



APEC Study Centre

# The Development of MSME Policies in Hong Kong

## A Preliminary Investigation

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CUHK-APEC Study Centre  
2017-05 Working Paper Series - 01  
[www.cuhk.edu.hk/hkiaps/apecsc](http://www.cuhk.edu.hk/hkiaps/apecsc)



## Objectives of the Study

The purpose of this short paper is to introduce the major “micro, small and medium enterprises” (MSMEs) policies implemented in Hong Kong in the last 20 years. At this stage, we aim at summarizing the major features of these policies. In the second stage of the study, we would attempt to assess the effectiveness and shortcomings of such policies. Naturally, an international exchange and comparison within APEC would be in order, we would like to seek collaboration with other APEC Study Centres to move this project forward.

In the following, we would introduce a brief literature review on the ecosystem of entrepreneurship and MSMEs. Then, we would outline the major MSMEs policies implemented in Hong Kong in the last 20 years. Such policies are divided into two categories: general policies and specific policies (regarding the innovation and technology in-

dustry, and the creative industries). Finally, we would provide some tentative conclusions and suggest the way forward to formulate a more comprehensive study under the APEC umbrella.

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## A Brief Literature Review on Entrepreneurship and MSME Ecosystem

Entrepreneurial activities are important sources of innovation, productivity growth and employment as well as key drivers for economic and social progress. Entrepreneurship is the foundation and drive for the development of micro, small and medium enterprises (MSMEs). MSMEs account for a significant percentage of jobs in many emerging and even developed economies. Many governments actively promote entrepreneurship by providing various forms of support for the creation of an environment to promote entrepreneurial success.

Official statistics for MSMEs are predominantly firm-level data, which inevitably exclude informal MSMEs (e.g. unregistered self-employment, startups). However, they are an integral part of the MSMEs' ecosystem. According to the World Bank, there are between 420-510 million MSMEs globally, among

which about 8% are formal SMEs, 17% are formal micro enterprises and 75% are informal enterprises.<sup>1</sup>

Very often common misunderstanding of entrepreneurship is associated with a 'heroic' image that focuses on innovation as a mechanism for generating economic wealth. Wooldridge (2009) pointed out that entrepreneurs do not always set up large businesses. Instead, they can be found anywhere and they are not all young, Venture capital is only a relatively small part of the financing supporting entrepreneurial entities. In fact, many entrepreneurial firms focus on processes rather than products (such as online delivery). The contract between employers and employees is consistently changing, meaning that more workers need to have entrepreneurial skills to survive in the labour market. Also, there is a growing awareness that social enterprises have been play-



“Entrepreneurship is the foundation and drive for the development of MSMEs.”

ing an increasing role in ‘fixing’ some of the social and environmental problems (Bornstein 2004).

In reference to the comprehensive literature survey from Delta Economics (2014), the economics of entrepreneurship literature has focused on entrepreneurs and small businesses and their contribution to economic growth and development. Many studies have focused on job creation that eventually justified policies to support entrepreneurs and their sustainability and growth. It also means there is a need to addressing issues that prevent individuals from setting up businesses, such as fear of failure, lack of skills or lack of awareness of entrepreneurship as a career option. Growth generation policy structures are more than individual aspects of policy. The structure should consist of infrastructures, funding, fiscal measures and a balance of public and private support that develop, even rebalance, as businesses themselves grow. Meanwhile, innovation policy literature has focused on understanding and measuring innovation as a process of change. How effective companies, countries and economic systems adapt to or assimilate that process of change would engender profitability and contribute to economic growth. Knowledge transfer is critical to the process of learning and the relative efficiencies of national systems

can therefore be measured in terms of knowledge outputs such as patents, citations, strategic alliances, knowledge workers and so on. Enterprise policy literature on the other hand has tended to focus on understanding how entrepreneurs make their decisions, allocate resources, calculate risks and access finance on the supply side and how their ideas originate and the importance of social capital in the development of entrepreneurial networks and clusters at a regional level on the demand side. Only recently has there been an attempt to integrate a theory of entrepreneurship into a theory of economic growth (Audretsch et al. 2006).

The Delta Economics report in 2014 on the SME Growth Challenge also developed a ‘virtuous enterprise circle’ model to characterize the growth pattern of SMEs to help form policy. According to the model, enterprise policy falls into four stages, which are common to all countries studied and are illustrated in Figure 1.

- Stage 1: Business birth rate strategies (coaching, mentoring and network support alongside education and training and innovation).
- Stage 2: Policies for sustainable growth at the early stage (loans, guarantees and seed finance alongside institutional support).

Figure 1. Four Stages for Enterprise Policy



- Stage 3: Support for high growth (20% annual growth) and enterprise development (formal venture capital, private equity and business or commercial banking).
- Stage 4: Institutional frameworks for exit or reinvestment of profits.

Clustering is important for enterprise growth and development of various economic sectors. Clustering will depend on the interplay between the R&D and managerial capacities of the businesses themselves and the agglomeration of activity to support business development (for example, professional services, finance and networking structures). Effective business birth-rate strategies in themselves are no guarantee of business growth. For stages 2, 3 and 4 --from early stage of enterprise development to the final stage of exit and reinvestment--the emphasis is on funding provision and public-private sector balance. The prevalence of private sector growth finance, such as that from business an-

gels and venture capitalists, needs to be coupled with policies or structures targeting investors through advisers. Across the world, researches suggest that public support through funding is more effective if it is provided through the private sector, for example through guarantees and co-investment. There is strong evidence to suggest that public sector engagement should be aimed at plugging an 'equity gap' where there is a market failure, rather than providing growth finance where this could be done through bank loans.

Many governments actively promote entrepreneurship by providing various forms of support for the creation of an environment for entrepreneurial success. They also implement policies to facilitate startups and MSMEs to go through the Stages 2, 3 and 4 as depicted in Figure 1. Such environment should contain a set of interdependent but coordinated elements that enable entrepreneurship to flourish. This idea

lead to the concept of entrepreneurial ecosystems which has gained popularity in recent years due to Feld's (2012) "start-up Communities" and the work by Isenberg (2010) in the Harvard Business Review. Feld (2012) emphasized the interaction between the players in the ecosystem (with high network density, many connecting events, and large companies collaborating with local start-ups) and access to all kind of relevant resources (talent, services, capital), with an enabling role of government at the background. Isenberg (2010) emphasized the role of local conditions and bottom-up processes:

- To stop emulating Silicon Valley
- To shape the ecosystem around local conditions
- To engage the private sector from the start
- To help clusters grow organically;
- To emphasize ambitious entrepreneurship and favor the high potentials
- To focus on institutions and tackle cultural change; and
- To reform legal, bureaucratic and regulatory frameworks.

Isenberg (2011) further formulated six distinct domains of the ecosystem: policy, finance, culture, support, human capital and markets. Moreover, Mason and Brown (2014) defined an entrepreneurial ecosystem as a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organiza-

tions (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of 'blockbuster entrepreneurship', number of serial entrepreneurs, degree of sell-out mentality within firms and levels of entrepreneurial ambition) which formally and informally attempt to connect, mediate and govern the performance within the local entrepreneurial environment' Spigel (2015) defines entrepreneurial ecosystems as 'combinations of social, political, economic, and cultural elements within a region that support the development and growth of innovative startups and encourage nascent entrepreneurs and other actors to take the risks of starting, funding and otherwise assisting high-risk ventures'.

At the operational level, the World Economic Forum (2014) surveyed over 1000 firms in 43 economies and regions, including HKSAR, to evaluate the performance of entrepreneurial ecosystems based on eight pillars. The details of the eight ecosystem pillars and the readiness of different economies and regions with respect to these pillars are reported in Appendix 1).

Furthermore, the comprehensive study by ACCA (Delta Economics 2014) on entrepreneurial and SME policies on education, innovation, self-employment and business births, networking and advisory, fiscal policy, funding provision and balance of public and private provision in China, France, Germany, India, Nige-

ria, Singapore, South Africa, UK and US also suggests that there had been no one-size-fits all policy that would be appropriate for both emerging and developed economies. What is important is that policies should reflect the development needs of the economy and that private involvement occurs where the expected private returns are greatest.

In the following, there will be a brief introduction regarding the development of Hong Kong's SME policies and the functions of the Small and Medium Enterprise Committee (SME Committee) which was set up by the Hong Kong Government in 2000. Then, the major MSME policies of the HKSAR Government would be introduced for reference.

<sup>1</sup> World Bank's IFC Enterprise Finance Gap Database (2011).



## General MSME Policies in Hong Kong

SMEs accounted for about 98% of firms and 50% of the employment in Hong Kong. Hong Kong Government had a long history to provide supports to SMEs, despite their business nature. MSME policies could be divided in two broad categories: general and specific. There are many types of general industrial policy adopted by the Hong Kong Government over the years, including market liberalization, protection of intellectual property, strengthening the rule of law, promoting international trade and investment, deepening capital market development, providing vocational education, etc. They aim at enhancing the economic environment within which firms are operating. In 1960, Hong Kong Government established the Hong Kong Export Credits Insurance Corporation, and then the Trade Development Council and Hong Kong Productivity Council in 1966. These are semi-government

organizations providing financial, market information, technology and management services to SMEs.

Since 1997, the Government established many specific Funds and Schemes to support the development of SMEs in Hong Kong. Each of the schemes is designated to meet different business needs, such as guarantee for bank loans, sponsorship for export marketing activities and funding for SMEs' development projects. In 2000, the Hong Kong Government set up a high level SME Committee to advise on SME related subjects. The Terms of Reference is "To advise the Chief Executive on issues affecting the development of small and medium enterprises in Hong Kong and to suggest measures to support and facilitate their development and growth."

### PRINCIPLES ADOPTED

The following were the major principles





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adopted by the SME Committee to formulate SME policies for the Hong Kong Government (3/2001 LegCo Paper):

- In view of the disparities in the size and mode of operations among the more than 300,000 SMEs in Hong Kong, the SME Committee considered that no single package of support measures could be expected to achieve the same level of success for all SMEs.
- The SME Committee preferred to focus on advancing the general interests of SMEs as well as addressing their common concerns and to propose support measures accordingly. Hence, sector-specific support measures would not be the main thrust of the SME Committee's work. The Government should refrain from meddling with the self-adjustment process of the market by picking winners and subsidizing losers.
- The Government should encourage SMEs to strive to excel through self-enhancement, and assist by providing a business-friendly environment and appropriate incentives or support measures.

### MAJOR ISSUES IDENTIFIED

Within these principles, the SME Committee identified the following major

issues hindering the development of SMEs in Hong Kong:

- While encouraging SMEs to help themselves through self-enhancement, it would be necessary for the SME Committee to take serious look at the current support services and market opportunities available as well as the needs of SMEs identify the gaps left unfilled, including information gaps and mis-match of resources, and then come up with solutions.
- The financial problems encountered by SMEs are to a considerable extent, attributable to the fact that many enterprises did not normally maintain an acceptable degree of transparency with their financial accounts and are therefore unable to provide the documentary proof required by financial institutions for loans.
- The problems encountered by SMEs in human resources development and information technology applications are also partly due to a lack of interest or understanding about the importance of training on the part of the SME owners and their staff and the potential benefits from adopting information technology.

### MAJOR FUNDING SCHEMES IMPLEMENTED

Given these principles and issues identified, the Hong Kong SAR Government, under the Trade and Industry Department in particular, introduced the following major MSME schemes subsequently:

- The SME Export Marketing Fund aims at providing grants to SMEs to encourage them to participate in activities for export promotion. The Fund can be used for trade fairs, business missions, advertisements, export promotion, etc.
- In the early 2000s, the SME Development Fund was set up to provide financial support to non-profit organizations to implement projects which aimed to enhance the competitiveness of Hong Kong's SMEs. Projects could include seminars, workshops, conferences, exhibitions, research studies, award schemes, codes of best practices, databases, service centres, support facilities and technology demonstration, etc. The maximum amount of funding support for each approved project is HK\$5m, or 90% of the approved project expenditure. The applicant has to contribute the remaining 10% of the project expenditure, which may be in cash, in kind or in the form of sponsorship.
- A SME Loan Guarantee Scheme was set up in 2001 and aimed at helping SMEs securing loans from banks for acquiring business installations and equipment, and meeting working capital needs of general business used. The amount of guarantee for an SME is 50% of the approved loan, subject to a maximum amount of HK\$6m. The Scheme has been extended and expanded several times.
- In recent years, a "Small Entrepreneurs Research Assistance Programme" was established, providing dollar-to-dollar matching grants up to HK\$2m per project to help small startups to turn innovation and technology ideas into commercially viable products, processes or services. The funding ceiling increased to HK\$6m in 2012.
- The Government also set up a "Dedicated Fund on Branding, Upgrading and Domestic Sales" of HK\$1b in June 2012. The Fund aims to provide funding support to assist firms in exploring and developing the Mainland market through developing brands, upgrading and restructuring operations, and promoting domestic sales in the Mainland. Funding will be provided on a matching basis, i.e. the Government will cover a maximum of 50% of the total approved.

By using the framework developed in the ACCA Study and World Economic Forum Study, the list of general MSME policies is presented in Table 1 and the details of each of these programmes are presented in Appendix 2. It is not the objective of this paper to review the performance of each of these programmes at this stage. In particular, much of the relevant information and statistics required for the were not available to the public.

Table 1. General MSME Policies (✓✓ major function, ✓ supplementary)

	Accessible Market	Funding & finance	Supporting systems	Education & training	Cultural support
PROMOTING START-UPS					
HK Mortgage Corporation -Microfinance Scheme		✓✓			
Social Innovation and Entrepreneurship Development Fund		✓✓	✓✓		
PROMOTING MSMES' GROWTH AND SUSTAINABILITY					
TID - SME Export Marketing Fund	✓✓	✓✓			
TID - SME Loan Guarantee Scheme		✓✓			
TID - SME Development Fund		✓✓	✓✓		
TID - BUD Fund	✓✓	✓✓			
TID - SME Mentorship Programme		✓✓	✓✓	✓	
TID - Support and Consultant Centre for SMEs			✓✓		
HK Mortgage Corporation - SME Financing Guarantee Scheme		✓✓			
HK Export Credit Insurance - Small Business Policy	✓✓				
HK Trade Development Council - SME Centre			✓✓		
HK Productivity Council - SME One			✓✓		
Promoting E-Commerce	✓✓		✓		
Vocational Training Council		✓✓		✓✓	
SME Training Fund		✓✓		✓✓	

## Specific MSME Policies in Hong Kong

Other than the general MSME policies as spearheaded by the SME Committee under the Trade and Industry Department of the Commerce and Economic Development Bureau, there have been parallel developments in other specific economic sectors (also under the responsibility of the Commerce and Economic Development Bureau), particularly the innovation and technology sector (ITI) and the creative sector (CI). Both the government and the community are having a high expectation on the potential development in these two high value-added sectors. Many of these establishments and programmes are having special provisions for promoting of startups and MSMEs in the ITI and CI. They are aiming at:

- Nurturing talents and facilitating start-ups
- Exploring markets

- Growth and sustainability of their MSMEs
- Fostering an atmosphere conducive for the development of these two specific sectors.

### INNOVATION AND TECHNOLOGY INDUSTRY (ITI)

Since 1997, different HKSAR Governments continued to promote the innovation and technology industry, by providing funding, land, other hardwares and policy support. Especially, the “Innovation and Technology Commission” was set up by the Tung’s government in 1997, which was “responsible for spearheading Hong Kong’s drive to become a world-class, knowledge-based economy”. Its functions were:

- Formulating and implementing policies and measures to promote innovation and technology



“HKSAR Government has been implementing many programmes to promote & support the industry”

- Supporting applied research and development
- Supporting technology transfers and applications
- Promoting technology entrepreneurship
- Promoting wider use of design
- Facilitating provision of information technology infrastructure and development of human resources
- Promoting international standards and conformity assessment services to underpin technology development and international trade
- Working closely with partners in the government, industry, business, tertiary education and industrial support organizations, and thus:
- Offering a range of infrastructure and funding support for applied R&D activities and design-related projects.

Subsequently, Tsang’s Government integrated all related efforts and programmes into one of the Six “New” Industries for promotion in 2008. Over the years, the HKSAR Government has been implementing many programmes and special funds to promote and support the industry, including the Science Park, CyberPort, Hong Kong Applied Science and Technology Research Institute

Company Limited, and many other special funds. All together, the HKSAR Government provided more than HK\$30b for the industry between 1998 and 2015. However, the economic contribution of the innovation and technology industry continued to be at a very low level of 0.7%. In November 2015, the Hong Kong Government formally established the Innovation and Technology Bureau and further committed a budget of HK\$18b in the financial year of 2016/17.

Many of these establishments and programmes for supporting ITI are having special provisions for promoting of MSMEs in the ITI as well. Three major schemes (selected for their relative importance and diversity) are introduced briefly for reference.

### The Innovation and Technology Fund (ITF)

The Innovation and Technology Fund (ITF) was established in 1999 and is administered by the Innovation and Technology Commission to finance projects to help promote innovation and technology upgrading in manufacturing and service industries. These efforts will contribute to increased productivity and enhanced competitiveness. The total commitment for the ITF is currently \$19b. As at the end of 2016, the ITF approved

5,805 projects and granted \$11.9b. There are different programmes under the ITF and the major schemes are:

- The Innovation and Technology Support Programme (ITSP)
- The General Support Programme (GSP)
- The University-Industry Collaboration Programme (UICP)
- Enterprise Support Scheme (ESS)
- Research and Development Cash Rebate Scheme (CRS)
- Technology Voucher Programme (TVP)

### Hong Kong Science and Technology Parks Corporation (HKSTP)

The Hong Kong Science and Technology Parks Corporation (HKSTP) was established by the Hong Kong Government in May 2001 as a non-profit statutory corporation. The main objective of HKSTP is to promote innovation and technology development of Hong Kong. To this end, HKSTP has launched 3 incubation programmes tailored for 3 specific types of startup companies registered in Hong Kong:

- Incu-Bio Programme
- Incu-App Programme
- Incu-Tech Programme

According to HKSTP, as at January 2017, a total of 451 incubatee companies have graduated from these programmes. 74% of them continue to be in operation and 4 of them have undertaken an

initial public offering (IPOs) in the Hong Kong stock market. Furthermore, these programmes have raised for about HK\$1.7b angel and venture capital for incubatee companies. As at January 2017, incubatee companies have obtained 447 industry awards and 915 intellectual properties since the inception of the programme.

### The Retail Technology Adoption Assistance Scheme (ReTAAS)

The Retail Technology Adoption Assistance Scheme (ReTAAS) aims at providing funding support for eligible retail enterprises to adopt relevant information and communications technology and other technologies for manpower management purposes. The funding may also help to enhance their productivity and improve working conditions of workers.

The Hong Kong Productivity Council is designated as the implementation partner of ReTAAS and served as ReTAAS Secretariat. It will handle enquiries, process applications, support a Vetting Committee, monitor project implementation, effect payments and evaluate overall effectiveness of ReTAAS.

A more comprehensive list of such programmes relevant for MSMEs in ITI is presented in the following Table 2 and their details are presented in Appendix 3.

Table 2. Specific MSME Policies for ITI (✓✓ major function, ✓ supplementary)

	Accessible Market	Funding & finance	Supporting systems	Education & training	Cultural support
<b>PROMOTING START-UPS</b>					
Hong Kong Business Angel Network under Science Park			✓✓		
Hong Kong Science and Technology Parks (HKSTP) - Incu-Bio Programme		✓✓	✓	✓	
HKSTP - Incu-App Programme		✓✓	✓	✓	
HKSTP - Incu-Tech Programme		✓✓	✓	✓	
Hong Kong Cyberport (Cyberport) - Cyberport Creative Micro Fund		✓✓		✓	
Cyberport - Cyberport Incubation Programme		✓✓	✓	✓	✓
<b>PROMOTING MSMES' GROWTH AND SUSTAINABILITY</b>					
Cyberport - Cyberport Accelerator Support Programme				✓	
Cyberport - Cyberport macro Fund (CMF)		✓✓			
Innovation and Technology Fund (ITF) - Enterprise Support Scheme		✓✓			
ITF - General Support Programme (GSP)		✓✓	✓✓		✓
ITF - GSP, Patent Application Grant		✓✓	✓✓		
ITF - GSP, Internship Programme		✓✓		✓✓	
ITF - Technology Voucher Programme		✓✓			
ITF - I&T Support Programme (ITSP)		✓✓	✓✓		
ITF - ITSP, University-Industry Collaboration Programme		✓✓	✓✓		
ITF - ITSP, Research and Development Cash Rebate Scheme		✓✓	✓✓		✓
ITF - ITSP, GZ-HK Technology Cooperation Funding Scheme		✓✓			
Vocational Training Council - New Technology Training Scheme		✓✓		✓✓	
SME Cloud Promotion Campaign			✓✓		



## CREATIVE INDUSTRIES (CI)

The Cultural and Creative Industry (CCI) has a long traditional and vibrant development in Hong Kong. It is export-oriented and firms are mostly SMEs. Its GDP contribution has been gradually increasing to about 5% now. In Tung's 1998 Policy Address, he advocated to develop Hong Kong as:

- World's 1st Class Design Centre
- World's 1st Class Fashion Centre
- Asia's Multimedia and Entertainment Centre

In 2008, Tsang's Government designated CCI as one of the Six "New" Industries for further policy support. The HKSAR Government has been implementing many programmes and special funds to promote and support the industry, including the CreateHK, Film Development Fund, Design-related initiatives, etc. Many of these establishments and programmes are having special provisions for promoting of MSMEs as well. A list of such programmes relevant for MSMEs is presented in the following Table 3 and their details are presented in Appendix 4.

Creative industries (CI), which cover advertising, architecture, design, digital entertainment, film, printing, publishing, television and music, have been thriving in recent years. The CreateHK is a dedicated organization established by the Commerce and Economic Development Bureau of the HKSAR Government in June 2009, subsequently to the announcement of the Six "New" Industry

by the Tsang's Government. It co-ordinates government policies and efforts regarding the CI and works closely with the trade to nurture talents, support startups, explore markets and foster a creative atmosphere.

CreateHK provides project funding mainly through the CreateSmart Initiative (CSI). CSI was established in June 2009 with a funding of HK\$300m, to promote and speed up the development of local CI so as to build Hong Kong into Asia's Creative Capital. It is administered by CreateHK. The CSI will fund projects with the following major objectives: nurturing a pool of creative human capital; facilitating start-ups, generating demand for innovation and creativity, etc.. In May 2013, the Government topped up the CSI by another HK\$300m.

It also provides funding to support the Film Development Fund (started in 2009 as well) and Hong Kong Design Centre's (HKDC) basic operation (started 2001). The value added of the design sector has tripled from 2005 to 2013 and the number of jobs increased by 57%. The design sector has also outpaced all other creative sectors in recent years in terms of number of jobs and establishments. However, it would be impossible to quantify the direct contribution of the HKDC's work precisely, which is mostly intangible given the promotional, educational and nurturing nature of its programmes.

Table 3. Specific MSME Policies for CI (✓✓ major function, ✓ supplementary)

	Accessible Market	Funding & finance	Supporting systems	Education & training	Cultural support
PROMOTING START-UPS					
Design Incubation Programme	✓	✓✓		✓	
PROMOTING MSMES' GROWTH AND SUSTAINABILITY					
Create Smart Initiative		✓✓	✓	✓	✓
Design-Business Collaboration Scheme		✓✓	✓✓		
Design Smart Initiative	✓	✓✓	✓✓	✓	✓
Film Development Fund	✓	✓✓			✓
CreateHK—HK Digital Entertainment Industry Fresh Graduate Support scheme		✓✓		✓✓	

In February 2017, the Hong Kong Digital Entertainment Association launched the 2nd “Hong Kong Digital Entertainment Industry Fresh Graduate Support Scheme”, with the support and sponsorship from CreateHK. The major objective of the Programme is to subsidize and encourage local digital entertainment companies to employ and train fresh graduates to become new blood of the industry.

## Conclusions and Future Research Work

The purpose of this short Working Paper is to introduce the major MSMEs policies implemented in Hong Kong in the last 20 years. Other than the general MSME policies as recommended by the SME Committee of the Hong Kong Government, there have been parallel developments in other specific economic sectors. In particular, the ITI and the CI have been identified for specific funding supports. Both the government and the community are having a high expectation on the potential development in these two high value-added sectors.

Many of these new programmes are having special provisions for promoting of MSMEs in the ITI and CI. They are aiming at: (i) nurturing talents and facilitating startups, (ii) exploring markets, (iii) growth and sustainability of their MSMEs, and (iv) fostering an atmosphere conducive for the development of these two specific sectors. For the ITI

alone, the Government provided more than HK\$30b between 1998 and 2015. Additionally, another HK\$18b was committed in the 2016/17 official Budget.

Summing up, MSME policies and schemes in Hong Kong have been undergoing significant evolution in the last 20 years. In general terms, the major features are the following:

- The scope and scale of such MSME policies and schemes have broadened and deepened over time. Additional funds have been injected into most of these schemes.
- Other than general schemes supporting MSMEs, more sector-specific schemes have been introduced.
- Policy promotion and priority have been vested on public-private partnership, funding, entrepreneurship, e-commerce, innovation, technology



“MSME policies and schemes in Hong Kong have been undergoing significant evolution in the last 20 years.”

application and networking.

- Business associations, professional associations and academic institutions have been fully integrated into such schemes.
- Some of the unsuccessful schemes have been restructured or cancelled.
- The Government has been accumulating valuable experiences and support from the community in managing such schemes to promote MSMEs.

According to the World Bank, there are between 420-510 million MSMEs globally, among which about 8% are formal SMEs, 17% are formal micro enterprises, and 75% are informal enterprises. They can easily account for more than 50% of the total employment of each country. To foster the sustainable growth of SMEs in the region, APEC's prioritized strategic areas included the modernization of SMEs, enhancement of business environment, building management capability and promoting entrepreneurship by SMEs; enhancing SMEs' access to markets through information and capability development of e-commerce; accelerating and promoting innovation as a key competitive advantage of SMEs; increasing awareness and availability of financing to SME; and encouraging sustainable business practices by SMEs.

Many of the MSME policies in Hong Kong are multi-dimensional in nature, in order to fill the gaps of the entire entrepreneurship and MSME ecosystem. At this stage, we aim at summarizing the major features of these policies. In the second stage of the study, we would attempt to assess the effectiveness and shortcomings of such policies. Naturally, an international exchange and comparative policy study within APEC would be in order. We would like to seek collaboration with other APEC Study Centres and other experts in this area to move this project forward.

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## The Eight Operational Features of Entrepreneurial Ecosystem

1. Accessible Markets
  - Domestic/Foreign markets
  - Large companies as customers
  - SME as customers
  - Governments as customers
2. Human Capital/ Workforce
  - Management talent
  - Technical talent
  - Entrepreneurial company experience
  - Outsourcing availability
  - Access to immigrant workforce
3. Funding & Finance
  - Friends and family
  - Angel investors
  - Private equity
  - Venture capital
  - Access to debt
  - Other
4. Support Systems/Mentors
  - Mentors/advisers
  - Professional services (such as accounting, human resources and legal)
  - Incubators/accelerators
  - Network of entrepreneurial peers
5. Government & Regulatory Framework
  - Ease of starting a business
  - Tax incentives
  - Business-friendly legislation/policies
6. Education & Training

- Available workforce with pre-university education (such as high school)
- Available workforce with university education
- Entrepreneur-specific training

#### 7. Major University as Catalysis

- Promoting a culture of respect for entrepreneurship
- Playing a key role in idea-formation for new companies
- Playing a key role in providing graduates for new companies

#### 8. Cultural Support

- Tolerance of risk and failure
- Preference for self-employment
- Success stories/role models
- Research culture
- Positive image of entrepreneurship
- Celebration of innovation

<sup>1</sup> Based on World Economic Forum (2014).



## Appendix 2 General Policy Support for MSMEs in Hong Kong

### TRADE AND INDUSTRY DEPARTMENT (TID)

#### SME Export Marketing Fund

The SME Export Marketing Fund (EMF), launched in December 2001 by the Trading and Industry department (TID), aims at providing funds to SMEs for their participation in trade fairs, exhibition or export promotion activities. This would encourage them to expand their markets outside of Hong Kong.

SMEs can apply for funding for their expenses due to their participation in export promotion activities. EMF funding includes expenses by SMEs for export promotion activities such as expenses during trade fairs or exhibitions (construction, set-up design, rentals for booths as well as advertisements in event catalogues, printing of brochures used during the fair

or exhibition). However, such trade fairs or exhibitions are only limited to events outside of Hong Kong, such as the Music Education Expo at London, or local export promotion events such as the Belt and Road Summit 2016 focusing on overseas or international audiences.

Other expenses covered by the EMF funding would include expenses related to advertisements, publications and the development of electronic platforms, websites or shops aimed at external markets outside of Hong Kong.

When the EMF was first launched by the TID in 2001, the maximum aggregate amount of funds each SME was able to receive was HK\$ 40,000. Each application would only be granted a maximum of HK\$ 20,000 in funds. However in June 2003, TID

announced the aggregate amount would be increased from HK\$40,000 to HK\$80,000 and the maximum fund for each application was revised to HK\$30,000 or 50% of their expense for participation in export promotion activities, whichever is less.

The EMF was further revised upwards in February 2008. The aggregate amount received by each SME would increase from HK\$80,000 to HK\$100,000. The scope also expanded to include expenditures on advertisement promotion by SMEs. Additionally, the Legislative Council also approved an additional HK\$350m injection into the EMF and the SME Development Fund. Furthermore, in order to ensure diversity, the last application must be used for a different kind of activity different from those the SME had previously participated in.

In June 2013, the aggregate amount was increased to HK\$200,000 and the grant for each application was adjusted to HK\$50,000 or 50% of their expense for participation in export promotion activities was granted, whichever is lower. The scope was later expanded in June 2016 to include expenses on export promotion activities conducted through electronic platforms due to the increased popularity of the internet and advancement in technology.

As of 3 March 2017, TID has received a total of 244,354 applications for EMF with 206,766 applications being

granted and an aggregate amount of grants approved reaching HK\$ 3.15b.

### SME Loan Guarantee Scheme

The SME Loan Guarantee Scheme (SGS) was established by the Trading and Industry Department (TID) in December 2001. The SGS was aimed at providing a platform for SMEs to retrieve loans for acquiring and installation of business equipments or meeting working capital needs through participating lending institutions (PLI). There are currently 39 PLI, including Bank of China, Citibank, Hang Seng Bank, Standard Chartered and others.

SMEs are able to request for loans from PLIs, with the Hong Kong Government acting as a guarantor for up to 50% of the loan or a maximum of HK\$6m. However, the period the Government acting as a guarantor is limited to a maximum of 5 years. SMEs are allowed to recycle the guarantee once, after successfully paying back the loan they took out within the 5 year period. These loans are required to be repaid by the SMEs in instalments, with the first instalment being no later than 6 months after the loan has been activated. Additionally, the interest on the loans and other charges are to be determined by the PLIs.

The loans are to be used for acquiring and installing business equipment, such as machinery, computer software and hardware, office equipment and others. The loans acquired

through the SGS can be used for the installations and acquiring equipment outside of Hong Kong, as well as for the purchase and installation of second hand equipment. Furthermore, these loans could be used as working capital as well.

The SGS was first launched in 2001. The maximum guarantee by the Hong Kong Government was limited to HK\$4m, where HK\$2m for acquiring or installing business equipment, HK\$1m for meeting working capital needs and HK\$1m for loans based on accounts receivable. This was later increased to HK\$6m in March 2008, which included HK\$5m guarantee ceiling for loans related to acquiring and installation of business equipment and HK\$1m guarantee ceiling for loans meeting the need for working capital (which was the aggregate of the previous category for working capital and accounts receivable loans).

The Government's total commitment to the SGS has continuously increased since its establishment, as demand growing and default rate declining from 15% to 7.5%. The original amount committed was HK\$6.6b. It was increased to HK\$10.6b in May 2005 and was again increased to HK\$20b in March 2008.

According to the Trading and Industry Department, as of the end of February 2017, there has been a total of 33,219 applications for SGS with a success rate of roughly 90%.

The majority of the loans drawn out are for installations and equipment loans, making up roughly 62.8% of total claims. Additionally, the total amount of guarantees committed by the Hong Kong government was about HK\$ 24b.

### SME Development Fund

The SME Development Fund (SDF) was launched in December 2001 by the Trading and Industry Department (TID), aimed at providing funds to non-profit organisations to undertake projects which would enhance the competitiveness of Hong Kong's SMEs in general or in a specific sector. Such projects may include seminars, workshops, exhibitions, research studies, databases, service centres and others.

The original funds provided would cover up to 90% of the approved project's total expenditure. But the maximum amount was capped at HK\$2m, with the maximum duration of projects to be 2 years. The SDF was later reviewed in 2014, with the maximum amount increasing to HK\$5m and the duration of funded projects extending from 2 years to 3 years.

The maximum amount of funding provided by the SDF would cover up to 90% of the approved project expenditure, with the maximum amount capped at HK\$5m. The funds will be provided in two to three instalments, depending on the cash-flow projection of the approved proj-

ect. The SDF funds do not include overhead expenses (such as salary, rental, renovation expenses, utility expenses), entertainment expenses, expenses for meals and other administration costs.

Each request will be assessed by a vetting committee established by the TID, which is also chaired by the Director General of the TID and comprise of experts and representatives from different sectors. Generally, the vetting committee will meet 4 times a year with meetings in March, June, September and December of each year. Each project submitted should have a duration of no more than 3 years.

According to the statistics provided by the TID, as at 28 February 2017, TID has received a total of 1,107 applications since December 2001, with 271 of these applications being approved for a total funding of HK\$322m.

### Special Loan Guarantee Scheme

The Special Loan Guarantee Scheme (SLGS) was launched by the Government on 15 December 2008, aimed at helping enterprises acquiring loans from participating lending institutions (PLI) for meeting general business needs in order to overcome liquidity problems during the global financial crisis, with the government acting as the guarantor. Enterprises applying for the loans were not only limited to SMEs. It covered all companies registered under the Busi-

ness Registration Ordinance, except publicly listed companies. This was a temporary scheme and the application for SLGS was ended on 31 December 2010.

SLGS provided guarantee for up to 80% of the approved loan with the maximum amount loaned by each enterprise being HK\$12m. Within this limit, each enterprise might obtain a revolving credit of HK\$6m. The loans guaranteed could be either a term loan or a revolving credit. It might only be used for meeting general business uses and should not be used for repaying, restructuring or repacking existing loans, credit facilities or payment obligations. Furthermore, only enterprises who did not previously default in any financial institutions would be eligible for SLGS and they needed to be in operation for no less than a year.

Term loans granted by PLIs should have a 6-months grace period, when the enterprise would only be required to pay interests. The enterprise is required to make the repayment over a maximum of 54 months or before 31 December 2015, whichever is earlier. Furthermore, the period between each installment should not exceed 3 months.

As for the revolving credit line, enterprises were also required to complete the repayment over a maximum of 60 months or before 31 December 2015, whichever is earlier. No fixed repayment periods were set. How-

ever, enterprises were encouraged to term-out the loans in order to ensure orderly repayment before the expiry date.

From the information provided by the Trading and Industry Department, the Government received a total of 43,000 applications. Most of them were processed and accepted, while 394 applications were rejected and 3,331 were withdrawn. The total loans approved by the SLGS was roughly HK\$94.5b of which HK\$74b was guaranteed by the Hong Kong Government.

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

The Trade and Industry Department of the Hong Kong Government set up a “Dedicated Fund on Branding, Upgrading and Domestic Sales” (the BUD Fund) of HK\$1b in June 2012 to provide funding support to Hong Kong enterprises (through Enterprise Support Programme, ESP) and non-profit organisations (through Organisation Support Programme, OSP). The BUD Fund aims at assisting local enterprises in exploring and expanding into Mainland China’s market through developing brands (e.g. brand positioning), upgrading and restructuring operations (e.g. new product design), and promoting domestic sales in the Mainland (e.g. market survey). The Hong Kong Productivity Council (HKPC) acts as the Secretariat to assist in implementing

the ESP under the BUD Fund.

Funding of ESP is provided on a matching basis, i.e. the government covers a maximum of 50% of funding and the enterprise contributes no less than half of the project cost in cash. The maximum funding for each enterprise is HK\$ 500,000 and each funded project is required to be completed within 24 months.

One example of a local enterprise successfully funded under ESP was a local cosmetics wholesaler and retailer which wanted to expand distribution channel of its two own brands in Mainland China. The enterprise’s 12-month promotion campaign for brand image improvement and advertising in Mainland, as well as new product development and attendance of the Mainland trade fairs received funding of about HK\$ 500,000 from ESP. An example of unsuccessful application was a distributor of interior decorations which planned to upgrade itself to a manufacturer of certain furniture stickers in a 12-month timespan.

Of the 267 approved projects by the end of December 2014, the 245 enterprises with their respective projects approved indicated that the implementation of the projects and subsequent developments would likely increase their demand for other services in Hong Kong as well, e.g. logistics, professional services and advertising. The funded enterprises also planned to create about



330 new jobs in Hong Kong during implementation of the project, and 530 new jobs might be provided after projects' completion. 34% of the 267 projects approved involved all the three policy areas of BUD while 32% involved branding and developing domestic sales.

On the industry distribution, 136 approved projects (51%) were from manufacturing industries while the other 131 (49%) were from non-manufacturing industries. The projects involved more than 20 economic sectors, including the wholesale and retail (19.9%), import and export trade (8.2%) and information technology (5.6%) industries. Moreover, around 96% of projects were initiated by SMEs. The average number of full-time staff employed by these enterprises in Hong Kong was 18 for manufacturing industries (excluding staff employed in Mainland factories) and 19 for non-manufacturing industries respectively. 13% of the applicants did not have business in the Mainland, while 87% did. On the project duration, 55% of the approved projects were expected to be completed in 6 to 12 months, while 43% expected to be completed in 13 to 24 months.

The government launched the "ESP Easy - Simplified Application Track" (ESP Easy) under ESP in August 2015 which adopts a set of simplified application procedures. Funding under ESP Easy would also be provided on a matching basis after project com-

pleted, and the cap of funding for each project is HK\$ 200,000. Funding scope of ESP Easy includes, but not limited to, participation in exhibitions in Mainland China and related transportation and accommodation costs, establishment of applicants' own on-line shop and development of mobile apps. ESP Easy received enthusiastic response from the industry, marked by 293 applications received as at end of June 2016.

ESP "Normal Track - Simplified Option" was further launched in October 2016 through which all payment from the government would be made on reimbursement basis. The ESP (including ESP Easy) processed a total of 1,397 applications up to end of June 2016, among which 640 applications were approved or conditional approval (s total around 46%). The total amount of funding approved was about HK\$240m. The grantees came from various industries including watches and clocks, jewellery, electronics, electrical appliances, textiles and clothing, plastics, toys, metal products, machinery, food and beverages, wine, cosmetics, information technology, logistics, creative industries and professional services.

The Trade and Industry Department's survey results also showed that around 97% of the enterprises which received funding considered that BUD Fund facilitated their development, and generally helped increase brand awareness, improve product quality, develop new products, es-

establish domestic sales networks and enhance the overall competitiveness of the enterprise etc. Overall, in recent years, the annual figures of BUD Fund (ESP) applications and grants approved are the following:

Table 4: BUD Fund (ESP) Applications and Grants Approved

	2015	2016	2017
Applications received and processed (including ESP Easy)	204	525	525
Amount of grants approved (HK\$ million)	54.3	108.5	109

(Source: TID, 2017 estimate only)

### Support and Consultant Centre for SMEs

The Support and Consultant Centre for SMEs (also known as SUCCESS) is a centre operated by the Trading and Industry Department (TID) of Hong Kong in collaboration with other industrial and trade organisations, professional bodies, private enterprises and government departments. The SUCCESS was established in January 2002 with the main aim of providing support to Small and Medium Enterprises (SMEs) with business information and other services.

One of these services provided by

SUCCESS is business information services, by providing information on licenses and permits required for business operation operate in each industry, as well as providing business reference materials and existing SME activities, services and facilities online.

The SUCCESS also provides consultancy services to SMEs seeking advice and opinions from experts. The SME may apply for a “Meet-the-Advisors” business advisory service where SMEs are able to consult experts regarding running a business or join the SME Mentorship Programme. SUCCESS organizes workshops and seminars aimed at broadening SME’s business knowledge and enhancing their entrepreneurial skills.

### SME Mentorship Programme

The SME Mentorship Programme is part of the services provided by the Support and Consultation Centre for SMEs, also known as SUCCESS. The SME mentorship programme was introduced in November 2001, aiming at providing SMEs a 9-month programme by:

- Providing mentorship from existing entrepreneurial owners within the industry
- Giving newly established SMEs with valuable insight, knowledge and advice
- Allowing for easier transition from the early stage of business operation to the medium stages of op-



eration

- Providing experience sharing and business networking, organising activities, seminars, workshops and visits for participants

The mentorship programme also launched a “Student Attachment Pilot Programme” for participants, which was conducted in partnership with the City University of Hong Kong and the Hong Kong Baptist University. The Programme would arrange students to conduct short-term projects for SMEs and enhancing their competitiveness.

The programme was launched in May 2002, with over 200 participants for the 2002/03 session. The programme completed eight rounds successfully up to the end of 2016. Thus far, over 600 volunteer mentors have participated in the programme, providing free advices to about 1,300 mentee SMEs (about 160 mentees per round).

According to a recent publication by the Trading and Industry Department, the SME Mentorship Programme for 2016 to 2018 has been opened for application as of 14 November 2016. The new programme is slightly different from the previous ones. For example, the period of the programme has been extended from 9 months to 12 months, with one-to-one free counselling from senior executives and professionals. Additionally, the number of supporting industrial and trade organizations, and profession-

al bodies has also increased to substantially 80, providing more in depth knowledge, experience and advice to participating SMEs.

## HONG KONG EXPORT CREDIT INSURANCE CORPORATION (ECIC)

### Small Business Policy

The Hong Kong Export Credit Insurance Corporation (ECIC) introduced in March 2013 the “Small Business Policy” (SBP) to cater for exporting companies with an annual turnover of less than HK\$50m, covering the export credit insurance of contracts of sale of exports. The SBP provides a range of flexible arrangements to assist Hong Kong exporters in developing overseas markets.

SBP provides an annual policy fee waiver and premium discount of 20%, and covers pre- and post-shipment risks with maximum liability up to HK\$10m. SBP allows selective coverage for specific buyers or markets and flexible indemnity ratio (60%, 70%, 80% or 90%), and covers domestic exports, re-exports from Hong Kong or direct exports from places outside Hong Kong. Waiting period is shortened to 3 months for claim payment under HK\$ 500,000 in buyer default cases, otherwise claims would be 4 months from the due date of payment. Risks covered under SBP can be classified as buyer risks and country risks. Buyer risks include bankruptcy or insolvency, default in payment and failure or refusal to take delivery of goods. Coun-

try risks include blockage or delay in foreign exchange remittance, cancellation of import licence, import ban, cancellation of import licence, payment moratorium, and war, revolution, riot and natural disaster.

Premium rates are calculated on the basis of the volume of insurable business, the spread of risks, the destination and the terms of payment. In general, the riskier the country and the longer the credit periods, the higher the premium rates would be. The SBP scheme was well received after launching in 2013. More than 700 applications were approved with the value of total insured business amounting to over HK\$1b by February 2014. Since March 2016, the ECIC has permanently waived the full annual policy fee and offered 20% premium discount for all SBPs.

## HONG KONG MORTGAGE CORPORATION LIMITED (HKMC)

### Microfinance Scheme

In June 2012, the Hong Kong Mortgage Corporation Limited (HKMC) launched the Microfinance Scheme in collaboration with banks and non-governmental organizations (NGO). The scheme aims at assisting people who wish to start their own businesses, become self-employed or achieve self-enhancement through training, upgrading of skills or obtaining professional certification.

Three types of loans in the scheme are Micro Business Startup Loan, Self-

employment Loan and Self-enhancement Loan. Maximum loan amount is HK\$ 300,000 for Micro Business Startup Loan and Self-employment Loan, which are loans for new businesses and existing businesses established for less than 5 years, and those conducting a self-employment business. If the business is owned by more than one person, all partners and business owners must be co-borrowers, the maximum number of whom is three. Existing or former borrowers of Micro Business Startup Loan or Self-employment Loan who have a satisfactory repayment record under the scheme can apply for a new loan with a maximum amount of HK\$ 600,000. The cap of the third type of loan, self-enhancement Loan for courses related to business start-up or career development, is HK\$ 100,000 or up to 100% of training course/examination fee, whichever the lower.

The maximum duration of all loans is 5 years. Interest rate charged cannot be higher than 9% per annum or 8% per annum if a satisfactory third-party guarantee is provided. The approval of loan requires initial screening through participating NGO or banks, business plan writing and vetting panel interview. Post loan draw-down, borrowers are required to maintain regular contact with the assigned mentor for advice on resolving problems in running businesses, if any. Borrowers are also required to submit a Business Progress Re-

port to the relevant NGO regularly to provide an update on the progress of their business after the loan draw-down. Apart from the mentorship, the scheme provides supporting services including referral to entrepreneurial training.

As at end of February, 2017, the Microfinance Scheme received 404 applications in total and vetted 382 cases, 185 of which were approved, with a total loan amount of HK\$46.2m. The average loan size was HK\$ 250,000 and the average loan duration was 4.6 years. The scheme had a good mix of borrowers coming from different backgrounds and professions, such as young beauticians, makeup artists, a pet grooming award winner, fashion and watch designers, IT graduates, Chinese medicine practitioners, rehabilitated offenders, a clown performance entertainer, native English speaking teachers, deserts and pastry chefs and a testing laboratory specialist. Five banks in Hong Kong are participating in the scheme. Table 5 below shows the approved sum and number of loans under the scheme till 2015.

Table 5: Approved Loans under Microfinance Scheme

Year	HKD (m)	No. of Loans
2012	12.75	47
2013	15.35	59
2014	8.6	37
2015	4.5	21

(Source: HKMC)

### SME Financing Guarantee Scheme

Hong Kong Mortgage Corporation Limited (HKMC) launched the SME Financing Guarantee Scheme in January 2011. The scheme aims to help SMEs and non-listed enterprises obtain financing from participating lenders for meeting their working capital and business needs in order to enhance their productivity and competitiveness in the rapidly changing business environment. Eligible enterprises are those with business operations in Hong Kong for at least one year and are required to have good loan repayment records. Listed companies, lending institutions and affiliates of lending institutions are not eligible for the SME Financing Guarantee Scheme.

The scheme covers both term loan and revolving credit facilities. The loans for guarantee must be used for providing general working capital for the enterprises' business operations,

acquisition of equipment, or assets (excluding residential properties) or refinancing any facilities with a guarantee issued under the scheme or under the Special Loan Guarantee Scheme operated by the Trade and Industry Department. Each enterprise and its related entity can obtain guarantee in respect of facility not exceeding HK\$12m in total under the scheme under normal circumstances. Maximum loan duration is 5 years.

Under the scheme, HKMC may provide guarantee coverage of 50%, 60% or 70% to the approved facilities of eligible enterprises. The annual guarantee fee rates range from 0.5% to 3.2% of the loan amount. The overall interest rate of the credit facility should not exceed the annual interest rate ceiling of 10%.

The 2012/13 Budget introduced the time-limited Special Concessionary Measures under the Scheme which provides 80% guarantee coverage ("80% Guarantee Product") to eligible facilities approved by participating lenders at concessionary guarantee fee rates (0.5% to 1.0% of the loan amount). The maximum aggregate guaranteed amount under the 80% Guarantee Products is HK\$100b. The Financial Secretary announced in the 2016/17 Budget the reduction of the annual guarantee fee rates for the 80% Guarantee Product by 10% and the removal of the minimum annual guarantee fee rate of 0.5%. This would be applicable to guarantee

fees due and payable on 80% guarantees on or after 1 June 2016. The 2017/18 Budget furthered the extension of the application period for the 80% Guarantee Product for another year until February 2018.

As at March 2017, there are 30 participating lenders including local, Mainland Chinese and international banks. For example, DBS Bank (Hong Kong) Limited, one of the participating lenders, lent a loan under the SME Financing Guarantee Scheme to a young air cargo company in 2012, when the company was only one year old. The borrower received the first banking loan from DBS under support of the Scheme and recorded a 6-time growth in sales revenue in 3 years after receiving the guarantee from HKMC. By 2016, less than 3% of the SMEs applicants provided collaterals for loan in their application.

In particular, the 80% Guarantee Product has been well received by the market. By 2015, 80% Guarantee Product accounted for over 97% of total applications and about 98% of total loan amount since the scheme started. The table below shows the approved sum and number of loans under the Scheme's 80% Guarantee Product till 2015.

Table. 6: Approved Amount of Loans and Approved Number of Applications under SME Financing Guarantee Scheme (80% Guarantee Product)

Year	HKD (b)	No. of Applications
2012	23.0	5,000
2013	10.9	500
2014	5.9	4,100
2015	3.4	1,000

(Source: HKMC)

Moreover, as at late March 2016, the average amount of loans approved under the Special Concessionary Measures was \$4.03 million. At the time, the HKMC received 519 net default claims and the amount of claim payments made was about HK\$147m. The default rate was about 3.28%, which is slightly on the high side.

As at 10 March 2017, the 80% Guarantee Product received 13,050 applications in total, among which 11,632 were approved and only 85 were rejected. The aggregate facility approved amounted to HK\$46.2b and aggregate guaranteed under the Scheme amounted to about HK\$37b.

## HONG KONG PRODUCTIVITY COUNCIL (HKPC)

### SME One

SME One, a centre, was set up by Hong Kong Productivity Council (HKPC) in July 2012 to provide SMEs with one-stop support and comprehensive information related to various industry support funding schemes available in Hong Kong and the Pearl River Delta region, market development, financial subjects and latest IT solutions pertinent to enhanced operation and efficiency to SMEs. It is located in HKPC with a total area of 4,000 square feet,

For example, a young coffee seller through apps set up by two young people received advice from SME One and successfully obtained finance from HKMC's Microfinance Scheme and Incu-App Programme of Hong Kong Science and Technology Parks. Another two young entrepreneurs applied for support from Cyberport Incubation Programme successfully after introduction and advice from SME One ambassador, to jumpstart their apps of construction materials sourcing.

Riding on the experience in running SME One, HKPC and the Hong Kong Science and Technology Parks Corporation (HKSTPC) jointly set up TecONE in July 2014, a one-stop resource centre for SME technology startups. This would provide them



with comprehensive advisory services essential to their growth, such as public funding schemes, industry support programmes and business financing.

In March 2015, SME One also launched a support programme to facilitate the continuous development of social enterprises in Hong Kong.

During March 2014 and March 2016, SME One handled more than 5,400 enquiries on various funding and industry support schemes, organized more than 200 workshops and forums, and attracted participation from about 8,500 SME representatives. The following table shows the number of enquiries SME One received in the past few years:

Table 7: Number of Enquiries from SME One

Fiscal Year	No. of Enquiries
2012/13	2,425
2013/14	3,575
2014/15	1,000
2015/16	4,400

(Source: HKPC)

## HONG KONG TRADE DEVELOPMENT COUNCIL (HKTDC)

### SME Centre

Hong Kong Trade Development Centre (HKTDC) set up its SME Centre in September 2010. It is a centre for business consultation to SMEs. The 16,000-square-foot SME Centre offers a comprehensive business library, meeting areas, function rooms, other facilities and business support services. It serves as a one-stop shop for HKTDC to introduce comprehensive services in export marketing to SMEs, offering a vast amount of practical information for new companies.

HKTDC SME Advisory Service also provides one-to-one free business advisory service to SMEs and startups with the support of professional institutions in Hong Kong. New entrepreneurs can gather relevant startup information and exchange ideas with SME peers.

In order to provide consultation service to SMEs wishing to enter the enormous market of Mainland China, the China Business Advisory Service is organized and provided by HKTDC China Business Advisory Unit, with support from the China Ministry of Commerce, Shanghai Municipal Commission of Commerce and Department of Commerce of Guangdong Province as well as a number of Chinese enterprises and professional service providers in Hong Kong.

The SME Centre has organized a series of workshops with different themes to enhance SME's competitiveness. Previous workshop topics

included key business skills, practical tips on setting up an online shop and cafe, devising marketing strategies and the knowhow on cross-border e-commerce in Mainland. In fiscal year 2015/16, 38 workshops organized by the centre drew 4,639 participants, and 1,324 advisory sessions were conducted at the Centre. In the same period, 12 of the workshops were related to helping SMEs take advantage of business and marketing opportunities arising from social media and mobile communication, attracting a total of 1,900 SMEs to participate. The table below shows the number of workshops and advisory sessions organized by the SME Centre since its establishment.

Table 8: Number of Advisory Sessions and Workshops Organized by the SME-Centre

Fiscal Year	No. of Advisory Sessions	No. of Workshop Organized	No. of Workshop Participants
2010/11	1,100	24	2,300
2011/12	860	40	4,000
2012/13	1,180	35	3,000
2013/14	1,200	28	3,000
2014/15	1,293	34	3,775
2015/16	1,324	38	4,639

(Source: HKTDC)

## Policy Support for MSMEs in the Innovation and Technology Industry of Hong

### HONG KONG SCIENCE AND TECHNOLOGY PARKS CORPORATION

#### Startup Support

Hong Kong Science and Technology Parks Corporation (HKSTP) was established by the Hong Kong SAR Government in May 2001 as a non-profit statutory corporation. The main objective of HKSTP is to promote innovation and technology development of Hong Kong. One of the major functions of HKSTP is to promote entrepreneurship and nurture more I&T talents. In this regards, HKSTP has launched three incubation programmes tailored for three specific types of startup companies registered in Hong Kong:

- Incu-Bio Programme -- a 4-year incubation programme tailored for biotechnology startups such as those working in the fields of

therapeutics and medical devices

- Incu-App Programme -- an 18-month incubation programme tailored for startups focusing on developing web-based or mobile-based applications
- Incu-Tech Programme -- a 3-year incubation programme tailored for technology startups such as those working in the fields of electronics and green technology

Financial support varies across programmes and is presented in the following table 4.

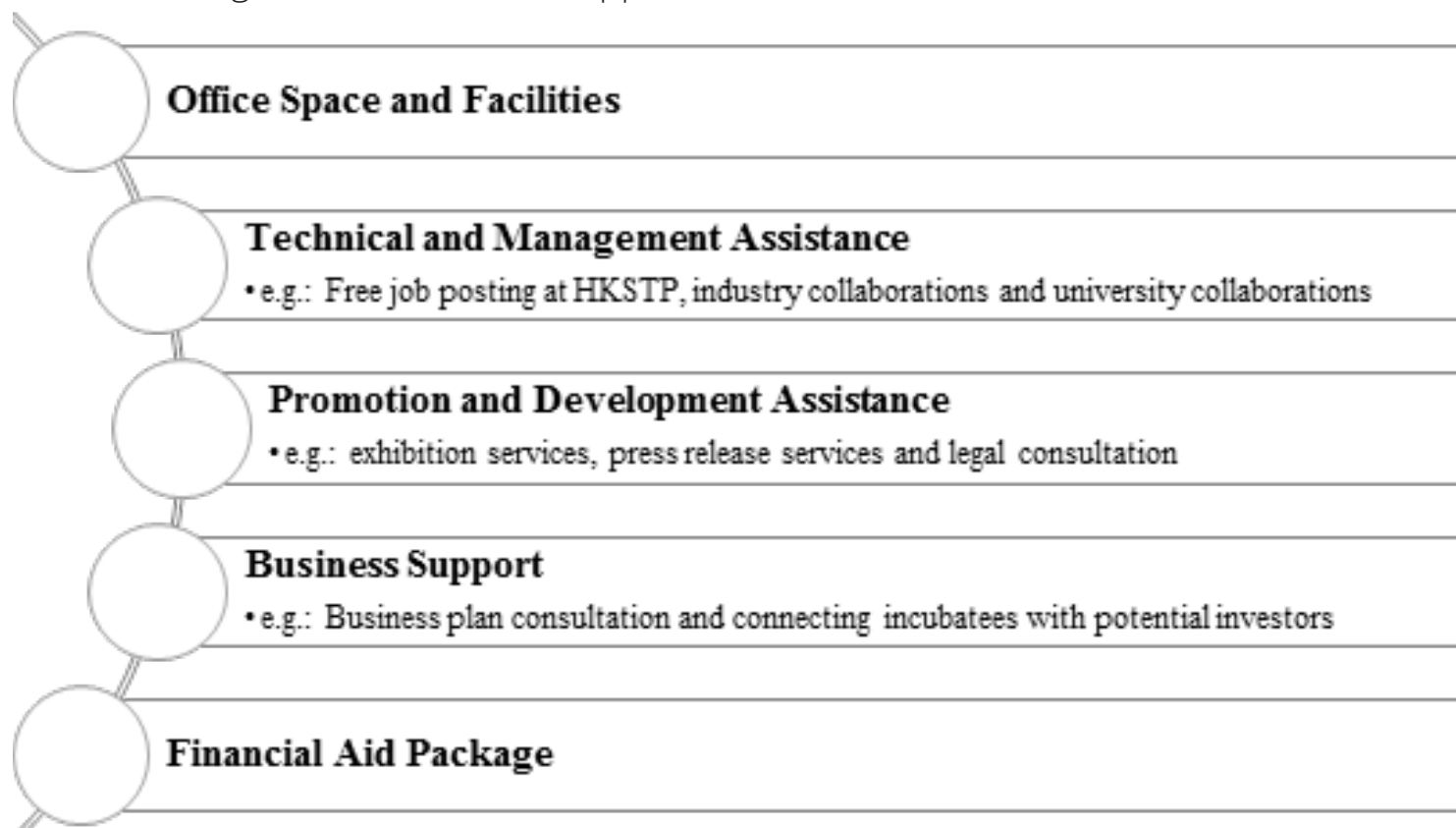
In addition to financial support, these incubation programmes also assist startups to access infrastructure such as office space and laboratory space, to obtain professional services such as exhibition services, press release services and legal con-



Table 9: Financial Aid Package for the 3 Incubation Programmes<sup>1</sup>

Incu-Bio Programme	Incu-App Programme	Incu-Tech Programme
Max HK\$240,000	Max HK\$60,000	Max HK\$180,000

Figure 2. Overview of Support Offered in the Incubation Schemes



According to HKSTP, as at January 2017, a total of 451 incubatee companies have graduated from these programmes. Among these 451 incubatee companies, 74% of them continue to be in operation and 4 of them have undertaken an initial public offering (IPOs) in Hong Kong. Furthermore, these programmes have raised for HK\$17b angel and venture capital for incubatee companies. As at January 2017, incubatee companies have obtained 447 industry awards and 915 intellectual properties since the inception of the programme.

Hong Kong Cyberport Management Company Limited

### Startup Support

Hong Kong Cyberport Management Company Limited (Cyberport hereafter) is a statutory corporation set up by the Hong Kong SAR Government to foster the development of information and communications technology (ICT) in Hong Kong (source: <https://www.cyberport.hk>). Since its inception in 2005, an incubation programme has been implemented to promote startups in the sec-

tor. Figure 3 gives an overview of the support offered by Cyberport to promote startups in the ICT industry.

### Cyberport Creative Micro Fund (CCMF)

The Cyberport Creative Micro Fund (CCMF) was first launched in 2009 and is the first stage of support offered by Cyberport. The CCMF would provide a cash grant of HK\$100,000 to assist digital technology start-ups to turn their business ideas into actual businesses over a 6-month period. Besides cash grant, the programme also offers mentorship and business advice, networking opportunities, and support on publicity and promotion. As at March 2016, CCMF has granted a total of HK\$23.2m to 232 projects throughout the years since its inception.

### Cyberport Incubation Programme

The original Cyberport Incubation Programme (CIP) was launched in 2005 and aims at providing support to technology startups in the form of financial assistance, technical support and business advisory services. During the 24-month incubation period, incubatee companies are given financial assistance at a maximum of HK\$330,000.<sup>2</sup> In addition to financial support, the programme also offers incubatee companies free access to office space and conference rooms, and subsidies for a variety of services such as exhibition services and legal consultancy services. The programme also provides subsidies to incubatee companies for hiring graduate interns, covering 50% of monthly salaries (capped at HK\$9,000). A list of support from the

programme is shown in Figure 4.

During the period 2005 to May 2016, the programme has admitted 321 startups and, as at March 2016, 72% of them are still in business. Moreover, as at May 2016, incubatees have obtained 217 industry awards and 185 intellectual properties since the inception of the programme.

### Cyberport Accelerator Support Programme

The Cyberport Accelerator Support Programme (CASP) was launched in 2014 as the next phase of support for current incubatee companies or alumni of the Cyberport Incubation Programme. This programme offers up to HK\$300,000 to eligible startups to participate in accelerator programmes, which are designed to equip them for entering international markets and seeking funds from international investors.

### Cyberport Macro Fund (CMF)

The Cyberport Macro Fund (CMF) was launched in 2016 and is an investment fund aimed at ICT startups who are participants or graduates of Cyberport's programmes. The scheme aims to provide extra funding to Cyberport's ICT startups and foster development of venture capital ecosystem for Hong Kong's digital entrepreneurs. Currently, the total size of the fund is HK\$200m and for each investee, the accumulative investment from Cyberport would range from HK\$1m to HK\$20m.

Table 10: Overview of Support Offered by Cyberport



Table 11: Support Offered by the Cyberport Incubation Programme

Financial Assistance	Up to HK\$330,000
Free Office Facilities	Up to 24 months (for on-site incubatees only)
Business Operation Subsidy	75% Subsidy on <ul style="list-style-type: none"> <li>• Production services at Cyberport Technology Centre</li> <li>• Professional services including legal consultancy services</li> <li>• Training, trade fair or exhibition services</li> </ul>
Advertising Subsidy	Up to HK\$50,000
Subsidy for Hiring Intern	Monthly salaries subsidised to 50%, or up to HK\$9,000, whichever is lower

Table 12: Support Offered by the Cyberport Accelerator Support Programme

Business Operation Subsidy (75%)	Accelerator programme fees <ul style="list-style-type: none"> <li>• Office rentals</li> <li>• Travel and accommodation</li> <li>• Professional services</li> </ul>
Subsidy for Hiring Intern (50%)	Monthly salaries subsidised

## INNOVATION AND TECHNOLOGY BUREAU

### Innovation and Technology Fund

The Innovation and Technology Fund (ITF) was established in 1999 under the Tung's Government and was initially administered by the Innovation and Technology Commission (under the Communication and Technology Branch of the Commerce and Economic Development Bureau) to finance projects to promote innovation and technology upgrading in manufacturing and service industries. These efforts will contribute to productivity and competitiveness, and hence will be conducive to the long-term economic development of Hong Kong. The total commitment for the ITF is currently HK\$19b.<sup>3</sup> As at the end of 2016, the ITF approved 5,805 projects and granted HK\$11.9b.<sup>4</sup>

There are different programmes under the ITF and they are:

- Innovation and Technology Support Programme (ITSP)
- Guangdong-Hong Kong Technology Cooperation Funding Scheme (TCFS)
- General Support Programme (GSP)
- GSP - Internship Programme
- GSP - Patent Application Grant
- University-Industry Collaboration Programme (UICP)
- Enterprise Support Scheme (ESS)
- Research and Development Cash Rebate Scheme (CRS)

- Technology Voucher Programme (TVP)
- Midstream Research Programme for Universities (MRP)

### General Support Programme

The General Support Programme (GSP) is a programme under the ITF, catering for non-R&D projects that would contribute to the upgrading and development of our industries as well as fostering an innovation and technology culture in Hong Kong. The GSP has two sub-programmes, namely the Internship Programme and the Patent Applicant Grant.

Projects to be supported under GSP may include conferences, exhibitions, seminars, workshops, promotional events, studies and surveys, youth activities, events or projects to support platform building/upgrading of industry, etc. All projects would normally require a sponsorship of no less than 10% of the total project cost from private companies that are not relating to the applicant organisation in terms of ownership or management and/or from other sources of contribution, e.g. non-governmental organisations (NGOs), District Councils, charitable organisations, statutory bodies, individuals, etc. As at the end of 2016, the GSP approved 2,578 projects and granted about HK\$1b.<sup>5</sup>

### Internship Programme

The Internship Programme was launched in July 2004 and aims to encourage university graduates to pursue a career in innovation and technology (I&T) and

nurture more I&T talents. It supports organizations undertaking R&D projects funded by ITF, as well as incubatees and small and medium enterprise (SME) tenants of Hong Kong Science & Technology Parks Corporation and Cyberport, to recruit graduates from local universities as interns to assist in the R&D projects.

Each project or applicant company can engage up to two interns at any one time for a maximum period of 24 months. For each tenant of the Hong Kong Science & Technology Parks Corporation and Cyberport, the total internship period should be no more than 48 months. The internship allowance for graduates with a Bachelor degree is \$14,000 and that for graduates with a Master or higher degree is \$16,500. As of May 2016, the Programme has nurtured over 2,000 talents.<sup>6</sup> Over 60% of the interns have subsequently either found a job or indicated interest in working in the scientific research field.

#### Patent Applicant Grant

The Patent Application Grant aims to encourage local companies and inventors to capitalise their intellectual work through patent registration. Companies and individuals which/who have never owned any patents before are eligible. It is administered by the Innovation and Technology Commission with Hong Kong Productivity Council as the implementation agent.

A grant of not more than HK\$250,000 or 90% of the sum of the direct cost and the administration fee for an application will be provided. All applications for

functional patents and inventions with technology elements and susceptible of industrial application are eligible. The implementation agent of the scheme will first conduct a patent search-cum-technical assessment to ensure that there is a reasonable chance of obtaining the patent.

#### Enterprise Support Scheme

The Enterprise Support Scheme (ESS) is a major funding initiative under the ITF, which is designed to encourage the private sector to invest in R&D. The ESS has the follow objectives:

- To create a 'rainforest' of technology startups
- To increase private sector investment in R&D
- To attract Mainland and foreign companies to establish their R&D presence in Hong Kong
- To create more technology-related job opportunities of a diversified nature

A company, regardless of its size, can apply to the ESS for funds to carry out R&D on innovation and technology. Each project should last no longer than 2 years. Funding support is up to HK\$10m and will be provided on a dollar-for-dollar matching basis. The funding recipient company will own all intellectual property rights arising from the project. Recoupment of Government's contribution is not required. Benefit-sharing of commercialised R&D results would be non-mandatory.



As a sub-programme, the Small Entrepreneur Research Assistance Programme (SERAP) was also initiated in 1999 to support in-house R&D in SMEs. From 1999 to 2014, the number of approved projects under the SERAP was 416 and a total amount of HK\$508.2m was granted.<sup>7</sup> The vetting criteria consisted of the innovation and technology component, technical and management capability, financial considerations, commercial viability of project deliverables, and relevance with government policies or in overall interest of the community.

In 2014, the ESS was restructured to absorb the SERAP. The ESS gives equal emphasis on SMEs as well as large corporations. Each application will be assessed on its own merits. In assessing the applications, projects meeting the relevant funding criteria will be supported. ESS has set up a designated track for applicants that have less than 100 employees and are seeking funding support of no more than HK\$2.8m. From 2014 to 2016, the ESS approved 22 projects and granted HK\$65.6m.

ESS recipients can also apply for other ITF schemes, such as financial assistance under the Internship Programme. Each project can hire up to two interns. Furthermore, the Research and Development Cash Rebate Scheme could also permit a cash rebate of up to 40% of the company's direct expenditure in the R&D project.

### Research and Development Cash Rebate Scheme

The R&D Cash Rebate Scheme (CRS)

was launched in 2010 and aims at reinforcing the research culture among private companies and encourage them to establish stronger partnership with designated local public research institutions. With a funding commitment of HK\$200m, the CRS provides cash rebate to private companies on their investment in R&D projects funded by ITF or conducted in partnership with designated local public research institutions, including:

- Local universities
- R&D Centres set up under the ITF
- Hong Kong Productivity Council
- Vocational Training Council
- Hong Kong Institute of Biotechnology

Initially, the level of cash rebate was 10% when the CRS was launched in 2010. This subsequently increased to 30% in 2012 and 40% in 2016, in order to enhance the attractiveness of the CRS. Before the latest increment of the rebate level to 40% in April 2016, 1,303 projects were approved.<sup>8</sup> From April to December 2016, 210 projects were approved with a total funding of HK\$52.3m.<sup>9</sup>

### Technology Voucher Programme

The Technology Voucher Programme (TVP) is a new pilot scheme under ITF to subsidise local SMEs in using technological services and solutions to improve productivity, or upgrade or transform their business processes; as well as providing business opportunities to technological service providers and flourishing their business.<sup>10</sup> The programme would

be implemented on a pilot basis for an initial period of three years from 2016, with an initial funding of HK\$500m. The Government estimated that TVP would benefit up to 2,500 SMEs with adopting technological services and solutions in their operations.<sup>11</sup>

Under the TVP scheme, eligible companies must fulfil the requirements for the company to be classified as a SME, i.e. a manufacturing company having less than 100 employees and less than 50 employees for a non-manufacturing company, with at least 1 full year of operations and has been registered with the business registration ordinance. Each SME may receive a cumulative funding up to \$200,000 on a 2:1 matching basis for a maximum of three projects. The applicant enterprise must contribute no less than one third of the total approved project cost in cash. Each project should normally be completed within 12 months.<sup>12</sup>

Given the rapid development of technologies, the TVP has not defined the types of technological services that can be subsidised. SMEs are encouraged to examine their business operations and identify necessary technologies to address business challenges in order to improve productivity, or upgrade or transform their business processes.

TVP funding could cover:

- Technology consultancy
- Purchase, rental or subscription of customised equipment/hardware, software and technological services

or solutions that form an essential part of the project

- Purchase, rental or subscription of off-the-shelf/readily available equipment/hardware, software and technological services or solutions that form an essential part of the project (this item should not constitute more than 50% of the project's cost)
- Project auditing for projects with approved funding exceeding \$50,000 (the maximum audit fee to be counted towards the total project cost is \$3,000)

The assessment criteria of TVP projects include the relevance of the proposed project to the applicant enterprise's business, reasonableness of the budget, reasonableness of the implementation details and adverse record of consultants and/or service providers.

As at the end of January 2017, 836 SMEs have registered on the TVP website. Among the first two batches of 23 eligible applications, 21 were supported for funding, with a success rate of over 91%. The total funding approved was about HK\$2.8m, averaging about HK\$130,000 per project.<sup>13</sup>

## THE OFFICE OF THE GOVERNMENT CHIEF INFORMATION OFFICER

### SME Cloud Promotion Campaign

The SME Cloud Promotion Campaign (CPC) was organised by the Office of the Government Chief Information Officer ("OGCIO") during the period December 2014 to June 2015. The CPC was aimed



at increasing awareness of the benefits of using cloud computing and how to select the relevant cloud platform to fit each SME's needs.<sup>14</sup>

InfoCloud is a portal platform, which was launched under the CPC on 18 December 2014, which was a collaborative effort with members from the Export Group of Cloud Computing Services and Standards. The InfoCloud platform aims to provide enterprises, mainly targeted at SMEs, with accessible information and resources on cloud computing technologies as well as samples, guidelines and best practices used to achieve desired benefits in implementing cloud computing.<sup>15</sup> The InfoCloud platform also provides an estimate of 40 free training courses and materials for SMEs categorised in 6 different sectors, which includes retail, catering, import and export trade, logistics and land transport, sales and marketing as well as HRM and accounting.<sup>1</sup>

The CPC also held events aimed at promoting the use of cloud computing, such as the SME Cloud Competition, where SMEs would compete in two categories; Best SME Cloud Adaptations and Best SME Cloud solutions. The award ceremony for the competition was held in June 2015. Additionally, a 10 episode radio drama was created discussing the benefits of cloud computing model as well as how cloud solutions would be able to help SMEs.<sup>17</sup> According to a Legislative Council Q&A Session, it was estimated that the CPC should benefit up to 3,800 SMEs practitioners.

## HONG KONG PRODUCTIVITY COUNCIL

### Retail Technology Adoption Assistance Scheme (ReTAAS)

The Task Force on Manpower Development of the Retail Industry was established by the government in 2013 and recommended an industry support scheme to address the manpower tightening problem faced by the retail industry. Approved in 2014, the government set aside HK\$50m for The Retail Technology Adoption Assistance Scheme (RTAAS) to help the retail industry to adopt relevant information and communications technology and other technologies that help the manpower management. The funding may also help to enhance their productivity and improve working conditions for workers.

Funding will be provided on a matching basis, i.e. the Government will cover a maximum of 50% of the total approved project cost and the enterprise has to contribute no less than 50% of the total project cost in cash. Up to two projects from a single applicant may be approved, subject to the cumulative ceiling of funding support of \$50,000. Any expenses directly related to the project can be funded. Business daily operating costs (e.g., the salary for employee, office rent, general administrative and office expenses, etc.) are not eligible for funding. A list of typical technologies manpower management would include:

- POS (point-of-sales) system
- Inventory system
- Electronic payment system

- radio-frequency identification (RFID) system

The Hong Kong Productivity Council is designated as the implementation partner of RTAAS and served as the RTAAS Secretariat. It will handle enquiries, process applications, support a Vetting Committee, monitor project implementation, effect payments and evaluate overall effectiveness of RTAAS. As at the end of November 2016, there were about 200 applications, involving HK\$7.3m funding.<sup>18</sup>

<sup>1</sup> Funding is subject to satisfactory progress and performance of incubate companies. Milestone assessments are conducted at the end of month 3, and then every 6 months thereafter during the incubation period.

<sup>2</sup> According to Cyberport's website, the financial assistance is made up of 2 parts - HK\$50,000 for initial working capital and up to HK\$280,000 for approved expenditures on reimbursement basis.

<sup>3</sup> Legislative Council. 2017. "Memorandum Note - Innovation and Technology Fund." Retrieved from [http://www.legco.gov.hk/yr16-17/english/counmtg/papers/cm20170222-sp069\\_070/pdf/itf.pdf](http://www.legco.gov.hk/yr16-17/english/counmtg/papers/cm20170222-sp069_070/pdf/itf.pdf).

<sup>4</sup> Innovation and Technology Commission. 2017. "Innovation and Technology Fund - Statistics of Approved Projects." Retrieved from <http://www.itf.gov.hk/l-eng/StatView101.asp>.

<sup>5</sup> Innovation and Technology Commission. 2017. "Innovation and Technology Fund - Statistics of Approved Projects." Retrieved from <http://www.itf.gov.hk/l-eng/StatView101.asp>.

<sup>6</sup> Legislative Council. 2016. "Background brief on the new initiatives for promotion of innovation and technology." Retrieved from <http://www.legco.gov.hk/yr15-16/english/panels/ci/>

[papers/ci20160517cb1-901-6-e.pdf](http://www.itf.gov.hk/l-eng/StatView101.asp).

<sup>7</sup> Innovation and Technology Commission. 2017. "Innovation and Technology Fund - Statistics of Approved Projects." Retrieved from <http://www.itf.gov.hk/l-eng/StatView101.asp>.

<sup>8</sup> Innovation and Technology Commission. 2017. Controlling Officer's Report. Retrieved from <http://www.budget.gov.hk/2017/eng/pdf/head155.pdf>; Innovation and Technology Commission. 2015. Controlling Officer's Report. Retrieved from <http://www.budget.gov.hk/2015/eng/pdf/head155.pdf>; Legislative Council. 2013. "Review of Research and Development Cash Rebate Scheme." Retrieved from <http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/ci0219cb1-534-3-e.pdf>.

<sup>9</sup> Innovation and Technology Commission. 2017. "Innovation and Technology Fund - Statistics of Approved Projects." Retrieved from <http://www.itf.gov.hk/l-eng/StatView101.asp>.

<sup>10</sup> Information Services Department. 2016. "Technology Voucher Programme opens for application." Retrieved from <http://www.info.gov.hk/gia/general/201611/21/P2016112100458.htm>.

<sup>11</sup> Information Services Department. 2016. "Voucher scheme set for SMEs." Retrieved from [http://www.news.gov.hk/en/categories/finance/html/2016/02/20160225\\_134803.shtml](http://www.news.gov.hk/en/categories/finance/html/2016/02/20160225_134803.shtml).

<sup>12</sup> Innovation and Technology Commission. Technology Voucher Programme (TVP). Retrieved from <http://www.itf.gov.hk/l-eng/TVP.asp#Amount>.

<sup>13</sup> Legislative Council. 2017. "Technology Voucher Programme and Government Policy on Procuring Information and Communications Technology Products." Retrieved from <http://www.legco.gov.hk/yr16-17/english/panels/ci/papers/ci20170221cb1-555-3-e.pdf>

<sup>14</sup> Legislative Council. 2016. Official record of proceedings. 7 December. Retrieved from <http://www.legco.gov.hk/yr16-17/english/>

counmtg/hansard/cm20161207-translate-e.pdf.

<sup>15</sup> InfoCloud. About Us. Retrieved from <http://www.infocloud.gov.hk/home/20>.

<sup>16</sup> InfoCloud. SME Cloud Training Programme materials. Retrieved from <http://www.infocloud.gov.hk/home/10814>.

<sup>17</sup> InfoCloud. SME Cloud Competition recognises exemplary cloud computing adoption by SMEs. Retrieved from <http://www.info.gov.hk/gia/general/201506/11/P201506110463.htm>.

<sup>18</sup> Legislative Council. 2017. "Policy Initiatives of Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau." Retrieved from <http://www.legco.gov.hk/yr16-17/english/panels/ci/papers/ci20170125cb1-464-3-e.pdf>.

## Appendix 4

# Policy Support for MSMEs in the Creative Industries of Hong Kong

### DesignSmart Initiative

The Hong Kong Government set up the DesignSmart Initiative (DSI) in 2004 to promote integration of design into mainstream business and industrial processes as a value-added activity. A funding support of HK\$250m was provided for design projects which aimed at promoting design as a value-added activity and the Design Incubation Programme (DIP). The Initiative consisted of two components, the Design Support Programme and the InnoCentre Programme.

There were four funding schemes under the Design Support Programme to support different types of design projects: General Support Scheme, Design Research Scheme, Professional Continuing Education Scheme and Design-Business Collaboration

Scheme (DBCS).

The General Support Scheme, Design Research Scheme and Professional Continuing Education Scheme supported platform-type projects such as conferences, exhibitions, seminars, workshops, design competitions or awards, training courses, and design or branding related researches for local academic institutes, industry support organizations, trade and industry associations, research institutes and companies to apply. The InnoCentre Programme mainly supported the DIP at InnoCentre managed by the Hong Kong Science and Technology Parks Corporation.

In order to rationalise funding arrangements for the creative sector and coordinate resources to be used more efficiently, the DSI and the CreateSmart Initiative (CSI) were consoli-

dated in phases starting from June 2011, except for the DBCS and DIP then remained under the DSI. The DBCS was placed under the CSI since 24 May 2013, therefore applications under DBCS received on or after that date were funded under the CSI.

### CreateSmart Initiative

In 2009, Create Hong Kong was set up by the Commerce and Economic Development Bureau of Hong Kong Government. It established the HK\$300m CreateSmart Initiative (CSI) to provide financial support to initiatives that were conducive to the development and promotion of Hong Kong's creative industries. CSI aims to promote and speed up the development of local creative industries so as to build Hong Kong into Asia's creative capital and is administered by Create Hong Kong. It includes design-related initiatives and Design-Business Collaboration Scheme (DBCS). Applicants are normally locally registered institutions/organizations, including local academic institutes, industry support organizations, trade and industry associations, professional bodies, research institutes and companies. CreateHK and other government departments are also eligible to apply.

Funding support is normally given as a grant and successful applicants are disbursed by instalments. In May 2013, the CSI was topped up by another HK\$300m, making up a total of HK\$600m. From June 2011, CSI also

accepts applications for design-related projects to consolidate with the Design Smart Initiative (DSI). DBCS stopped accepting applications from 1 January 2016. In the 2016 Policy Address, the government planned to inject an additional HK\$400m into the CSI.

CreateHK continued to support the film and non-film creative sectors mainly through the CSI. CSI sponsors a variety of non-film programmes. For example, it provides funding support to the trade bodies of the digital entertainment and digital advertising sectors to subsidize companies which provide graduate trainees with one-year full-time employment and on-the-job training.

The Knowledge of Design Week funded by the CSI has provided opportunities for design practitioners and the business community to enrich their design knowledge and gain insights into the latest design trends.

The CSI also provided sponsorship to HKTDC to support Hong Kong companies, for the first time, from various creative sectors in participating in the symposium of "In Style Hong Kong" Symposium held in Jakarta in September 2015.

With the CSI's sponsorship, 10 emerging designer brands set up a showcase and presented their works in a catwalk during the New York Fashion Week in September 2015. The CSI also supported the participation of two Hong Kong's comic artists

in the 2016 Angouleme International Comics Festival in France, the largest comics festival in Europe.

The Mobile Game Startups Support Programme, launched for the first time in 2016, has subsidized 10 start-up companies to produce original mobile game content to showcase their creativity and technical capability.

### Design-Business Collaboration-Scheme (DBCS)

The Design-Business Collaboration Scheme (DBCS) was funded under the CSI from May 2013 until end of 2015. DBCS aimed to promote the interest and investment of SMEs to utilize design and transforming design activity into tradable goods and services that deploy intellectual property, which may cover patent, copyright, trademark or industrial design. The funding support was in the form of a matching grant calculated based on 50% of the approved project cost or HK\$ 100,000, whichever the lower, for four projects at most. Project duration was expected to be less than one year.

Local design company or academic institution and the unrelated SME in terms of ownership or management were co-applicants in a project under the DBCS. Either of them, with the consent of the other party, was eligible to lodge an application under the DBCS. The SME was the sole party to contribute the matching fund in cash, in the form of cheque and bank

pay-in slip or other traceable form, and the grant would be disbursed upon the project completion.

Operating for a few years, the Government concluded that a lot of time and efforts were spent in abortive work rejecting unworthy applications, and closed DBCS application in January 2016. However, DBCS has successfully supported to promote some SMEs from original equipment manufacturer (OEM) to original design manufacturer (ODM).

### Film Development Fund (FDF)

The Film Development Fund (HK\$300m) was set up by the government in 1999 to fund projects and activities which would contribute towards the development of the Hong Kong film industry. FDF is administered by the Secretariat of the Hong Kong Film Development Council, with an aim to support projects conducive to the long-term development of the film industry in Hong Kong. It covers the Film Production Financing Scheme (FPFS) and the Film Production Grant Scheme (FPGS). They attempt to create more filmmaking opportunities for new talents by absorbing part of the risks of undertaking film production projects, by:

- Part-financing small-to-medium budget film productions
- Subsidising low-budget film productions
- Enhancing efforts to promote Hong Kong films in the Mainland



and overseas

- Enhancing initiatives to train talents in various aspects of film production and distribution; and
- Enhancing the interest and appreciation of Hong Kong films by the local audience.

Additional funding was injected to provide financial support for the production of small-to-medium budget films in 2007, to subsidise small-budget film productions in 2015 and to subsidise the expenses incurred by locally-produced Cantonese films for distribution in the Mainland in 2016. The total commitment for the FDF is currently HK\$540m.

The FPFS provides financing to low-to-medium budget films with production budget not exceeding \$25 million per film. The Government's contribution of financing is up to 40% of the approved budget or the actual production cost, whichever is the lower, and capped at \$6 million per movie. The FPGS provides subsidy to low-budget film productions with production budget not exceeding \$10 million per film. The grant is capped at 20% of the approved production budget or actual production cost, whichever is the lower.

From 2007 to April 2016, the FDF has supported 34 film production projects under the FPFS, one film production project under the FPGS and 150 film-related projects with total approved funding of HK\$94.4m,

HK\$2.0m and HK\$244.6m respectively.

### Design Incubation Programme (DIP)

Design Incubation Programme (DIP) is a 2-year non-profit making programme receiving funding support from the Hong Kong Government through CSI and operated by Hong Kong Design Centre (HKDC) since 2006. DIP aims to help design start-ups, including those in fashion design industry, build their business networks, publicize their products and conduct market promotions.

In order to be eligible, the applicant company must be registered for less than 3 years on the date of the application and must be registered in Hong Kong or overseas business registries. For overseas applicants, they must establish a Hong Kong registered company immediately upon the approval of their application. The applicant must have at least 2 full time staff, with at least one being a major shareholder and a designer in a recognised discipline. Additionally, shareholder of the applicant must not have shareholders in existing or graduated successful applicants (also known as incubatees). Furthermore, the applicant is expected to require less than 350 square feet of net office space.

Incubatees have the privilege of benefiting from the assistance provided by the DIP. One of the many benefits is free office space during the first year of the programme and a discounted



rate for the second year. Other benefits include business development support, and a series of tailor-made training programmes and networking sessions with industrial organizations, academic institutes, professional bodies and potential business partners. The DIP also provides a maximum financial assistance of HK\$ 260,000 to incubatees in areas of training and development, marketing and operation according to prescribed percentages.

DIP incubatees have the opportunity to network with practitioners, business partners, designers and education institutes etc. from APEC economies and OECD countries to promote their designs and brands. Successful graduated (incubated) companies include many fashion design startups and designers including for example the now famous local designers Charlie Ho and Polly Ho.

However, incubates are required to achieve a set of milestones in order to remain eligible for the DIP. Incubatees' achievements will be assessed in the 4th, 12th and 20th month of the program. The achievements will be assessed based on the status of the product and service development, sales revenue and projected profit, head count and the incubatees' participation in HKDC's specified training and network programs. Failure to achieve milestone goals will lead to disqualification from the DIP.

The Government will launch the third phase of the DIP in the 2016/17 financial year to increase overall admission quota to 90 design startups, i.e. increasing the average annual intake from 20 at present to 30 in the coming three financial years. As at end of 2016, 148 incubatees completed incubation with 317 intellectual property rights applications registered by incubatees.

### HK Digital Entertainment Industry Fresh Graduate Support Scheme

The HK Digital Entertainment Industry Fresh Graduate Support Scheme (DEIFGS) is a scheme launched by the HK Digital Entertainment Association (HKDEA), co-organized by the HK Productivity Council and sponsored by CreateHK. It is currently in the 2nd edition, which will be held from 2015 to 2018. The initial launch was in 2011, spanning till 2014. The DEIFGS is aimed at providing 1 year full time employment, with on the job training, for graduate students in the digital entertainment industry, which includes comics, computer games development, animation, post production etc. Equipping graduates with the necessary skills and capabilities in order to further their career in the relevant industry.

There are 2 sides to the DEIFGS. The first side is for companies, who are willing to provide on the job training positions for interested graduates. In order to be eligible, companies must hold a valid business registra-

tion certificate with substantial business connections and ongoing developments in Hong Kong, focusing on digital entertainment. The company must be able to provide a 12-month employment with on the job training for participating graduates and must at least have 2 of such vacancies per program year along with acceptable staff training plans. Eligible companies are able to apply by submitting required documents and forms, which will then await approval by a vetting committee.

Participating companies will have access to an online platform containing a database of CVs and e-portfolios of apply graduates based on the companies' nature of business. Additionally, a monthly subsidy of up to HK\$ 4,800 will be sponsored by the CreateSmart Initiative for every graduate employee hired under the scheme, for up to 12 months. Furthermore, orientation programs will be provided to graduate- employees to brief them on latest trends, working skills and knowledge about the industry.

However, it should be noted that companies should directly arrange pre-employment interviews with the applying graduates directly, and should notify organisers within 2 weeks after successfully employed applying graduates. Furthermore, the subsidy will not constitute more than 50% of the monthly salary of the applying graduates, which should fully comply with the Statutory Minimum Wage requirement and set at a

competitive rate.

As for participating graduates, eligible graduates must be a permanent Hong Kong resident. However, other requirements depend on the year of graduation, for example graduates in 2015, 2016 and 2017 are eligible to participate in the upcoming 2017 programme.

Interested graduates can register through the DEIFGS website as well as submitting their CVs and e-portfolio through the online platform, which will be visible to participating companies in industries matching the graduates' respective disciplines. Additionally, there will be a series of career talks covering in-depth knowledge and first-hand experience on job types, working requirements and prospects of working in the industry. There will be talks from CEOs providing insight and knowledge on upcoming trends and skills requirement.



APEC Study Centre

# THE DEVELOPMENT OF MSME POLICIES IN HONG KONG

## A PRELIMINARY INVESTIGATION

Entrepreneurial activities are important sources of innovation, productivity growth and employment as well as key drivers for economic and social progress. Entrepreneurship is the foundation and drive for the development of micro, small and medium enterprises (MSMEs). MSMEs account for a significant percentage of jobs in many emerging and even developed economies. Many governments actively promote entrepreneurship by providing various forms of support for the creation of an environment to promote entrepreneurial success.

The purpose of this short paper is to introduce the major “micro, small and medium enterprises” (MSMEs) policies implemented in Hong Kong in the last 20 years.

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