

**For discussion
on 4 July 2001**

Legislative Council Panel on Manpower

**Employees Retraining Board's
Self-employment Business Start-up Assistance Scheme**

PURPOSE

This paper provides Members with further details on the Employees Retraining Board (ERB)'s proposal to launch the Self-employment Business Start-up Assistance Scheme.

BACKGROUND

2. The ERB has, since March 1994, launched on a part-time basis 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, the 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.

3. In his October 2000 Policy Address, the Chief Executive announced that the Education and Manpower Bureau (EMB) would discuss with the ERB various measures to assist retrainees who want to start up a business. In this connection, the 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 trainees who have completed its full-time or part-time self-employment courses and who are unemployed. The objective is to help the trainees to be self-employed and 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 for eligible trainees with concrete and viable business plans accepted by the lending institutions participating in the Scheme, plus related mentor service.

4. At the Panel meeting on 15 March 2001, we briefed Members on the broad framework for the Scheme, including ERB's plan to set aside \$50 million from the Employees Retraining Fund (ERF) as ERB's total commitment to the proposed loan guarantee (paragraph 3(c) above). Members generally supported the objective of the Scheme and asked for further details. These are now set out below.

LOAN GUARANTEE

Loan guarantor

5. The ERB had originally intended to act as guarantor for those trainees taking out loans from lending institutions to start a business. However, the Board has no power to perform this role under the Employees Retraining Ordinance. In view of this constraint, the Government has agreed with ERB that the Government, through the Secretary for Education and Manpower, will act as the loan guarantor. This means that the Government will take on contingent liabilities arising from the loan guarantees, up to a maximum of \$50M, which will be offset against the recurrent subvention for ERB.

Key principles

6. 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 plan and their credit-worthiness to the lending institutions.

(ii) Risk Sharing

The risk of default and late payment should be shared between the Government as loan guarantor and the 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 lending institutions, should be capped.

Details

7. The proposed arrangements are as follows-

(i) Eligibility

Unemployed ERB trainees who have completed the ERB's full-time or part-time self-employment course and who have come up with concrete business plans will be eligible to apply with the participating lending institutions. The applications will be on an individual basis. The applicants will be required to start a business under a business registration. In the event that trainees wish to join together and pool their loans under one business registration, the following restrictions will apply. Each trainee will only be allowed to take out a loan capped at \$100,000. The loan per business registration will be capped at \$300,000. 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 same scheme.

(ii) Loan Arrangement

The maximum amount of guarantee for each application will be capped at 70% of the loan under a risk-sharing ratio of 70:30 between the Government and the lending institution. The maximum loan in each case is capped at \$100,000. Based on initial discussions with the banking sector, we expect participating lending institutions to lend to trainees at an interest rate around prime + 3%. The lending institutions may charge the borrowers a one-off handling fee of around \$1,000. The loan can take the form of a full drawdown, loan by instalment or loan against invoice. The loan guarantee will expire in 36 months. 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 build flexibility, such as any payment-free period, into the repayment plan to help trainees tide over the initial months of business start-up.

(iii) Assessment of Loans

The ERB will be responsible for verifying the trainees' training records to confirm their eligibility for the loan guarantee. We will rely on the lending institutions to exercise their prudent professional judgement in assessing the credit-worthiness of the trainees and the viability of their business plans.

(iv) Use of Loans

The borrower trainee has to declare that the loans will be used for the sole purpose of starting a business in accordance with the business plan accepted by the lending institution. A written agreement will also be sought from each borrower trainee as a condition for business guarantee

that he/she will permit representatives of the ERB to inspect the books and records of the business as part of the monitoring process. The lending institutions may impose other limitations on the use of the loans but these should be confined to limitations necessary for the effective implementation of the proposed scheme.

(v) Administration

The Secretary for Education and Manpower, 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 can request the Government to pay an amount up to the ratio it has guaranteed. 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. This will be on a pro-rata basis.

(vii) Participating Lending Institutions

All authorised institutions as defined under the Banking Ordinance will be invited to join the proposed scheme on the prescribed loan arrangement terms as set out above.

Review and Monitoring

8. We will work closely with ERB in planning and implementing the arrangements for loan guarantee. The 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 proposed loan guarantee will be reviewed towards the end of 2003.

Number of Beneficiaries

9. Based on the loan cap of \$100,000 per application and the 70% guarantee, it is expected that around 700 eligible trainees will be able to benefit from the proposed loan guarantee scheme.

OTHER SUPPORT MEASURES

10. The ERB will, as part of the Scheme, 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, the ERB will provide a 12-month follow-up mentoring and support service. This will include sessions with more experienced businessmen and business start-up associations. The ERB will also set up a self-employment corner 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 the ERB outside the \$50M to be reserved for the proposed loan guarantee scheme.

11. To further its training efforts, the 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.

WAY FORWARD

12. The Secretary for Education and Manpower will seek the Finance Committee's approval on 6 July for her to give a loan guarantee as proposed in paragraph 5 above. The aim is to launch the Scheme in the third quarter of 2001.

Education and Manpower Bureau

June 2001