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Panel on Financial Affairs

Meeting on 7 March 2011

**Background brief on
Small and Medium Enterprises Financing Guarantee Scheme**

Purpose

This paper sets out the background to the Small and Medium Enterprises Financing Guarantee Scheme (SMEFGS) launched by the Hong Kong Mortgage Corporation Limited¹ (HKMC) on 1 January 2011, and summarizes the views and concerns of Members on relevant issues in recent discussions.

Background

The Special Loan Guarantee Scheme

2. To tackle the credit crunch problem arising from the global financial crisis in 2008/2009, the Administration introduced in December 2008 the Special Loan Guarantee Scheme (SpGS) as a time-limited initiative to facilitate enterprises in obtaining cashflow relief from the commercial lending market. The key features of the scheme are set out in **Appendix I**. The application period of the scheme was initially set to expire in June 2009. In order to provide continued support to Hong Kong enterprises during the crisis and to allow sufficient time for them to consolidate their businesses after the crisis, the Administration announced in May and November 2009 the extension of the application period for the scheme, each time by six months. On 21 April 2010, the Financial Secretary announced that as the economy had significantly improved and the problem of credit crunch had been alleviated, the SpGS would be extended for six months for the last time until 31 December 2010.

¹ The HKMC was established in 1997 by the Hong Kong Monetary Authority with capital provided by the Exchange Fund. For more details about HKMC, please refer to the paper [CB\(1\)145/09-10\(05\)](#).

3. According to the Administration, as at 12 November 2010, over 37 000 applications had been approved under the SpGS, involving a total loan amount of over \$90 billion. The scheme has benefited nearly 20 000 enterprises, of which 95% are small and medium enterprises (SMEs), and has helped preserve over 330 000 jobs.

Small and Medium Enterprises Financing Guarantee Scheme

4. In his 2010-2011 Policy Address, the Chief Executive stated that HKMC was exploring the establishment of a market-oriented loan guarantee scheme to provide a sustainable platform for obtaining credit.

5. On 15 November 2010, HKMC announced that its Board had approved the launch of the SMEFGS on 1 January 2011 as a market-oriented platform based on commercial principles to assist local SMEs to obtain sustainable bank financing. The scheme aims to assist non-listed enterprises with business operation in Hong Kong to obtain loans from banks so as to provide general working capital for their business operations or to acquire equipment and assets in relation to their business. The key features of the scheme are set out in **Appendix II**.

6. On 13 December 2010, HKMC held a "signing ceremony" for the SMEFGS. A total of 21 banks signed the letter of intent expressing their interest in joining the scheme. HKMC also announced that there would be a guarantee fee promotion for the first six months after the launch of the scheme.

Concerns and views of Members

7. At the Legislative Council meeting on 9 June 2010, Dr Hon LAM Tai-fai raised a question on assistance for SMEs, and expressed concern about the impact of the European crisis, foreign exchange pressure and the increase in uncertainties in external markets on SMEs. He urged the Administration to further extend the application period for the SpGS beyond 31 December 2010. In his another question raised at the Council meeting on 17 November 2010, Dr LAM further enquired whether the Government would reconsider extending the application period for the SpGS, given that the Chief Executive had stated in his 2010-2011 Policy Address that there were still many uncertainties in the external economy. He also enquired about the Administration's assessment of the impact of the termination of the SpGS on SMEs and the overall local economy, the default situation of the SpGS, and details of the market-oriented loan guarantee scheme being explored by HKMC.

8. At the meeting of the Panel on Commerce and Industry (CI Panel) on 16 November 2010, the Secretary for Commerce and Economic Development (SCED) briefed the Panel on the updated position of the support measures for SMEs, and informed members that the Board of HKMC had approved the launching of the SMEFGS on 1 January 2011. SCED remarked that the SMEFGS mainly served to complement the existing SME Loan Guarantee Scheme² in encouraging banks to extend sustainable financing for the SMEs in Hong Kong. Some Panel members indicated that they welcomed the launch of the SMEFGS to provide timely assistance to SMEs in obtaining sustainable financing. A member opined that in launching the SMEFGS, HKMC might be acting beyond its role and function of offering a source of liquidity to banks and promoting wider home ownership in Hong Kong, and expressed dissatisfaction that the Panel on Financial Affairs had not been consulted on the new scheme. Another member relayed SMEs' wish that the processing of applications and interest rates charged under the new scheme should be as flexible as that of the SpGS.

Recent development

9. The Panel on Financial Affairs will discuss the SMEFGS with the Administration and HKMC at the meeting on 7 March 2011.

Relevant papers

10. The relevant papers can be retrieved at the following hyperlinks-

Council question raised by Dr Hon LAM Tai-fai on 9 June 2010 on assistance for small and medium enterprises

<http://www.info.gov.hk/gia/general/201006/09/P201006090224.htm>

Council question raised by Dr Hon LAM Tai-fai on 17 November 2010 on the SpGS

<http://www.info.gov.hk/gia/general/201011/17/P201011170201.htm>

Administration paper on "Progress Update on the Support Measures for Small and Medium Enterprises" for the CI Panel meeting on 16 November 2010

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci1116cb1-389-6-e.pdf>

Background brief for CI Panel meeting 16 November 2010

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci1116cb1-389-7-e.pdf>

² The key features of the SME Loan Guarantee Scheme are set out in **Appendix III**.

Minutes of meeting of CI Panel on 16 November 2010

<http://www.legco.gov.hk/yr10-11/english/panels/ci/minutes/ci20101116.pdf>

Press releases of HKMC issues on 15 November 2010 and 13 December 2010

http://www.hkmc.com.hk/eng/ceo/pressrelease/doc/20101115_SME_FINAL%28eng%29.pdf

http://www.hkmc.com.hk/eng/ceo/pressrelease/doc/20101213_SME%20Signing%20Ceremony_eng_FINAL.pdf

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Features of the Special Loan Guarantee Scheme (SpGS)

- (a) The SpGS commenced operation on 15 December 2008.
- (b) The Government has pledged to provide loan guarantee of up to \$100 billion in support of enterprises in obtaining credit facilities from commercial banks.
- (c) SpGS is open to all enterprises (except listed companies) with substantive business in Hong Kong and registered in Hong Kong under the Business Registration Ordinance.
- (d) The loans should be used for meeting the needs of general business use of the applicants.
- (e) The original 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. With effect from 15 June 2009, the guarantee ratio has been increased to 80% for new loans approved under the scheme, and the maximum loan amount for each enterprise is increased to \$12 million. Within this limit, an enterprise may obtain a revolving credit line of up to \$6 million.
- (f) The original maximum guarantee period for each loan is 36 months or up to 30 June 2012, whichever is earlier. With effect from 15 June 2009, the maximum guarantee period for each loan has been extended to 60 months or up to 31 December 2014, whichever is earlier.

Appendix II

Key Features of the Small and Medium Enterprises Financing Guarantee Scheme

Eligible enterprise	Enterprises with business operation in Hong Kong and registered in Hong Kong under the Business Registration Ordinance (Chapter 310), except listed companies, lending institutions and affiliates of lending institutions.
	Other requirements: <ul style="list-style-type: none">• Business operation for at least one year on the date of guarantee application; and• Good loan repayment record
Use of loans	i. Providing general working capital for the enterprise's business operations; or ii. Acquisition of equipment or assets in relation to the enterprise's business.
Facility types	Term loan and revolving credit facility (No limitation on the proportion between the two types of facility)
Maximum loan amount that each enterprise or each group of related enterprises can obtain	HK\$12 million
Guarantee level	50%, 60% or 70%
Maximum guarantee period	5 years
Annual guarantee fee	Approximately 0.5% to 2.5% of the loan facility
Total guarantee amount of the whole Scheme	No upper limit

Appendix III

Features of the SME Loan Guarantee Scheme (SGS)

- (a) The SGS aims to help SMEs secure loans from participating lending institutions for acquiring business installations and equipment; and meeting working capital needs of general business uses.
- (b) The overall objective is to assist SMEs to enhance productivity and competitiveness.
- (c) The SGS covers the following two types of loans: Business Installations and Equipment Loans; and Working Capital Loans.
- (d) The amount of guarantee for an SME is 50% of the approved loan, subject to a maximum amount of \$6 million. The guarantee can be used to secure loans for either business installations and equipment or working capital, or a combination of both. The guarantee period is up to a maximum of five years, counting from the first drawdown date of the loan.
- (e) If an SME has fully repaid the business installations and equipment loan(s) or working capital loan(s) backed up by the guarantee under the Scheme, the SME is eligible for the respective guarantee amount one more time, subject to a maximum amount of \$6 million.