

## LCQ12: Assistance provided to small and medium enterprises

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Commerce and Economic Development, Mr Edward Yau, in the Legislative Council today (January 9):

Question:

To relieve the impacts of the Sino-United States trade conflicts on the small and medium enterprises (SMEs) of Hong Kong, the Government has put in place a number of measures since the middle of last year. Such measures include the three enhancement measures for the 80 per cent Guarantee Product under the SME Financing Guarantee Scheme (the Scheme) introduced by the HKMC Insurance Limited in November last year, namely, (i) increasing the maximum loan amount to HK\$15 million, (ii) reducing the guarantee fee by 50 per cent, and (iii) lengthening the maximum loan guarantee period to seven years. In this connection, will the Government inform this Council:

(1) whether the number of applications received under the Scheme, and the total amount of loans involved in those applications, have increased since the introduction of the aforesaid enhancement measures; whether it has assessed if the effectiveness of such measures meets the expectations; if it has assessed and the outcome is in the negative, of the reasons for that, and the specific improvement measures in place;

(2) given that the Scheme stipulates that "the loans must be used for providing general working capital for the enterprises' business operations, acquisition of equipment or assets in relation to the enterprises' business or refinancing any facilities with a guarantee issued under the Scheme", of a breakdown by usage of the amount of the loans approved under the Scheme since November last year and their respective percentages in the total loan amount; whether it has studied SMEs' demand for capital as reflected by these figures; if so, of the outcome; and

(3) notwithstanding that China and the United States have restarted a three-month negotiation on their trade conflicts since early last month, there are comments that the trade conflicts are unlikely to be fully resolved in the short run, whether the Government has any medium and long term solutions to improve the business environment of SMEs (e.g. lowering various kinds of government fees and charges, reducing taxes, and attracting more tourists to Hong Kong so as to stimulate domestic consumption and sustain economic growth)?

Reply:

President,

Our reply to the three parts of the question is as follow:

(1) The HKMC Insurance Limited (HKMCI) implemented several enhancements to the special concessionary measures under the SME Financing Guarantee Scheme (SFGS) (i.e. the 80 per cent guarantee product) on November 19, 2018, including reducing the guarantee fee rates by 50 per cent; increasing the maximum loan amount from \$12 million to \$15 million; and lengthening the maximum loan guarantee period from five years to seven years. The enhancements would last till June 30, 2019. The Government has also extended the application period of the special concessionary measures to June 30, 2019.

Since the launch of the enhancement measures, there has been a marked increase in the number of applications received and the amount of loan involved for the 80 per cent guarantee product.

The number of applications approved in December 2018 and the amount of loan involved have increased month-on-month by 31 per cent and 40 per cent respectively, and year-on-year by 46 per cent and 53 per cent respectively (see the table below for details).

|   | November 2018 | December 2018 | Increase |
|---|---------------|---------------|----------|
| Number of applications approved                       | 131           | 172           | +31%     |
| Amount of loan involved in approved applications (\$) | 540 million   | 757 million   | +40%     |

|   | December 2017 | December 2018 | Increase |
|---|---------------|---------------|----------|
| Number of applications approved                       | 118           | 172           | +46%     |
| Amount of loan involved in approved applications (\$) | 496 million   | 757 million   | +53%     |

As seen from the number of approved applications in the above tables, enterprises reacted favourably to the enhancement measures, reflecting the effectiveness of the new measures in assisting enterprises in obtaining financing. The HKMCI will continue to maintain dialogue with business chambers and associations as well as participating lenders, and endeavour to reduce the financing burden of local enterprises and assist enterprises in obtaining financing through the SFGS.

(2) As shown from the applications approved under the special concessionary measures under the SFGS from November to end-December of last year, the loans

applied are mainly for providing general working capital for enterprises' business operations. Details can be found in the table below:

| Use of loan<br>(can be more than one)  | Number of applications approved<br>(Amount of loan involved in \$) |                      |                        | Percentage of individual use to total |
|--|--|----------------------|------------------------|---------------------------------------|
|  | November 2018  | December 2018        | Total                  |                                       |
| 1. Providing general working capital for the enterprises' business operations  | 118<br>(471 million)   | 165<br>(710 million) | 283<br>(1.181 billion) | 93.4%<br>(91.1%)                      |
| 2. Refinancing existing loan(s)/facility(ies) guaranteed under the SFGS  | 0 (0)  | 0 (0)                | 0 (0)                  | 0% (0%)                               |
| 3. Providing general working capital for the enterprises' business operations and refinancing existing loan(s)/facility(ies) guaranteed under the SFGS | 13<br>(69 million)   | 7<br>(47 million)    | 20<br>(116 million)    | 6.6%<br>(8.9%)                        |
| 4. Acquisition of equipment or assets to facilitate business operations of the enterprises   | 0 (0)  | 0 (0)                | 0 (0)                  | 0% (0%)                               |
| Total  | 131<br>(540 million)   | 172<br>(757 million) | 303<br>(1.297 billion) | 100%<br>(100%)                        |

From the accumulated number of applications approved under the special concessionary measures under the SFGS since its launch to the end of last year, it is noted that the use of loan is also mainly to provide general working capital for enterprises' business operations. Details can be found in the table below:

(As at end-December 2018)

| Use of loan<br>(can be more than one)   | Number of applications approved | Percentage of individual use to total |
|---|---------------------------------|---------------------------------------|
| 1. Providing general working capital for the enterprises' business operations | 13 557                          | 93.1%                                 |

|  |        |      |
|--|--------|------|
| 2. Refinancing existing loan(s) / facility(ies) guaranteed under the SFGS  | 29     | 0.2% |
| 3. Providing general working capital for the enterprises' business operations and refinancing existing loan(s) / facility(ies) guaranteed under the SFGS | 950    | 6.5% |
| 4. Acquisition of equipment or assets to facilitate business operations of the enterprises   | 22     | 0.2% |
| Total  | 14 558 | 100% |

(3) The Government has been closely monitoring developments of the China-US trade conflict and their impact on Hong Kong economy, maintaining close communication and exchanging information with the trade, and discussing with them how to respond. The Commerce and Economic Development Bureau and the Trade and Industry Department (TID) have met with major local chambers and associations of SMEs many times to gauge their views. TID has also set up a dedicated liaison platform for better communication with and dissemination of information to the trade. Apart from the enhancements to the SFGS as mentioned above, the Government has introduced a number of support measures last year, including:

(i) The Hong Kong Export Credit Insurance Corporation has introduced in phases special enhanced measures to strengthen protection for Hong Kong exporters affected by the US tariff measures, including providing six free buyer credit assessments for each Hong Kong exporter; providing 30 per cent discount on premium for "Small Business Policy" (SBP) holders (i.e. Hong Kong exporters with annual sales turnover less than \$50 million); increasing the credit limit on US buyers for SBP holders by 20 per cent to a maximum of \$5 million; and providing free pre-shipment cover for SBP holders affected by the US tariff measures;

(ii) TID has been strengthening the dissemination of information in respect of the Hong Kong rules of origin to the trade and following up with the trade on the related review; and

(iii) The Hong Kong Trade Development Council (TDC) organises free seminars with expert speakers to help the trade understand the relevant trade measures and possible responses, and will also continue to help the trade develop emerging markets and production base through organising trade missions, business matching services, etc.

In addition, the Government has also strengthened support to the trade in developing markets. The Government has launched the ASEAN Programme under the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) on August 1, 2018 to provide funding support to individual non-listed Hong Kong

enterprises to undertake projects for enhancing their competitiveness and furthering business development in the Association of Southeast Asian Nations (ASEAN) market. Enterprises can obtain a maximum funding of \$1 million on a matching basis for carrying out up to 10 ASEAN projects. In addition, to strengthen support to SMEs in exploring new markets and new business opportunities, the cumulative funding ceiling per enterprise for the current SME Export Marketing Fund and the Mainland Programme under the BUD Fund has been doubled, i.e. from \$200,000 and \$500,000 to \$400,000 and \$1 million respectively.

Moreover, the Government has capped the charge for each import and export declaration at \$200 since August 1, 2018, so as to further lower the cost of importing and exporting high-value goods (Note 1) to and from Hong Kong, and enhance Hong Kong's advantage as a trading hub for these goods. SMEs can also benefit from the measure.

The outcome of the meeting between the Chinese and US leaders on the margin of the G20 Leaders' Summit was positive. The Government is pleased to see that China and the US return to the negotiation table and continue dialogue on trade matters. The above progress can in the short run alleviate the tense sentiment in the market.

In the medium to long term, the Government will continue to closely monitor developments, maintain close communication with the trade and adopt a multi-pronged approach. The Government will continue to establish stronger bilateral ties with like-minded trading partners and deepen Hong Kong's economic integration with different parts of the world through negotiating and forging Free Trade Agreements and investment agreements. The Government will expand our overseas Economic and Trade Office coverage to new partners and markets with close economic and trade relations with Hong Kong and with development potential, so as to tap business opportunities and boost foreign direct investment into Hong Kong. The Government will continue to organise business missions with the TDC for the trade to explore business opportunities in new markets. The Government will also continue to assist the trade in grasping the opportunities brought by the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area.

In addition, the Government will continue to promote the development of tourism industry to drive spending and support the continued growth of the Hong Kong economy. The Government will support the Hong Kong Tourism Board's promotion work in overseas and Mainland source markets, nurture and develop tourism projects and products with Hong Kong and international characteristics, including culture, heritage, green and creative tourism, strengthen and enhance Hong Kong's status as a destination for Meeting, Incentive, Convention and Exhibition tourism, a regional cruise hub as well as the Events Capital of Asia to attract more visitors to Hong Kong.

Note 1: This refers to goods with value above \$1.644 million. Prior to implementation of the cap, import and export of goods exceeding the above value threshold used to draw declaration charges above \$200.