papers is shown in the **Appendix III**.

**Major enhancements to the SME Financing Guarantee Scheme  
introduced by the Administration since 2018**

For 80% Guarantee Product

<i>Application period</i>	<i>Enhancement measures</i>
19 November 2018 to 30 June 2022	(a) To halve the annual guarantee fee rate;  (b) To increase the maximum facility amount from \$12 million to \$15 million; and  (c) To lengthen the maximum guarantee period from five years to seven years.
29 May 2020 to 31 May 2021	(a) To provide, for a one-year period, interest subsidy for loans to bring the interest rate per annum to a level on par with that of the Special 100% Guarantee Product, subject to a subsidy cap of 3%; and  (b) To extend, for a one-year period, the eligibility criteria to cover publicly listed companies in Hong Kong.
29 May 2020 to 30 June 2022	To increase the maximum loan amount per enterprise from \$15 million to \$18 million.
2 September 2020 to 31 March 2021	(a) To extend the application period for principal moratorium for six months to 31 March 2021; and  (b) To increase the maximum duration of principal moratorium from 12 months to 18 months.

For 90% Guarantee Product

<i>Application period</i>	<i>Enhancement measures</i>
29 May 2020 to 31 May 2021	(a) To provide, for a one-year period, interest subsidy for loans to bring the interest rate per annum to a level on par with that of the Special 100% Guarantee Product, subject to a subsidy cap of 3%; and  (b) To extend, for a one-year period, the eligibility criteria to cover publicly listed companies in Hong Kong.
29 May 2020 to 30 June 2022	To increase the maximum loan amount per enterprise from \$6 million to \$8 million.
2 September 2020 to 31 March 2021	(a) To extend the application period for principal moratorium for six months to 31 March 2021; and  (b) To increase the maximum duration of principal moratorium from 12 months to 18 months.

For Special 100% Guarantee Product

<i>Application period</i>	<i>Enhancement measures</i>
Since 20 April 2020	(a) To increase the maximum loan amount per enterprise from \$2 million to \$4 million; and  (b) To provide the option for principal moratorium for the first 12 months instead of first six months.
Since 18 September 2020	(a) To increase the maximum loan amount for each applicant from the total amount of employee wages and rents for six months to that for 12 months, or \$5 million (originally \$4 million), whichever is lower; and  (b) To increase the maximum repayment period from three years to five years.

## List of relevant Council questions

Date of Council meeting	Question
13/11/2019	Question No. 9 on "New measures to support enterprises" raised by Hon Jimmy NG ( <a href="#">Government press release</a> )
15/1/2020	Question No. 10 on "Support for small and medium enterprises" raised by Hon SHIU Ka-fai ( <a href="#">Government press release</a> )
26/2/2020	Question No. 7 on "Financing of small and medium enterprises" raised by Hon CHUNG Kwok-pan ( <a href="#">Government press release</a> )
9/12/2020	Question No. 17 on "Measures to support convention and exhibition industry" raised by Hon Vincent CHENG ( <a href="#">Government press release</a> )

## List of relevant papers

Date of meeting	Meeting	Paper
29/10/2019	Panel on Commerce and Industry	<p>Administration's paper on "Enhanced support to small and medium enterprises" (<a href="#">LC Paper No. CB(1)34/19-20(06)</a>)</p> <p>Updated background brief on support measures for Hong Kong enterprises prepared by the Legislative Council Secretariat (<a href="#">LC Paper No. CB(1)34/19-20(07)</a>)</p> <p>Minutes of meeting (<a href="#">LC Paper No. CB(1)246/19-20</a>)</p>
29/11/2019 & 6/12/2019	Finance Committee	<p>Administration's paper on a package of measures to relieve people's financial burden and support enterprises (<a href="#">FCR(2019-20)39</a>)</p> <p>Minutes of meetings (<a href="#">LC Paper No. FC257/19-20</a>) (<a href="#">LC Paper No. FC212/19-20</a>)</p>
21/2/2020	Finance Committee	<p>Administration's paper on Anti-epidemic Fund (<a href="#">FCR(2019-20)46</a>)</p> <p>Minutes of meetings (<a href="#">LC Paper No. FC260/19-20</a>) (<a href="#">LC Paper No. FC263/19-20</a>)</p>

<b>Date of meeting</b>	<b>Meeting</b>	<b>Paper</b>
17/3/2020	Panel on Commerce and Industry	<p>Administration's paper on "SME Financing Guarantee Scheme - Special 100% Guarantee Product" <a href="#">(LC Paper No. CB(1)449/19-20(05))</a></p> <p>Updated background brief on the SME Financing Guarantee Scheme prepared by the Legislative Council Secretariat <a href="#">(LC Paper No. CB(1)449/19-20(06))</a></p> <p>Minutes of meeting <a href="#">(LC Paper No. CB(1)604/19-20)</a></p>
20/3/2020	Finance Committee	<p>Administration's paper on SME Financing Guarantee Scheme <a href="#">(FCR(2019-20)48)</a></p> <p>Minutes of meeting <a href="#">(LC Paper No. FC285/19-20)</a></p>
17/4/2020 & 18/4/2020	Finance Committee	<p>Administration's paper on Anti-epidemic Fund and SME Financing Guarantee Scheme <a href="#">(FCR(2020-21)2)</a></p> <p>Minutes of meetings <a href="#">(LC Paper No. FC24/20-21)</a> <a href="#">(LC Paper No. FC270/19-20)</a> <a href="#">(LC Paper No. FC6/20-21)</a> <a href="#">(LC Paper No. FC4/20-21)</a></p>

<b>Date of meeting</b>	<b>Meeting</b>	<b>Paper</b>
19/5/2020	Panel on Commerce and Industry	<p>Administration's paper on "Support for small and medium enterprises" (<a href="#">LC Paper No. CB(1)603/19-20(03)</a>)</p> <p>Background brief on support measures for small and medium enterprises prepared by the Legislative Council Secretariat (<a href="#">LC Paper No. CB(1)603/19-20(04)</a>)</p> <p>Administration's follow-up paper (<a href="#">LC Paper No. CB(1)713/19-20(01)</a>)</p> <p>Minutes of meeting (<a href="#">LC Paper No. CB(1)802/19-20</a>)</p>
25/9/2020 & 28/9/2020	Finance Committee	<p>Administration's paper on Anti-epidemic Fund and SME Financing Guarantee Scheme (<a href="#">FCR(2020-21)71</a>)</p> <p>Administration's follow-up paper (<a href="#">LC Paper No. FC295/19-20(01)</a>)</p>
21/12/2020	Finance Committee	<p>Administration's paper on Anti-epidemic Fund (<a href="#">FCR(2020-21)77</a>)</p>