

**Business Facilitation Advisory Committee
Wholesale and Retail Task Force**

Funding Schemes under the Trade and Industry Department

Purpose

This paper briefs Members on the funding schemes administered by the Trade and Industry Department (TID).

Background

2. SMEs¹ are the backbone of Hong Kong's economy. They (about 338 000 as at December 2018) constitute over 98% of the local business establishments and account for nearly 46% (about 1.3 million) of the total employment in the private sector in Hong Kong.

Funding Schemes under TID

3. The Government attaches great importance to SMEs, and strives to provide a business-friendly environment for them. TID administers various funding schemes to assist Hong Kong enterprises, in particular SMEs, in obtaining finance, exploring export markets and enhancing the overall competitiveness. These funding schemes can be categorised as follows: -

For Enterprises

SME Loan Guarantee Scheme (SGS)

4. Introduced in 2001, the SGS is a loan guarantee scheme whereby the Government provides individual SMEs with guarantee up to 50% of the approved loan to facilitate them in securing loans from participating lending institutions.

¹ "SME" is defined as any manufacturing business which employs fewer than 100 persons in Hong Kong; and any non-manufacturing business which employs fewer than 50 persons in Hong Kong.

The scheme covers two types of loans, i.e. business installations and equipment loans, and working capital loans. The maximum amount of loan guarantee for each SME is \$6 million. Based on the maximum guarantee ratio at 50%, the corresponding loan amount is \$12 million. The maximum guaranteed period of each loan is five years. If an SME has fully repaid the loan(s) backed up by the guarantee under the scheme, it may use the respective guarantee amount one more time to obtain new loan(s), subject to a maximum guarantee amount of \$6 million.

SME Export Marketing Fund (EMF)

5. Introduced in 2001, the EMF aims at helping SMEs expand their business through participation in export promotion activities, including trade fairs/exhibitions (held locally or outside Hong Kong), advertisements on printed trade publications, promotion through electronic platforms/media and setting up/enhancing corporate website/mobile application of the applicant enterprise and business missions. SMEs, registered in Hong Kong and with substantive business operations in Hong Kong, are eligible to apply. The maximum amount of grant is 50% of the total approved expenditure.

6. To step up support for SMEs to explore new markets and new business opportunities, effective from 1 August 2018, the funding ceiling per application was increased from \$50,000 to \$100,000, and the maximum cumulative grant per SME was increased from \$200,000 to \$400,000. The condition of use of the last \$50,000 of the grants (i.e. the last \$50,000 of the grants cannot be used for participation in export promotion activities previously funded by the first \$150,000 of the grants received by the enterprise) was also removed.

The Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund)

7. The Government introduced in June 2012 the \$1 billion BUD Fund to assist enterprises in enhancing competitiveness and furthering business development in the Mainland through developing brands, upgrading and restructuring operations and promoting domestic sales (the Mainland Programme).

8. The BUD Fund originally comprised the “Enterprise Support Programme” (BUD(ESP)) and the former “Organisation Support Programme” (BUD(OSP)),

providing funding support to non-listed enterprises and non-profit-distributing organisations (such as trade and industrial organisations, professional bodies or research institutes) respectively. To simplify application procedures and to enhance operational efficiency, the BUD(OSP) was merged with the former SME Development Fund (SDF) to form the Trade and Industrial Organisation Support Fund (TSF) in October 2018.

9. To help Hong Kong enterprises capture the economic opportunities brought about by the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, as well as to tap the fast-growing markets of the Association of Southeast Asian Nations (ASEAN)², the geographical scope of the BUD Fund was expanded to cover the ASEAN markets from 1 August 2018 (the ASEAN Programme). Details of the enhancement measures to the BUD Fund introduced on the same date are as follows:

Mainland Programme

- (a) Doubling the cumulative funding ceiling per enterprise from \$500,000 to \$1 million;
- (b) Relaxing the restriction on the maximum number of funded projects from 3 to 10 per enterprise; and

ASEAN Programme

- (c) Launching the ASEAN Programme, and providing a cumulative funding ceiling of \$1 million for each enterprise for carrying out up to ten ASEAN projects.

The BUD Fund's application and utilisation procedures were also simplified with a view to providing more flexible and effective support to enterprises, in particular start-ups.

For Organisations

Trade and Industrial Organisation Support Fund (TSF)

² ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

10. The TSF (a merger of the SDF and the BUD(OSP) on 1 October 2018) provides funding support to non-profit distributing organisations to carry out projects which aim at enhancing the competitiveness of non-listed Hong Kong enterprises in general or in specific sectors, including assisting them in developing any markets. The maximum duration of a project is three years and the maximum amount of funding support for each project is 90% of the total approved project expenditure, subject to a cap of \$5 million.

Recent Development

11. Recent changes in the global economic and trade environment have impacted on the operation of Hong Kong enterprises, especially those engaging in external trade. To support local enterprises to rise up to the challenges facing Hong Kong's economy, the 2019-20 Budget proposes to:

- (a) further increase the approved commitment of the BUD Fund from \$2.5 billion by \$1 billion to \$3.5 billion;
- (b) further extend the geographical support of the BUD Fund to include all economies with which Hong Kong has signed Free Trade Agreements (FTAs)³, now and in future, such that Hong Kong enterprises can take full advantage of the FTAs, including legal certainty and better market access for trade in goods and services, in exploring new markets and new business opportunities; and
- (c) further increase the cumulative funding ceiling for each enterprise by 50% to \$3 million, including \$1 million for the Mainland and \$2 million for ASEAN and other FTA economies.

12. Subject to funding approval from the Finance Committee of the Legislative Council, we aim at implementing the enhancement measures in the third quarter of 2019.

³ So far, Hong Kong has signed eight FTAs with 20 economies, i.e. Mainland China, New Zealand, the four member states of the European Free Trade Association (i.e. Iceland, Liechtenstein, Norway and Switzerland), Chile, Macao, the ten member states of the ASEAN, Georgia and Australia.

Advice Sought

13. Members are invited to note the content of the paper.

**Trade and Industry Department
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