

ITEM FOR FINANCE COMMITTEE

HEAD 146 - GOVERNMENT SECRETARIAT : EDUCATION AND MANPOWER BUREAU

New Capital Account Subhead "Self-employment Business Start-up Assistance Scheme"

HEAD 177 - SUBVENTIONS : NON-DEPARTMENTAL PUBLIC BODIES Subhead 537 Employees Retraining Board

Members are invited to -

- (a) give approval for Secretary for Education and Manpower to guarantee loans taken out by eligible trainees of the Employees Retraining Board under the Board's Self-employment Business Start-up Assistance Scheme;
- (b) approve the creation of a new Capital Account Subhead "Self-employment Business Start-up Assistance Scheme" with a commitment of \$50 million for Secretary for Education and Manpower to meet liabilities arising from the guarantees in (a) above. Expenditure under this subhead will be offset against Government's recurrent subvention to the Employees Retraining Board; and
- (c) delegate authority to Secretary for the Treasury to vire funds not exceeding \$50 million on a cost-neutral basis between Head 177 Subventions: Non-departmental Public Bodies Subhead 537 Employees Retraining Board and the new subhead proposed in (b) above.

/PROBLEM

PROBLEM

With its annual subvention from the Government, the Employees Retraining Board (ERB) plans to launch a Self-employment Business Start-up Assistance Scheme (hereafter called the Scheme), on a pilot basis for two years up to 2003, for eligible ERB trainees who have completed its full-time or part-time self-employment courses and who are unemployed. The objective is to help the trainees put what they have learned into practice and start a business. The Scheme comprises the following elements -

- (a) advisory and support service for trainees planning to start a business;
- (b) basic office support facilities to be shared among trainees starting a business; and
- (c) loan guarantee of up to a total of \$50 million for eligible trainees who have secured loans, based on their business propositions, from the lending institutions participating in the Scheme, plus related mentor service.

2. In relation to paragraph 1(c) above, ERB needs to identify a loan guarantor to take on the contingent liabilities. This is because ERB itself has no power to perform this role under the Employees Retraining Ordinance.

PROPOSAL

3. Having regard to the policy purview of the Education and Manpower Bureau (EMB) over training, retraining and employment matters, we consider Secretary for Education and Manpower (SEM) should act as the loan guarantor for the loans referred to in paragraph 1(c) above. This means that the Government will take on contingent liabilities arising from the loan guarantees provided by SEM. Accordingly, we propose that the Finance Committee gives approval, under section 28(1)(b) of the Public Finance Ordinance (Cap.2), for SEM to take on the role of guarantor for loans taken out by ERB trainees under the Scheme¹.

4. We also propose to create a new Capital Account subhead "Self-employment Business Start-up Assistance Scheme" with a commitment of \$50 million for SEM to settle defaults of the loans guaranteed, in accordance with

/terms

¹ S.28(1) of the Public Finance Ordinance states that -

- (1) No public officer shall give a guarantee involving any financial liability upon the Government unless such guarantee is given -
 - (a) for the purposes of and in accordance with the provisions of an Ordinance or a resolution of the Legislative Council; or
 - (b) with the prior approval of the Finance Committee.

terms agreed with the lending institutions. Expenditure under this subhead will be offset against Government's recurrent subvention to ERB, funded under "Head 177 Subventions: Non-departmental Public Bodies Subhead 537 Employees Retraining Board".

5. As the liabilities arising from defaults of the loans guaranteed cannot be accurately estimated at the beginning of each year, we need some flexibility between the virement of provisions under the proposed new Capital Account subhead and the ERB subvention subhead referred to in paragraph 4 above. Accordingly, we further propose that authority be delegated to Secretary for the Treasury to effect the necessary virement of funds up to \$50 million on a cost-neutral basis between these two subheads.

JUSTIFICATION

6. With SEM acting as loan guarantor, ERB will be able to launch the Scheme with the three component measures (referred to in paragraph 1 above) in the third quarter of 2001. The additional support will enhance the prospects of self-employment for eligible ERB trainees. Details of the proposed loan guarantee are set out in the following paragraphs.

Key Principles

7. The proposed loan guarantee will operate along the following principles -

(i) *Market driven*

In order to secure a loan with government guarantee, the trainees must demonstrate the viability of their business plans and their credit-worthiness to the participating lending institutions.

(ii) *Risk Sharing*

The risk of default and late payment should be shared between the Government as loan guarantor and the participating lending institutions. In determining the risk-sharing ratio, we should strike a balance between encouraging lending to the trainees and safeguarding the proper use of public money.

(iii) *Risk Capping*

The maximum loan amount in each case, and the risk to both the Government and the participating lending institutions, should be capped.

/Details

Details

8. In light of the above principles, we intend to operate the proposed loan guarantee scheme in the following way -

(i) Eligibility

Unemployed ERB trainees who have completed the ERB's full-time or part-time self-employment course and have come up with specific business plans will be eligible to apply for loans with the participating lending institutions. The applications will be made on an individual basis. The applicants will be required to start a business under a business registration. Bearing in mind the objective of the Scheme, trainees who have already started their own business will not be eligible to apply. Any trainee who has successfully applied for a loan with the proposed guarantee will not be eligible to apply again for any new or additional loan under the Scheme.

(ii) Loan Arrangement

The maximum amount of guarantee for each approved loan will be capped at 70% of the loan, under a risk-sharing ratio of 70:30 between the Government and the lending institution. The loan will be capped at \$100,000 per application from a trainee. In the event that trainees wish to join together and pool their loans under one business registration, the loan will be capped at \$300,000 or \$100,000 per trainee in the group, whichever is the less. Based on initial discussions with the banking sector, we expect participating lending institutions to lend to trainees at an interest rate around prime plus 3%. The lending institutions may charge the borrowers a one-off handling fee of around \$1,000. The loan may be drawn down in one go, or by instalment, or against submission of invoice. The loan guarantee will expire in 36 months from the date of first draw down of the loan. Unless otherwise agreed between the lending institution and the trainee, the lending institutions have to offer a repayment period of at least 24 months. Participating lending institutions will be required to provide flexibility, such as any payment-free period, in the repayment plan to help trainees tide over the initial months of business start-up.

(iii) Assessment of Loans

ERB will verify the trainees' training records to confirm their eligibility for the loan guarantee. The participating lending institutions will assess the credit-worthiness of the trainees and the viability of their business plans. SEM will decide whether to give a guarantee upon the recommendations of the lending institutions on the viability of individual applications.

/(iv)

(iv) *Use of Loans*

The borrower trainee has to declare that the loan will be used for the sole purpose of starting a business in accordance with the business plan accepted by the lending institution. As a condition for loan guarantee, each borrower trainee will need to sign a written agreement permitting representatives of ERB to inspect the books and records of his/her business funded by the loan as part of the monitoring process.

(v) *Administration*

SEM, with the assistance of staff to be seconded from the Treasury, will be responsible for administering the loan guarantee scheme on the part of the Government. This will include execution of loan deeds with the lending institutions and ancillary accounting functions. All payment to and repayment from the borrower trainees will be handled by the lending institutions. There will be an agreement between the Government and the participating lending institutions setting out the rights and obligations of each party and the appropriate mechanism for settling the transactions.

(vi) *Arrangement in Default Cases*

On default, which will be defined as failure by the borrower trainee to repay on time with the indebtedness remaining outstanding on the 91st day after the relevant maturity date, the lending institution may request the Government to pay the part of the loan under guarantee. Any subsequent amount recovered from the borrower, including any amount recovered through the disposal of any collateral, will be shared between the Government and the lending institution on a pro-rata basis.

(vii) *Participating Lending Institutions*

All authorised institutions as defined under the Banking Ordinance will be invited to participate on the basis of the arrangements described above.

Review and Monitoring

9. We will work closely with ERB in planning and implementing the arrangements for loan guarantee. ERB will conduct random checks on the books and records of the businesses of borrower trainees when the guarantee is in force. The effectiveness of the Scheme will be reviewed towards the end of 2003.

Number of Beneficiaries

10. Based on the loan cap of \$100,000 per application and the cap of 70% loan guarantee, we expect around 700 eligible trainees will be able to benefit from the Scheme.

FINANCIAL IMPLICATIONS

11. ERB will finance the Scheme with existing recurrent subvention from the Government. The Education and Manpower Bureau will use existing resources to create a time-limited post, at a notional annual mid-point salary of \$508,860, for the purpose of executing deeds with the lending institutions and ancillary accounting functions. So no additional cost will be incurred as a result of the implementation of the Scheme.

12. The payments to participating lending institutions arising from default of loan repayment covered by loan guarantee will be charged to the proposed Capital Account subhead "Self-employment Business Start-up Assistance Scheme" and be offset against the recurrent subvention (\$400 million per year) for ERB. To ensure that funds are readily available under Head 146 Government Secretariat: Education and Manpower Bureau to meet such expenditure, we will, based on estimates of default cases in a year, vire funds from Head 177 Subventions: Non-departmental Public Bodies Subhead 537 Employees Retraining Board to the proposed Capital Account subhead. Any unspent balance under the latter towards the end of the financial year will be vired back to Head 177 Subventions: Non-departmental Public Bodies Subhead 537 Employees Retraining Board before the close of the financial year. This is to ensure that ERB will not be worse off in the event the actual amount of default is lower than that estimated. Subject to approval of Finance Committee, Secretary for Treasury will authorise the virement under delegated authority.

BACKGROUND INFORMATION

13. Since March 1994, ERB has launched part-time self-employment courses on generic business skills. These courses cover soft skills and knowledge on how to start a business covering the basic legal, financial, accounting and marketing knowledge. Since October 2000, ERB has started to run, on a pilot basis, full-time self-employment courses with skills training in a few areas where there is potential for trainees to start a small business. These areas include beauty care, property maintenance and cleansing. As at May 2001, over 900 ERB trainees have completed the full-time or part-time self-employment courses.

14. In the October 2000 Policy Address, the Chief Executive announced that the EMB would discuss with ERB various measures to assist retrainees who want to start up a business. The proposed loan guarantee arrangements are part of an overall package of support measures drawn up by ERB.

15. Under the Scheme, the ERB will also provide post-training mentor service to trainees. The purpose is to help trainees identify business opportunities and to give advice on the formulation of business proposals. For those trainees who have successfully secured a loan with government's guarantee, ERB will provide a 12-month follow-up mentoring and support service. This will include sessions with more experienced business people and business start-up associations. ERB will also set aside some space in one of its existing retraining resource centres to provide basic office support facilities to assist retrainees of the self-employment programmes, irrespective of whether these trainees have successfully secured business start-up loans with government's guarantee. The related expenditure for these support services and facilities will be met by ERB outside the \$50 million to be reserved for loan guarantee.

16. To further its training efforts, ERB will offer more self-employment courses on generic business skills and explore the provision of skill-specific self-employment courses in areas such as flower arrangement or photo-taking for weddings.

17. We briefed the Legislative Council Panel on Manpower on the Scheme on 15 March 2001. Members generally supported its objective. We will present details of the Scheme, including the proposal for SEM to act as loan guarantor, to the Panel on 4 July 2001.
