

**For discussion on
21 September 2021**

**Legislative Council Panel on Commerce and Industry
SME Financing Guarantee Scheme – Special 100% Guarantee Product**

Purpose

This paper consults Members on the proposed extension of the application period of the Special 100% Guarantee Product under the SME Financing Guarantee Scheme (SFGS) and seeks Members' support for the related funding proposal to be submitted for the approval of the Finance Committee of the Legislative Council (FC).

The Special 100% Guarantee Product

2. The Government has been helping businesses obtain commercial loans by providing loan guarantees under the SFGS since 2012¹. 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 small and medium enterprises (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.

3. 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.

4. The second enhancement was announced by the Financial Secretary in the 2021-22 Budget. The application period of the Special 100% Guarantee Product was

¹ 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.

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. This Panel was briefed on the enhancements at the meeting on 16 March 2021 (LC Paper No. CB(1)647/20-21(05)).

5. The SFGS, in particular the Special 100% Guarantee Product, has been well-received by businesses as being an effective measure to help enterprises obtain commercial loans and address their liquidity problem. The Special 100% Guarantee Product alone has approved since its launch in April 2020 over 42 000 applications with a total loan amount of \$70 billion, benefitting over 26 000 enterprises and involving over 300 000 employees. As at end August 2021, the three products under the SFGS, viz. the 80%, 90% and Special 100% Guarantee Products, have together approved \$167.7 billion of loans to enterprises.

Proposed Further Extension of the Application Period

6. Hong Kong's economy has been gradually recovering from the impact of the COVID-19 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 5.0%, the lowest in more than a year.

7. 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 suffering still 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 proposes 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.

Financial Implications

8. In April 2020, the FC approved the consolidation of the loan guarantee commitments for the 80%, 90% and Special 100% Guarantee Products, and their interchangeable use, on condition that the Government's total commitment for guaranteeing loans under the SFGS will remain within \$183 billion, i.e. the sum of the approved commitments of the three guarantee products. As a corollary, the expected maximum expenditure approved for settling default claims and covering related costs for the three guarantee products can also be disbursed interchangeably, on condition that the Government's total expected expenditure² will remain within \$33.72 billion, i.e. the sum of the approved maximum expenditure of the three guarantee products.

9. As at end August 2021, loans guaranteed under the SFGS already accounted for 81.4% of the \$183 billion approved commitment. It is estimated that the remaining commitment of \$33.9 billion will not be sufficient to cater for further loan applications for the proposed extension of the Special 100% Guarantee Product and for the 80% and 90% Guarantee Products up to 30 June 2022.

10. On the basis that the current parameters of the SFGS remain unchanged, it is estimated that the proposed extension of the application period of the Special 100% Guarantee Product would require an additional guarantee commitment of \$35 billion, thereby raising the Government's total commitment under the SFGS to \$218 billion. This would also result in an increase of \$3 billion in estimated expenditure.

Implementation Timetable

11. Subject to Members' support of the proposal, the Government plans to seek funding approval from the FC per set out in paragraph 10 above in October 2021 to effect the extension.

12. The Government will continue to provide the 80% and 90% Guarantee Products for business enterprises requiring 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 guarantee products under the SFGS is at **Annex**.

² The expenditure covers the originating and servicing fees payable to lending institutions participating in the SFGS, the necessary out-of-pocket expenses to be incurred by HKMC Insurance Ltd (the administrator of the SFGS) and payment of default claims.

Advice Sought

13. Members' support is sought on the above proposal.

**Commerce and Economic Development Bureau
September 2021**

Comparison of Major Features of the Guarantee Products under the SFGS

Feature	80% Guarantee Product	90% Guarantee Product	Special 100% Guarantee Product
(a) Target Segment	Local SMEs 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 COVID-19 epidemic
(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 compared with the monthly average of any preceding quarter before mid-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	7 years	5 years	8 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 under the SFGS.	\$8 million, including credit facilities guaranteed under any guarantee products, except the Special 100% Guarantee Product under the SFGS.	<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 early 2019 to mid-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</p>

Feature	80% Guarantee Product	90% Guarantee Product	Special 100% Guarantee Product
			guaranteed under the 80% or 90% Guarantee Products, if any.
(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.

Feature	80% Guarantee Product	90% Guarantee Product	Special 100% Guarantee Product
(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).	8% per annum for enterprises with operating history of more than three years. 10% for enterprises with operating history of three years or less.	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)
(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	Existing and new SME borrowers may apply before 31 December 2021 to their participating lending institutions for principal moratorium of up to 18 months.		
(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 as 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		