

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 157 – GOVERNMENT SECRETARIAT : ECONOMIC DEVELOPMENT AND LABOUR BUREAU (LABOUR BRANCH)**

#### **Subhead 700 General other non-recurrent**

#### **New Item “Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries”**

Members are requested to approve a commitment of \$3.5 billion for the Government to provide guarantee under a loan guarantee scheme for Severe Acute Respiratory Syndrome impacted industries and to meet contingent liabilities arising from this guarantee.

#### **PROBLEM**

The tourism, restaurant, retail and entertainment industries are experiencing serious cash-flow problems as a result of the significant business downturn following the outbreak of Severe Acute Respiratory Syndrome (SARS). We see the need to provide immediate cash-flow relief to these badly hit industries to help them to tide over the present crisis and to save the job opportunities of employees in these sectors.

#### **PROPOSAL**

2. We propose to create a commitment of \$3.5 billion under Head 157 Government Secretariat : Economic Development and Labour Bureau (Labour Branch) for setting up a special scheme (the Scheme) to provide guarantee for loans extended by authorized institutions under the Banking Ordinance to restaurants and hotels, travel agents and tourist coach operators, retail outlets, as well as cinemas and karaokes for payment of employees' salaries.

**/JUSTIFICATION .....**

**JUSTIFICATION**

3. Since the outbreak of SARS in March, the number of tourists visiting Hong Kong between 16 March and 15 April 2003 has dropped by 33.4% to 880 000 as compared to the same period last year. Sales in restaurants, retail outlets, cinemas and karaokes have also dropped sharply. Quite a number of operations in these sectors have closed down or are facing liquidation. Some, notably restaurants, have temporarily closed whilst others have asked their employees to take no pay leave. Many employees have been retrenched or have had their salaries cut.

4. Whilst the Government is making every effort to control the disease and restore tourist and consumer confidence, the impact on businesses in these consumer-led sectors has been particularly acute and may last for a while. Since many operations in these sectors are small and medium enterprises which rely heavily on daily business turn-over and short-term cash-flow, the sudden drop in business has created a tremendous strain on their working capital. We believe that there is a strong case for the Government to establish a low-interest loan guarantee scheme to provide short-term cash-flow relief to these operations to help them tide over and to preserve jobs during this exceptionally difficult period.

**Details of the Scheme**

5. Under the proposed Scheme, the Government will provide 100% guarantee for loans by participating lending institutions to operations in the four sectors to be included. The proposed framework of the Scheme is set out below.

*(A) Coverage**(i) Restaurants and hotels*

6. These include establishments such as restaurants, fast food shops, and other eating and drinking places licensed by the Food, Environment and Hygiene Department, and hotels and guesthouses licensed by the Home Affairs Department.

7. Within this category, there are some 10 000 restaurants with an employment of about 180 000, and 960 hotels and guesthouses with an employment of 25 000.

*/(ii) .....*

*(ii) Travel agents and tourist coach operators*

8. These include travel agents licensed to operate by the Registrar of Travel Agents, and tourist coach operators licensed by the Transport Department. There are about 1 320 travel agents with an employment of 20 000, and 1 570 tourist coach operators with an employment of over 3 000 people.

*(iii) Retail*

9. This sector includes all companies which have fixed premises and are primarily engaged in the businesses of selling tangible goods/products to the general public as end-users or consumers rather than for resale purposes. Such an establishment must have more than half of its turnover derived from such sale of tangible goods/products. There are some 58 000 such establishments, employing around 211 000 persons in the sector.

*(iv) Cinemas and Karaoke*

10. This sector includes all cinema operators licensed under the Places of Public Entertainment Ordinance and karaoke establishment operators regulated under the Karaoke Establishment Ordinance. There are about 70 cinemas, employing around 1 300 workers, and around 230 karaoke establishments which we estimate employ around 4 100 persons.

*(B) Eligibility*

11. Except for restaurants, we propose that companies falling under the above categories should have been in operation and holding a valid Business Registration Certificate for a year in order to qualify for application. Since as many as 10% of the restaurants were licensed within the past twelve months, we consider that the qualifying operation period for restaurants should be set at six months instead.

12. Applicant entities can be sole proprietorship, partnership or corporation. There will be no ceiling or floor on the number of employees. To safeguard against possible abuse, however, applicants would need to present to lending institutions, among other things, clear statements confirming no double borrowing, no default in other banks and loss of at least 30% business in April this year as compared with the monthly average of the previous three months.

*/(C) .....*

*(C) Use of Loans*

13. The loans must be used for payment of staff salaries. Applicants have to make a clear representation to such effect and to produce a statement of the employers' contribution to the Mandatory Provident Fund Scheme as proof of the employment relations and size of the workforce. The bank will release the fund directly to the payroll accounts of employees or will arrange for the borrower to make payment by cheques or other means into the employees' accounts maintained with the bank.

*(D) Guarantee Limits*

14. We propose that the loan size should cover three months' of an applicant's salary payment or be capped at the specified guarantee ceilings, whichever is the lower. In view of their different modes of operations and the varying degree of impact of SARS on their business, we propose that the guarantee ceiling for each application should be \$1 million for restaurants and hotels, \$500,000 for travel agents and tourist coach operators, and \$300,000 for retail, cinema and karaoke operations.

*(E) Security*

15. Each application will require personal guarantee from the establishment's shareholder, or in the case of more than one shareholder, joint and several guarantee executed by shareholders holding 90% or more of the equity interest in the business. Such guarantors should be the ultimate beneficiary owner of the applicant, and not, for example, a limited liability company.

*(F) Application and Draw-down Period*

16. We plan to distribute publicity leaflets on the Scheme and expect the lending institutions to provide application details to interested parties starting from 2 May. We propose to open the Scheme for application from 5 May to 31 July 2003, subject to the proposed commitment not being exceeded, and unless otherwise extended. The first draw-down has to be made within 30 days of approval by the lending institution and a 3-month step draw-down in three equal instalments will be made available.

/(G) .....

*(G) Guarantee and Repayment Period*

17. We propose that the lending institutions should offer a 6-month grace period plus a maximum of 24 months for repayment starting from the seventh month after the initial draw-down.

*(H) Interest*

18. The interest charged will be the average best lending rate of the note-issuing banks minus 3%, payable monthly in arrears.

*(I) Arrangement for Default Cases*

19. We expect the lending institutions to take all reasonable steps to recover the debt in accordance with their usual commercial practice. Failing this, the lending institution may file a claim with the Government within six months of the default by the borrower. But the lending institution is still required to provide any assistance which the Government may reasonably require in recovering the debt. In case the Government decides to take any further action against the debtor in any particular case, the expenses of loan recovery would be borne by the lending institution and the Government on a cost-sharing basis.

*(K) Participating Lending Institutions and Assessment of Applications*

20. All authorized institutions under the Banking Ordinance will be invited to join the Scheme. We will rely on the lending institutions to exercise their prudent professional judgement in assessing and vetting the eligibility of the applications. There will be an agreement between the Government and each participating lending institution, setting out the rights and obligations of each party and the appropriate mechanism for settling the transactions and arrangement for default cases.

**FINANCIAL IMPLICATIONS**

21. We propose to set up the Scheme with a commitment of \$3.5 billion. This will also cover the associated costs, including the costs for debt recovery and repayment of interest.

22. Given the nature of the Scheme and despite vetting by the lending institutions, there is a risk of some calls being made on the Government guarantee resulting in eventual settlement by payments from the approved commitment. It is also possible that some or all of the expenditure met from the capital commitment will not be recovered by the Government if the outstanding loans are eventually written off as bad debt.

**BACKGROUND INFORMATION**

23. The outbreak of SARS in Hong Kong since March has brought about a significant slowdown of our economic activities. On 23 April, the Chief Executive announced a package of relief measures amounting to \$11.8 billion to help the community tide over the difficulties and revive the economy. Included in the package of measures is a relief loan guarantee scheme for four specific sectors which are particularly hard hit.

24. We have consulted trade representatives in devising the loan guarantee scheme. We briefed the Legislative Council Panel on Financial Affairs on the package and the Scheme at its meeting on 23 April. The Scheme has received Members' general support.

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Economic Development and Labour Bureau  
Commerce, Industry and Technology Bureau

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