

## LCQ7: Financing of small and medium enterprises

Following is a question by the Hon Chung Kwok-pan and a written reply by the Secretary for Commerce and Economic Development, Mr Edward Yau, in the Legislative Council today (February 26):

Question:

Some persons-in-charge of small and medium enterprises (SMEs) have relayed that many SMEs, having been hit simultaneously by the slowdown of the global economy, the uncertainties of the external environment and the disturbances arising from the opposition to the proposed legislative amendments that have persisted for half a year, have tremendous business difficulties. Such SMEs urgently need liquidity to tide over the difficult times so as to avoid layoffs or closing down of business. Although the Financial Secretary extended in August last year both the application period of the 80% Guarantee Product under the SME Financing Guarantee Scheme (SFGS) and the validity period of the relevant enhancement measures to June 30, 2022, and the HKMC Insurance Limited (HKMCI) introduced in December last year a new 90% Guarantee Product under SFGS, the procedure for banks to vet and approve SME loan applications is complicated and time-consuming and the eligibility criteria are stringent (such as requiring applicants to put up their properties as collaterals and submit documentary proofs of their business turnovers). As such, bank loans have failed to serve the function of "providing timely relief". In this connection, will the Government inform this Council:

(1) of the respective numbers of applications under SFGS received by HKMCI in the previous and the current financial years to date as well as the year-on-year percentage change of such applications, with a breakdown of the numbers of applications by loan amount and the type of industry to which the SME applicants belonged;

(2) of the respective numbers of the relevant applications received and approved by HKMCI since the launch of the 90% Guarantee Product, with a breakdown by the type of industry to which the SME applicants belonged; and

(3) whether it will discuss with the banking industry the simplification of the procedure for vetting and approval of SME loan applications and the relaxation of the application criteria, so as to resolve the financing difficulties encountered by SMEs?

Reply:

President,

Small and medium enterprises (SMEs) are a major pillar of the Hong Kong

economy. With the cash flow pressure faced by some SMEs under the current economic environment, the Government has been providing loan guarantee under the SME Financing Guarantee Scheme (SFGS) to assist SMEs in obtaining commercial loans, and has been introducing enhancements to the scheme as appropriate. Also, the Hong Kong Monetary Authority (HKMA) requires that banks provide funding support to SMEs as far as their credit policies and risk management principles allow.

Having consulted the Financial Services and the Treasury Bureau, our reply to the three parts of the question is as follows:

(1) The HKMC Insurance Limited (HKMCI) administers the 80% Guarantee Product and the 90% Guarantee Product under its existing SFGS to respectively provide 80% and 90% loan guarantee for enterprises at concessionary fee rates.

Since the launch of the 80% Guarantee Product in May 2012 and up to end January 2020, the HKMCI has received 19 510 applications and approved 17 475 of them, involving a total loan amount of about \$73.1 billion and a total guarantee amount of about \$58.5 billion. The approval rate was 99.4 per cent (Note). The approved applications are mainly from enterprises of the trading, wholesale and retail sectors (accounting for about 55 per cent of the approved applications), the manufacturing sector (accounting for about 19 per cent of the approved applications), and the engineering and construction (accounting for about 7 per cent of the approved applications) sector, etc.

The Government introduced three enhancement measures to the 80% Guarantee Product in November 2018, including reducing the guarantee fee by 50 per cent; increasing the maximum loan amount from \$12 million to \$15 million; and lengthening the maximum loan guarantee period from five years to seven years. Since then, we have seen a marked increase in the number of applications received and approved, as well as the amount of loans involved. Relevant figures are set out in the table below:

#### Applications Approved under the 80% Guarantee Product

	2018	2019	Increase
Number of Applications Received	1 932	2 965	+53%
Number of Applications Approved	1 714	2 734	+60%
By Sector			
• Trading, Wholesale and Retail	939	1 469	+56%
• Manufacturing	215	287	+33%
• Engineering and Construction	161	286	+78%
• Others	399	692	+73%
By Loan Size			
• Over \$10 million	166	339	+104%
• \$3 million to \$10 million	626	1 025	+64%
• Less than \$3 million	922	1 370	+49%

Total Amount of Loans Involved for Approved Applications (\$)	7.277 billion	13.772 billion	+89%
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(2) The 90% Guarantee Product was launched on December 16, 2019 and the market response is positive. As at end January 2020, the HKMCI has received 187 applications and approved 155 of them, involving a total loan amount of about \$272 million and a total guarantee amount of about \$245 million. The approval rate was 100 per cent (Note 1). The approved applications are mainly from enterprises of the trading, wholesale and retail sectors (72 cases, accounting for about 46 per cent of the approved applications) and the manufacturing sector (nine cases, accounting for about 6 per cent of the approved applications).

(3) To strengthen funding support to SMEs, the HKMA has established a banking sector SME lending co-ordination mechanism. Three meetings were held in October 2019, January and February 2020 respectively under the co-ordination mechanism. The meetings were attended by representatives from the Hong Kong Association of Banks, major banks active in SME lending, and the HKMCI. Banks attending the meeting agreed to adopt a series of measures to strengthen support to SMEs. Key measures adopted by banks include making good use of the countercyclical capital buffer released by the HKMA to support SMEs; allowing SMEs to extend or reschedule their repayment period so as to relieve their cash flow pressure, having regard to the HKMA's clarification of credit risk management requirements; introducing relief measures targeting specific sectors (such as the import and export and transportation sectors) to facilitate fund flow management by SMEs; and following the guidelines set out in the "Hong Kong Approach to Corporate Difficulties" to handle SMEs encountering financial difficulties with sympathy and enhanced communication, and to avoid withdrawing credit lines hastily or taking other credit actions that will adversely affect the customers' business operations.

A number of banks have responded to the HKMA's call by proposing various measures to help SMEs tide over this difficult time. The HKMCI and banks have also simplified the application procedures for the SFGS, such as by accepting other forms of financial proof in lieu of financial statements where appropriate. In view of possible changes to loan guarantee terms as necessitated by banks' extension of loan tenors and trade financing repayment schedules, the HKMCI has streamlined procedures to expedite processing of bank applications for revision of loan terms.

The HKMA, in collaboration with the HKMCI and banks, will also hold briefing sessions for SMEs to explain banks' lending procedures and the SFGS. The HKMA, together with the banking sector, will continue to maintain close dialogue with the commercial sector with a view to providing appropriate support to SMEs and helping them cope with the economic challenges.

Note: Excluding cases withdrawn by participating lenders and applicants, and those under processing.