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For discussion
on 1 June 2009

Legislative Council Panel on Commerce and Industry

Measures to Support Hong Kong Enterprises

This paper seeks Members' support for the relief measures announced by the Financial Secretary to assist Hong Kong enterprises.

Background

2. The Financial Secretary announced on 26 May 2009 a package of relief measures to assist different sectors of the community to ride over the storm brought by the global financial crisis. This paper sets out the detailed measures proposed to enhance the Special Loan Guarantee Scheme (SpGS), the SME Loan Guarantee Scheme (SGS), the SME Export Marketing Fund (EMF), the SME Development Fund (SDF), the Hong Kong Export Credit Insurance Corporation (ECIC), as well as the tourism sector.

3. Detailed features of SpGS, SGS, EMF and SDF currently in force are at **Annex I**.

Proposals

4. Our proposed enhanced measures are as follows:

For SpGS:

(a) The SpGS to be extended for 6 months until 31 December 2009;

(b) increasing the Government loan guarantee ratio for new loans approved under the scheme from 70% to 80%;

(c) increasing the maximum amount of loan that each enterprise may obtain from $6 million to $12 million; and within this ceiling, increasing the amount of loan that may be used for a revolving credit line from $3 million to $6 million;

(d) extending the maximum guarantee period for new loans approved under the scheme from 36 months to 60 months, or up to 60 months after the application deadline, whichever is earlier;

(e) increasing Government's exposure and financial commitment from $10 billion to $11.8 billion, assuming a default rate of 12% for loans with 80% guarantee;

For SGS:

(f) increasing the total loan guarantee commitment from $12.6 billion by $7.4 billion to $20 billion;

(g) consequential to (f), and assuming a default rate of 7.5%, increasing Government's exposure and financial commitment by $550 million;

For EMF and SDF:

(h) injecting an additional provision of $1 billion into the funds, thus increasing the total commitment from $1.75 billion to $2.75 billion;

(i) expanding the scope of EMF to include advertisements on eligible trade websites as may be approved by Director-General of Trade and Industry (DGTI) from time to time;

For ECIC:

(j) increasing the ceiling of "small credit limit" applications from $500,000 or below to $1 million or below, handling them with greater flexibility and completing their processing in 2 to 3 days;

(k) upgrading the market risk ratings of Uruguay and Morocco to facilitate higher credit limits and lower premium rates for exports to these two countries;

(l) strengthening cooperation with the China Export and Credit Insurance Corporation (Sinosure) through business referrals and co-organization of risk management seminars in the Mainland and Hong Kong;

(m) publishing latest market information on ECIC's website; and

For the tourism sector:

(n) waiving the licence fees for travel agents for one year, in addition to the enhanced measures proposed for SpGS and SGS.

Justifications

SpGS

5. Since the introduction of SpGS in December 2008, the number of applications received is growing steadily (please see **Annex II** for the weekly number of applications received), showing that the application process is getting smoother and the active use of the scheme. As at 24 May 2009, the Trade and Industry Department (TID) has received 9 325 applications, of which 8 503 have been approved, involving a total loan amount of over $16 billion. The applications approved cover a wide spectrum of companies and industries in both manufacturing and non-manufacturing sectors. The companies concerned provide a total employment of about 132 000. Among these enterprises, 95% of the beneficiaries are SMEs, hiring more than 72 000 employees. Further details of the approved applications (by industries, loan types and number of employees) are at **Annex III**. No default claims have been received so far.

6. Participating lending institutions (PLIs) are requested to provide to TID on a bi-weekly basis information on the number of applications received, approved and rejected. As at 24 May 2009, a total of 15 823 SpGS applications were received by the PLIs, 9 325 of which have been referred to TID for processing, 1 918 are being processed by the PLIs, 1 782 have been withdrawn by the applicants, and 2 798 were rejected. Detailed statistics are at **Annex IV**.

7. As a measure to ascertain the feedback on the usefulness of the scheme, TID has requested successful applicants to complete a questionnaire for return to TID three months after the loan is granted. As at 24 May 2009, TID has received 338 completed questionnaires. The response rate is around 65%. Overall speaking, over 90% of the respondents are satisfied with the operation of SpGS and consider the scheme helpful to their businesses. On employment, nearly 90% of the respondents reported no change in the number of employees. Some respondents stated that they had recruited more staff. Only a very small percentage of respondents have cut staff and, if they did, mostly due to natural wastage.

Government loan guarantee ratio

8. The number of applications and the amount of loans approved under SpGS suggest that the 70% guarantee ratio is working positively to facilitate business enterprises to secure commercial credit facilities. This notwithstanding, there is feedback from the trade that some enterprises are still encountering difficulties in obtaining loans. To encourage PLIs to lend and to address the concerns of the trade, we propose to increase the Government's guarantee ratio from 70% to 80%. This should provide further incentive for the PLIs in granting loans, especially for marginal cases.

9. A higher loan guarantee ratio may entail a higher default risk, and hence a higher Government maximum expenditure commitment. Assuming a default rate of 12% for the new loans (as opposed to a default rate of 10% for loans approved with 70% Government guarantee) and full utilization of Government's loan guarantee commitment, we estimate that the maximum expenditure which Government might have to incur in case of default would increase from $10 billion to $11.8 billion[1].

Loan ceiling

10. Although the average size of loans approved thus far is about $2 million, about 17% of the SpGS beneficiaries, most of which are the relatively larger enterprises, have borrowed up to the loan ceiling of $6 million. To support the financing need of enterprises which have reached the ceiling, or those wishing to obtain a bigger loan, we propose to raise the loan ceiling for each borrowing enterprise from $6 million to $12 million. Consequentially, we propose to increase the loan ceiling for revolving credit facilities from $3 million to $6 million. These proposals should be welcomed by the larger enterprises which tend to provide more employment. At the same time, with signs of the order book situation improving, SMEs are also expected to make more use of the scheme and benefit from the higher loan ceilings.

Loan guarantee period

11. With an increase in the loan ceiling, we propose to consequentially extend the maximum loan guarantee period from 36 to 60 months to alleviate the repayment burden of borrowing enterprises. A grace period of six months will continue to be allowed, during which the borrower may repay interest only. Thereafter, the loan should be repaid over a maximum of 54 months. As such, the maximum guarantee period for each loan, including both term loan and revolving credit line facility, should be 60 months, or up to 60 months after the application deadline, whichever is earlier.

12. Subject to the approval of the Finance Committee, the enhancement measures for SpGS will apply to applications submitted to TID for the first time on or after the implementation date[2].

SGS

13. The current loan guarantee commitment for SGS is $12.6 billion. Since the implementation of enhancement measures in November 2008, the

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[1] Assuming that around $12 billion of loan guarantee would have been granted by mid-June 2009 with 70% Government guarantee, the maximum expenditure to be incurred would be $12 billion x 10% default rate + $88 billion x 12% default rate = $11.8 billion.

[2] This refers to the date when the PLI has signed and returned the necessary legal documents to TID. Different PLIs may have different implementation dates.

amount of loan guarantee granted under SGS has increased significantly. From 6 November 2008 to 24 May 2009, TID has granted \$1.68 billion of loan guarantee under SGS, representing about 220% increase compared with the same period in the previous year. As at 24 May 2009, we have already used up more than 95% of the guarantee commitment. Based on our current projection, we expect that the guarantee commitment will be used up by July 2009.

14. As a standing supportive measure for SMEs, we propose to increase our guarantee commitment from \$12.6 billion to \$20 billion to sustain its operation. Assuming a default rate of 7.5%, the Government's maximum commitment would increase by \$550 million.

EMF and SDF

15. The number of applications under EMF has increased significantly following the implementation of enhancement measures in November 2008. From 3 November 2008 to 24 May 2009, TID received over 17,000 applications, representing an increase of about 130% compared with the same period in the previous year.

16. Based on current projection, we expect the funding provision to be fully utilised by September 2009. Given their usefulness and popularity, we propose to increase the approved commitment from \$1.75 billion by \$1 billion to \$2.75 billion to enable the two schemes to continue to operate in support of our SMEs.

17. In addition, to provide greater flexibility to SMEs, we propose to expand the scope of reimbursable items under EMF to include advertisements placed on trade websites. In view of the large number of websites on the internet and for the sake of accountability, DGTI will publish the list of websites for which EMF may be used. The list of websites may be revised by DGTI from time to time having regard to the bona fides of the websites concerned.

ECIC

18. Since the Government increased the Statutory Maximum Liability for ECIC from \$15 billion to \$30 billion, ECIC has doubled all the market limits. It has also extended its free overseas buyers' credit check service for 6 months to 30 September 2009.

19. To enhance support for exporters, ECIC has recently introduced a series of new enhancement measures. On credit limit approvals, ECIC will increase the ceiling of "small credit limit" applications from \$500,000 or below to \$1 million or below (cases involving \$1 million or below accounted for more than half of the credit limit applications in financial year 2008/09). ECIC has pledged to process such applications with maximum flexibility and undertaken to

shorten the processing time from 4 days to 2-3 days. Moreover, to enable it to give higher credit limits in relation to buyers of higher risks, ECIC will encourage these applicants to accept its recently launched risk-sharing arrangement, involving deductibles for claims and lower indemnity ratios. Following the recent upgrading of the ratings of 6 other emerging markets, ECIC will further upgrade the market risk ratings of Uruguay and Morocco to facilitate higher credit limits and lower premium rates for exports to these markets.

20. As regards other new services, ECIC will continue to strengthen cooperation with the China Export and Credit Insurance Corporation (Sinosure) through business referrals and co-organization of risk management seminars to facilitate Hong Kong companies in Mainland to better understand and acquire services they need. ECIC will also publish latest market information (e.g. economic information and bankruptcy figures in overseas/Mainland markets) in its website to assist exporters in better managing their risks.

Measures relating to the tourism sector

21. The travel trade is among the sectors that are directly hit by the financial crises and the Human Swine Influenza. In addition to the proposed enhancement measures in respect of SpGS and SGS, we propose to exempt the licence fees for travel agents for one year.

Estimated number of beneficiaries

22. SpGS, SGS, EMF/SDF and export credit insurance provided by ECIC are demand-driven. In other words, the actual number of beneficiaries will depend on market demand and the actual amount of loan guarantee, cash grant or export credit insurance services provided.

23. There are about 1470 travel agents at present. All of them will benefit from the waiver of the travel agents licence fee.

Financial and Staffing Implications

24. The Government's total loan guarantee commitment under SpGS will remain at \$100 billion. With an increased loan guarantee ratio from 70% to 80%, the risk of default will correspondingly increase. Assuming an increased default rate for loans granted under 80% Government guarantee from 10% to 12%, Government's maximum expenditure would be increased from \$10 billion to \$11.8 billion.

25. The Government's total loan guarantee commitment under SGS will increase from \$12.6 billion to \$20 billion. With an assumed default rate of 7.5%, the Government's maximum expenditure would increase by \$550 million.

26. With the injection of an additional provision of \$1 billion, the

approved commitment for EMF and SDF will increase from $1.75 billion to $2.75 billion.

27. TID will continue to closely monitor the number of applications under SpGS, EMF/SDF and SGS, and will seek additional manpower resources through established mechanism as and when necessary.

28. The additional financial implications for the enhanced export credit insurance services will be absorbed by ECIC.

29. The revenue forgone in relation to the travel agents' licence fee is estimated at about $9.1 million.

Consultation

30. We consulted the Small and Medium Enterprises Committee on 27 May 2009. Members were generally supportive of the proposals. The tourism trade also welcomes the enhancement measures.

Implementation

31. The proposals on SpGS, EMF/SDF and SGS require approval from the Finance Committee (FC) of the Legislative Council. Subject to Members' support, we would proceed to seek the approval of FC on 5 June 2009. Upon completion of the necessary procedures and legal documentation, the enhancement measures to SpGS and EMF are expected to come into operation on 15 June 2009.

32. The enhancement measures of ECIC will commence operation on or before 1 June 2009. The 1-year waiver of travel agents licence fees under the Travel Agents Ordinance will be implemented as soon as possible through the relevant subsidiary legislation.

Commerce and Economic Development Bureau
Tourism Commission
Trade and Industry Department
May 2009

Annex I

Detailed features of the funding schemes currently administered by TID

Special Loan Guarantee Scheme (SpGS)

- The SpGS commenced operation on 15 December 2008.

- Government has pledged to provide loan guarantee of up to $100 billion in support of enterprises in obtaining credit facilities from commercial banks.

- SpGS is open to all enterprises with substantive business in Hong Kong and registered in Hong Kong under the Business Registration Ordinance (except listed companies).

- The loans should be used for meeting the needs of general business use of the applicants.

- The guarantee ratio is 70% of the approved loan, subject to a maximum loan amount of $6 million for each enterprise. Within this limit, an enterprise may obtain a revolving credit line of up to $3 million.

- The maximum guarantee period for each loan is 36 months or up to 30 June 2012, whichever is earlier.

- Certain safeguard measures are put in place to prevent abuse. For example, all applying enterprises must be in operation for at least one year when the scheme was launched; the applicant must have no outstanding default; and the owners or major shareholders of the enterprises are required to provide personal guarantee. Also the loans obtained under SpGS cannot be used to repay other loans.

SME Loan Guarantee Scheme (SGS)

- SGS helps SMEs secure loans from participating lending institutions (PLIs). Government acts as guarantor for up to 50% of the approved loans. The maximum amount of loan guarantee for each SME is $6 million (i.e. each SME can borrow up to $12 million from the PLIs).

- SGS consists of two types of loans: (i) a Business Installations and Equipment Loan (BIE); and (ii) a Working Capital Loan (WCL). The sub-ceilings for the two types of loans have been removed since November 2008. In other words, Government's guarantee can be used to secure loans for either BIE only or WCL only, or a combination of both, provided that the guarantee ceiling for each SME does not exceed $6 million.

- Each SME is allowed to recycle the guarantee once after it has fully paid up the loan backed up by the guarantee.

- The maximum guarantee period is five years.

- All SMEs with valid business registrations and substantive business in Hong Kong are eligible to apply.

SME Export Marketing Fund (EMF)

- EMF supports SMEs' export promotion activities, including participation in exhibitions and business missions, and placing advertisements on printed trade publications targeting export markets and websites of exhibition organizers.

- For each successful application, the maximum amount of grant is 50% of the total approved expenditure (e.g. exhibition fees, costs for construction of booths, air ticket and hotel charges for exhibitions held outside Hong Kong, advertising fees, etc.), subject to a ceiling of \$50,000. The maximum cumulative amount of grant an SME may obtain is \$150,000.

SME Development Fund (SDF)

- SDF supports non-profit-distributing organisations (such as industrial and trade organisations, professional bodies, research institutes, etc.) in carrying out projects to enhance the competitiveness of SMEs in general or in specific sectors. Examples of project include seminars, workshops, code of best practices, database etc.

- The maximum amount of grant for each project is 90% of the total approved project expenditure, subject to a ceiling of \$2 million.

The funding position of the above schemes is set out in the **Appendix**.

Appendix to Annex I

Funding position of the SME Funding Schemes and SpGS
(as at 24 May 2009)

	Loan Guarantee		Cash Grant		
	Special Loan Guarantee Scheme	**SME Loan Guarantee Scheme**	**SME Export Marketing Fund**	**SME Development Fund**	**SME Training Fund***
Applications approved	8,503	21,610	73,461	125	68,677
Approved commitment	$100 billion	$12.6 billion	$1.75 billion		
Amount of guarantee/grant approved	$11.23 billion	$12.01 billion	$1.18 billion	$0.14 billion	$0.26 billion
Amount of loans approved	$16.05 billion	$26.24 billion	N/A	N/A	N/A
Remaining balance	$88.77 billion	$0.59 billion	$0.17 billion		
Utilisation rate	11%	95%	90%		
Amount of default claims	Nil	$0.36 billion	N/A	N/A	N/A
Number of SME beneficiaries	6,811	11,515	24,283	N.A.	30,498

* The SME Training Fund has ceased to receive new applications as from 1 July 2005.

Annex II

Weekly statistics on no. of SpGS applications received

Week	No. of SpGS applications received
14.12.2008 - 20.12.2008	16
21.12.2008 - 27.12.2008	49
28.12.2008 - 3.1.2009	113
4.1.2009 - 10.1.2009	176
11.1.2009 - 17.1.2009	301
18.1.2009 - 24.1.2009	437
25.1.2009 - 31.1.2009	143
1.2.2009 - 7.2.2009	344
8.2.2009 - 14.2.2009	487
15.2.2009 - 21.2.2009	476
22.2.2009 - 28.2.2009	567
1.3.2009 - 7.3.2009	552
8.3.2009 - 14.3.2009	601
15.3.2009 - 21.3.2009	509
22.3.2009 - 28.3.2009	620
29.3.2009 - 4.4.2009	518
5.4.2009 - 11.4.2009	413
12.4.2009 - 18.4.2009	417
19.4.2009 - 25.4.2009	581
26.4.2009 - 2.5.2009	373
3.5.2009 - 9.5.5009	509
10.5.2009 - 16.5.2009	554
17.5.2009 - 23.5.2009	569
Total	**9,325**

Annex III

Statistics of the SpGS
(as at 24 May 2009)

Breakdown by industries

	No. of applications approved	Percentage
Manufacturing		
Bags and garment accessories	131	1.5
Chemical and biotechnology	31	0.4
Electronics	270	3.2
Food and beverage	65	0.8
Footwear	46	0.5
Furniture	45	0.5
Industrial machinery	29	0.3
Jewellery	102	1.2
Medical and optical devices	28	0.3
Metal products	293	3.5
Plastics	221	2.6
Printing and publishing	274	3.2
Stationery and paper products	84	1.0
Textiles and clothing	689	8.1
Toys	176	2.1
Watches and clocks	84	1.0
Other manufacturing industry	182	2.1
Sub-total	2,750	32.3
Non-manufacturing		
Car trading	19	0.2
Construction	250	3.0
Engineering	143	1.7
Hotel and tourism	71	0.8
Import & export	2,537	29.8
Information technology	71	0.8

	No. of applications approved	Percentage
Interior design and decoration	95	1.1
Personal care services	39	0.5
Professional services	316	3.7
Real estate	39	0.5
Restaurants	133	1.6
Telecommunication	27	0.3
Trading	592	7.0
Transportation / logistics	241	2.8
Wholesale and retail	989	11.6
Other non-manufacturing industries	191	2.3
Sub-total	5,753	67.7
Total	8,503	100.0

Breakdown by loan types

	Non-revolving Loan	**Revolving Loan**	**Total**
No. of applications approved	6,400	2,103	8,503
Amount of loans involved ($ million)	12,217	3,831	16,048

Breakdown by number of employees

No. of employees in Hong Kong	**No. of approved cases**
1-10	5,385
11-20	1,574
21-49	1,029
50-99	324
100 or above	191
Total	**8,503**

Annex IV

Loan Application Statistics of SpGS Provided by PLIs
(as at 24.5.2009)

	SpGS **From 15 Dec 2008 to 24 May 2009**
No. of applications received by the PLIs	15,823
No. of applications being processed by the PLIs	1,918
No. of applications withdrawn by the applicants	1,782
No. of loan applications rejected by PLIs	2,798
No. of applications forwarded to TID for processing	9,325
No. of applications approved by TID (amount of loan involved)	8,503 ($16.05 billion)
No. of applications rejected by TID	23

Reasons for rejection by PLIs

1. The applicants have not provided sufficient documents to facilitate assessment	343
2. The applicants do not meet the eligibility criteria for the schemes	140
3. The applicants have outstanding default	51
4. The applicants' financial status is too weak	1,926
5. The applicant cannot demonstrate a reasonable prospect of their businesses	256
6. Others[3]	82
Total	**2,798**

[3] Applicants have high credit risk, fluctuated sales or relatively short operation history, etc.