

## ITEM FOR FINANCE COMMITTEE

**HEAD 152 – GOVERNMENT SECRETARIAT :  
COMMERCE AND ECONOMIC DEVELOPMENT  
BUREAU (COMMERCE, INDUSTRY AND TOURISM  
BRANCH)**

**Subhead 700 General non-recurrent**

**Item 833 SME Financing Guarantee Scheme – Guarantee Products**

Members are invited to approve an increase in loan guarantee commitment under Head 152 Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch) Subhead 700 General non-recurrent Item 833 SME Financing Guarantee Scheme – Guarantee Products by \$35 billion from \$183 billion to \$218 billion, thereby resulting in an increase in the expected maximum expenditure by \$3 billion from \$33.72 billion to \$36.72 billion.

### **PROBLEM**

The coronavirus disease 2019 (COVID-19) pandemic has severely impacted the global economy. While Hong Kong's economy is gradually recovering, the recovery pace for certain sectors remains sluggish. Many small and medium enterprises (SMEs) continue to face liquidity problems, and require assistance in obtaining commercial financing.

### **PROPOSAL**

2. We propose to increase the loan guarantee commitment for the SME Financing Guarantee Scheme (SFGS) by \$35 billion from \$183 billion to \$218 billion, thereby resulting in an increase in the expected maximum expenditure by \$3 billion from \$33.72 billion to \$36.72 billion. The proposal seeks to enable the Government to extend the application period of the Special 100% Guarantee Product under the SFGS by six months, from 31 December 2021 to 30 June 2022.

**/JUSTIFICATION .....**

## JUSTIFICATION

3. The Government has been helping businesses obtain commercial loans by providing loan guarantees under the SFGS since 2012, including the 80% Guarantee Product and the 90% Guarantee Product launched in May 2012 and December 2019 respectively<sup>1</sup>. To assist enterprises hard hit by the COVID-19 pandemic in coping with cash flow problems, the Government provided a commitment of \$50 billion and launched on 20 April 2020 the Special 100% Guarantee Product under the SFGS to provide low-interest concessionary loans to SMEs. While it is a time-limited special relief measure, originally meant to run for one year and end in April 2021, the Special 100% Guarantee Product has already been enhanced twice since its launch to ensure it could meet the needs of SMEs during the economic downturn.

4. The first enhancement was implemented in September 2020. The Government raised the maximum loan amount for each applicant from the total amount of employee wages and rents for six months, to that for 12 months, or \$5 million (originally \$4 million), whichever is lower; and increased the maximum repayment period from three years to five years.

5. The second enhancement was announced by the Financial Secretary in the 2021-22 Budget. The application period of the Special 100% Guarantee Product was extended to 31 December 2021, with the maximum loan amount per enterprise further increased from the total amount of employee wages and rents for 12 months to that for 18 months, and the loan amount ceiling increased from \$5 million to \$6 million. In addition, having considered the repayment pressure faced by SMEs, the maximum repayment period was extended from five years to eight years; and the maximum duration of principal moratorium was extended from 12 months to 18 months. Details are set out in FCRI(2020-21)19.

6. The SFGS, in particular the Special 100% Guarantee Product, has been well-received by businesses as an effective measure to help enterprises obtain commercial loans and address their liquidity problem. Since its launch in April 2020 and as at 31 August 2021, over 42 000 applications with a total loan

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<sup>1</sup> In May 2012, the Government launched the SFGS with a total commitment of \$100 billion to provide 80% guarantee on commercial loans (80% Guarantee Product). In December 2019, the Government provided a further commitment of \$33 billion to launch the 90% Guarantee Product under the SFGS, aiming to help smaller-sized enterprises and businesses with relatively less operating experience and professionals seeking to set up their own practices.

amount of \$70 billion have been approved under the Special 100% Guarantee Product, benefitting over 26 000 enterprises and involving over 300 000 employees. As at 31 August 2021, a total of \$167.7 billion of loans have been approved under the three products of the SFGS, viz. the 80%, 90% and Special 100% Guarantee Products.

7. Hong Kong's economy has been gradually recovering from the impact of the pandemic, with the gross domestic product (GDP) recording year-on-year growth of 8.0% and 7.6% in the first and second quarters of 2021 respectively. The GDP forecast for 2021 as a whole is revised upwards to 5.5%-6.5%. As the local economy is recovering, the labour market has also shown improvement. The unemployment rate has been falling, from 7.2% at the turn of 2021 to the latest 4.7%, the lowest in more than a year.

8. The above positive developments notwithstanding, as the pandemic lingers on and continues to impact on the global economy, the recovery of individual sectors remains varied, with some still suffering from the impacts of the pandemic, restrictions to cross-boundary movement of people, sluggish recovery of tourism activities or slower than expected growth in some overseas markets. With the overwhelming response to the SFGS, especially its Special 100% Guarantee Product to date, it is apparent that there continues to be a strong need among SMEs for the SFGS to help address the liquidity problem of the affected businesses. The Government therefore plans to further extend the application period of the Special 100% Guarantee Product, from 31 December 2021 to 30 June 2022, to give an extra window of six months for enterprises to obtain commercial financing.

9. In addition, the Government just announced on 21 September 2021 the increase of the maximum duration of the principal moratorium for the three products of the SFGS (viz. the 80%, 90% and Special 100% Guarantee Products) from 18 months to 24 months.

## **CONTROL AND SAFEGUARD MECHANISM**

10. To ensure that only enterprises with a genuine need will benefit from the Special 100% Guarantee Product, the HKMC Insurance Limited (HKMCI), the administrator of the SFGS, will continue to apply the following safeguard measures –

- (a) personal guarantee will need to be provided by individual shareholder(s) or partners who directly or indirectly hold more than 50% of the equity interest of the enterprise;

/(b) .....

- (b) the loan applicant is not the subject of any default claim/civil suits filed by financial institution(s), or under any winding-up or bankruptcy petitions or proceedings; and
- (c) the loan proceeds should not be used for repaying, restructuring or repackaging existing debts due by the loan applicant to the lending institutions participating in the SFGS.

11. The HKMCI will continue to be required to report regularly to the Government on the operation of the SFGS, including but not limited to the usage of the overall loan guarantee commitment, the number of applications approved, the number of beneficiary enterprises, default claims and the associated payouts made and expenses incurred. The HKMCI will also continue to be required to submit annual audited accounts for the operation of the Special 100% Guarantee Product audited by an independent auditor. The Government will continue to closely monitor implementation of the Special 100% Guarantee Product to ensure prudent use of public money.

## FINANCIAL IMPLICATIONS

12. As at end August 2021, the loans guaranteed under the SFGS accounted for about 81% of the \$183 billion approved commitment. It is estimated that the remaining commitment of \$33.9 billion may exhaust before 31 December 2021, which is the original end date of the application period for the Special 100% Guarantee Product, should there be any surge in the application volume in the coming months. Even if the number of applications and loan amount remain steady as in the previous six months, the remaining commitment would exhaust before 30 June 2022.

13. Without changing the current parameters of the SFGS, we propose that the loan guarantee commitment of the SFGS be increased by \$35 billion to \$218 billion so as to extend the application period of the Special 100% Guarantee Product to 30 June 2022. By doing so, the application period of the three guarantee products will also be aligned. This may result in an increase of \$3 billion in the expected maximum expenditure<sup>2</sup>.

**/EXPECTED .....**

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<sup>2</sup> The expenditure covers, among others, the originating and servicing fees payable to lending institutions participating and the administrative fee payable to the HKMCI on loans originated under the Special 100% Guarantee Product, the necessary out-of-pocket expenses to be incurred by the HKMCI, and payment of default claims.

**EXPECTED BENEFITS**

14. The proposal will provide an additional six months for enterprises to obtain commercial financing, and continue to help businesses affected by the pandemic to address their liquidity problem.

**IMPLEMENTATION TIMETABLE**

15. Subject to Members' approval of the proposal, the application period of the Special 100% Guarantee Product will be extended by six months to 30 June 2022.

**PUBLIC CONSULTATION**

16. The Legislative Council Panel on Commerce and Industry was consulted on 21 September 2021, and supported the proposal.

**BACKGROUND**

17. Launched in 2012, the SFGS aims at helping SMEs obtain commercial financing through providing guarantees for loans. Aside from the Special 100% Guarantee Product, the Government will continue to provide the 80% and 90% Guarantee Products for business enterprises requiring a larger amount of loans. The application period of these two guarantee products are scheduled to end on 30 June 2022. A comparison of major features of the three guarantee products under the SFGS is at Enclosure.

Encl.

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Commerce and Economic Development Bureau  
September 2021

**Enclosure to FCR(2021-22)79**

**Comparison of Major Features of the Guarantee Products under  
the SME Financing Guarantee Scheme (SFGS)**

<b>Feature</b>	<b>80% Guarantee Product</b>	<b>90% Guarantee Product</b>	<b>Special 100% Guarantee Product</b>
(a) Target Segment	Local small and medium enterprises and non-listed enterprises	Local smaller-sized enterprises, businesses with relatively less operating experience, as well as professionals seeking to set up their own practices	Local enterprises most affected by the coronavirus disease 2019 pandemic
(b) Eligible Borrower	Eligible enterprises must have business operation in Hong Kong and be registered in Hong Kong under the Business Registration Ordinance (Chapter 310). Listed companies, lending institutions and affiliates of lending institutions are not eligible for the Scheme.	Eligible enterprises must have business operation in Hong Kong and be registered in Hong Kong under the Business Registration Ordinance (Chapter 310). Listed companies, lending institutions and affiliates of lending institutions are not eligible for the Scheme.	Eligible enterprises must have business operation in Hong Kong and be registered in Hong Kong under the Business Registration Ordinance (Chapter 310). Listed companies, lending institutions and affiliates of lending institutions are not eligible for the Scheme.  Applicants need to provide proofs that they have suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any preceding quarter from January 2019 to June 2020.
(c) Business Operation History	They must have business operation for at least one year on the date of guarantee application.	The requirements of having business operation for at least one year on the date of guarantee application and financial statement is removed.	They must have business operation for at least three months by end June 2020.

Feature	80% Guarantee Product	90% Guarantee Product	Special 100% Guarantee Product
(d) Approval of Credit Facility	By the lending institutions	By the lending institutions	By the lending institutions, based on the relevant eligibility criteria
(e) Guarantee Coverage	80%	90%	100%
(f) Maximum Guarantee Period	Seven years	Five years	Eight years
(g) Maximum Amount of Credit Facility Per Enterprise (including its related companies) at any point in time	\$18 million, including credit facilities guaranteed under any guarantee products, except the Special 100% Guarantee Product.	\$8 million, including credit facilities guaranteed under any guarantee products, except the Special 100% Guarantee Product.	<p>Up to the total amount of employee wages and rents for 18 months, subject to the loan ceiling at \$6 million.</p> <p>Rent can be calculated on the basis of rateable value of business premise.</p> <p>For enterprises that do not have employee(s) and rented office(s), proxy is made to 50% of the highest monthly net income of the enterprise from January 2019 to June 2020 multiplied by 18.</p> <p>Enterprises are eligible for the Special 100% Guarantee Product up to the maximum of \$6 million regardless of its related companies (whether with the same business nature or otherwise) or its existing credit facilities guaranteed under the 80% or 90% Guarantee Products, if any.</p>

<b>Feature</b>	<b>80% Guarantee Product</b>	<b>90% Guarantee Product</b>	<b>Special 100% Guarantee Product</b>
(h) Reuse of Guarantee Amount after Loan Repayment	Unlimited reuse of guarantee amount after loan repayment, subject to the loan ceiling of \$18 million at the time of application of each enterprise (including related companies) (per (g)).	Unlimited reuse of guarantee amount after loan repayment, subject to the loan ceiling of \$8 million at the time of application of each enterprise (including related companies) (per (g)).	Not applicable
(i) Form of Credit Facilities	Term loans and revolving credit lines, without any restriction on the proportion between the two.	Term loans only	Term loans only
(j) Use of Credit Facilities	<p>The credit facility must be used for providing general working capital for the enterprise's business operations, or acquisition of equipment or assets (excluding residential properties) in relation to the enterprise's business.</p> <p>The credit facility must not be used for repaying, restructuring or repackaging existing debts (except for allowing refinancing of facilities guaranteed under the SFGS).</p>	<p>Same as the 80% Guarantee Product.</p> <p>Enterprises with credit facilities guaranteed under the existing SFGS may make new applications for switching to 90% guarantee coverage for the loans concerned during the application period of the 90% Guarantee Product.</p>	The credit facility must not be used for repaying, restructuring or repackaging existing debts due by the borrower to the relevant lending institution.
(k) Maximum Loan Interest Rate, which will be reviewed from time to time	10% per annum in general (loans with annual interest rate over 10% but not more than 12% will be considered on a case-by-case basis).	<p>8% per annum for enterprises with operating history of more than three years.</p> <p>10% for enterprises with operating history of three years or less.</p>	Prevailing floating interest rate is 2.75% per annum (equivalent to the Hong Kong Prime Rate announced by The Hong Kong Mortgage Corporation Limited from time to time minus 2.5% per annum)



Feature	80% Guarantee Product	90% Guarantee Product	Special 100% Guarantee Product
(l) Personal Guarantee by Individual Shareholder(s)	Personal guarantee by individual shareholder(s), directly or indirectly, holding more than 50% of the equity interest of the enterprise is required.		
(m) Guarantee Fee	Guarantee fee is payable	Guarantee fee is payable	Nil
(n) Principal Moratorium	<p>Existing and new SME borrowers may apply before 30 June 2022 to their participating lending institutions for principal moratorium of up to 24 months.</p> <p>(Per Enclosure F to FCR(2020-21)2: To facilitate the participating lending institutions to offer principal moratorium to borrowers under the 80% and 90% Guarantee Products, the guarantee period of loans which have reached the maximum loan period of seven years or five years respectively would be extended to also cover the period granted for principal moratorium.)</p>		
(o) Application period	Until 30 June 2022	Until 30 June 2022	Until 31 December 2021, proposed to be extended until 30 June 2022 in the paper
(p) Maximum Guarantee Commitment Provided by the Government	Proposed to be increased from \$183 billion to \$218 billion in the paper. Commitment under the three guarantee products may be used interchangeably, subject to the total commitment remaining within \$218 billion.		
(q) Total Guarantee Committed (as at end August 2021)	\$71.5 billion	\$7.6 billion	\$70 billion
	Total remainder of loan guarantee commitment for interchangeable use at \$33.9 billion		

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