# 立法會
# *Legislative Council*

LC Paper No. CB(1) 503/01-02
(These minutes have been
seen by the Administration)

Ref : CB1/PL/CI/1

**Panel on Commerce and Industry**

**Minutes of Special Meeting**
**held on Monday, 22 October 2001, at 10:45 am**
**in Conference Room A of the Legislative Council Building**

**Members present** : Hon Kenneth TING Woo-shou, JP (Chairman)
Hon HUI Cheung-ching, JP (Deputy Chairman)
Dr Hon LUI Ming-wah, JP
Hon CHEUNG Man-kwong
Hon SIN Chung-kai
Hon CHOY So-yuk
Hon Henry WU King-cheong, BBS

**Non-Panel Members attending** : Hon James TIEN Pei-chun, GBS, JP
Hon Eric LI Ka-cheung, JP
Hon LEUNG Fu-wah, MH, JP

**Members absent** : Hon NG Leung-sing, JP
Hon Mrs Selina CHOW LIANG Shuk-yee, JP
Hon CHAN Kam-lam
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon MA Fung-kwok

**Public officers attending** : Mr Raymond YOUNG
Acting Secretary for Commerce and Industry

Mr Joseph LAI
Acting Director-General of Trade and Industry

Mr Eugene FUNG
Assistant Director-General of Trade and Industry

**Clerk in attendance :** Ms Connie SZETO
Chief Assistant Secretary (1)4

**Staff in attendance :** Ms Rosalind MA
Senior Assistant Secretary (1)3

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## I Proposals for implementing the four Small and Medium Enterprises Funding Schemes

(LC Paper No. CB(1)46/01-02(01))

The Acting Secretary for Commerce and Industry (SCI(Ag.)) briefed members on the proposals for setting up four funding schemes for small and medium enterprises (SMEs). Details were set out in LC Paper No. CB(1) 46/01-02(01) provided by the Administration.

2. SCI(Ag.) advised that in view of the widespread calls for greater support to help SMEs weather the current economic downturn, the Chief Executive announced in his Policy Address of October 10 that the Government would set aside $1.9 billion to implement four funding schemes. He pointed out that the Small and Medium Enterprises Committee (SMEC) had consulted the industry extensively on the proposals and received their support in principle. He stressed that the proposed funding schemes, such as the SME Business Installations and Equipment Loan Guarantee Scheme, were market-driven. Individual lending institutions could take into account past performance and repayment ability of the SMEs in considering their proposals and deciding whether loan facilities would be granted. Another example was the SME Training Fund and SME Export Marketing Fund, under which individual SMEs could make their own choices and decisions regarding the training courses, trade fairs and study missions they intended to participate. SCI(Ag.) said that the four proposed funding schemes, with the Government sharing the risk by acting as loan guarantor or providing part of the financial assistance, aimed at encouraging individual SMEs to explore resources and develop businesses. He pointed out that the purpose of setting funding ceilings for the four proposed schemes was to ensure that more SMEs could be benefited from the limited resources. The application procedures for funding support would be as simple as practicable so that individual SMEs could obtain appropriate assistance easily. The Administration was actively preparing for the implementation of the four proposed funding schemes. Subject to the approval of the Finance Committee (FC) of the Legislative Council (LegCo) in November, these schemes were expected to be launched at the end of this year or early next year.

The SME Business Installations and Equipment Loan Guarantee Scheme (BIG)

3. Given that the loans obtained under the BIG could only be used for acquiring new or second-hand installations and equipment but not for financing or re-financing machinery and equipment already in the applicant SME's possession, Mr James TIEN found the proposal disputable.

4. SCI(Ag.) responded that the proposal to restrict the use of the approved loans under the BIG to acquiring second-hand installations and equipment was based on the fact that some SMEs in need of support had just been started up with limited resources, which might not afford new business installations and equipment. As the scheme was mainly for providing funding support to SMEs which could not afford to acquire their tools of trade, the machinery and equipment which had already been procured were not covered. The Acting Director-General of Trade and Industry (DGTI(Ag.)) added that the arrangements would utilize limited resources in a more effective and focused manner. Priority would be accorded to SMEs with potentials but in need of financial means to acquire tools of trade for developing their businesses.

5. Mr James TIEN reiterated concern and requested the Administration to reconsider the feasibility of providing financing or re-financing guarantee to SMEs for installations and equipment already in their possession before submitting the funding proposal to FC in November. He emphasized that such arrangements would be effective in relieving financial pressure currently faced by SMEs.

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(*Post-meeting note*: The Administration had responded to Mr James TIEN's request. Details were set out in LC Paper No. CB(1) 229/01-02).

6. Mr HUI Cheung-ching declared interest as the Convenor of the Business Environment Working Group, SMEC. He advised that SMEC had consulted the industry extensively on the four proposed funding schemes. On the lending rates for loans under the BIG, he suggested that the Administration should consider bargaining collectively with lending institutions on behalf of SMEs for more favourable interest rates, say, one percentage point above the prime rate. This would directly and effectively help the SMEs. Although the Administration had advised that it would not intervene in the lending rates set by individual lending institutions for SMEs, Mr James TIEN enquired whether the current lending rates for businesses were still generally at three percentage points above the prime rate.

7. DGTI(Ag.) said that interest rates were basically determined by the market. The lending rates for businesses mainly depended on factors such as the credit-worthiness, loan amount and repayment ability of individual SMEs. In general, the prevailing interest rates for SMEs were about one to 1.5 percentage points above the prime rate. He advised that banks were generally supportive of the BIG and willing to make appropriate financing arrangements.

In fact, the banking sector had been providing a number of loan schemes for SMEs. SCI(Ag.) supplemented that the Administration was aware of SMEs' concern about lending rates. He emphasized that meetings with banks, SMEs, government departments and the Hong Kong Monetary Authority would be held on a regular basis to explore the best financing arrangements for SMEs.

8. Mr James TIEN expressed reservation on the projected overall default rate of 15% for BIG as stated in paragraph 11 of the paper. He enquired about the default rate of the "Special Finance Scheme for SMEs" (SFS) implemented in 1998. SCI(Ag.) responded that the SFS had ceased accepting new applications since April 2000. Up to now, the default rate of the SFS was about 8% - 10%. The overall default rate of 15% for the BIG mentioned in paragraph 11 of the paper was on the conservative side.

9. Mr CHEUNG Man-kwong enquired about the differences between the BIG and the SFS. DGTI(Ag.) responded that their main difference lay in the scopes of loan guarantee. The SFS had a wider scope of guarantee, which included revolving loans to address the cash flow squeeze and difficulty in obtaining loans faced by SMEs at the time. On the other hand, the BIG would focus on assisting SMEs to purchase business installations and equipment. Mr CHEUNG Man-kwong considered the scope of the BIG too narrow. Although some SMEs, such as those in the manufacturing sector which needed to acquire business installations and equipment, might obtain assistance under the BIG, SMEs in the service, retailing, catering and tourism sectors might not benefit from the scheme. SMEs in these sectors might find it difficult to obtain credit facility. DGTI(Ag.) advised that the scope of the BIG could benefit sectors other than the manufacturing one. For example, the service sector could apply for loans under the scheme to purchase computer equipment and office communication systems to help expand their businesses.

10. Mr CHEUNG Man-kwong enquired whether the Administration, with the experience gained from the past, would put in place measures to prevent abuses of loans and the occurrence of default cases. He further expressed reservation on allowing banks to determine the interest of loans offered to SMEs. He opined that banks might raise the lending rates out of their own business interest, thus resulting in more bad debts. DGTI(Ag.) advised that the BIG had already specified that the loans concerned could only be used by SMEs for purchasing installations and equipment. This should help reduce the occurrence of default payment. Regarding repayment arrangements, the BIG required that loans should be repaid by instalments, with an interval between each instalment not exceeding three months. The first instalment should take place not later than six months after the loan had been activated. This should help monitor the SMEs' repayments. He further reiterated that with the risks being shared between the Government and banks, i.e. setting the risk sharing ratio at 50:50, the possibility of default payment would be effectively reduced.

11. While supporting in principle the four proposed funding schemes to facilitate the development of SMEs, Mr SIN Chung-kai requested the Administration to provide more detailed information on the SFS, such as an analysis of default cases, for members' reference before submitting the funding proposal to FC. In addition, he was concerned that in order to attract more SMEs to apply for loans, the Administration might change the BIG's risk sharing ratio of 50:50 between the Government and banks to 70:30 which might result in more bad debts. In response, SCI(Ag.) said that at present, it was very difficult to assess whether it was necessary to adjust the risk sharing ratio between the Government and banks. Further consideration would be given in the light of the actual needs after the scheme had been implemented for some time.

12. The Chairman enquired whether the Administration, after launching the SFS, had analyzed and compared the default cases of individual banks, and identified the types of SMEs which were prone to bad debts, so as to avoid the occurrence of similar problems in the BIG. In reply, SCI(Ag.) said that bad debt records were commercial information of individual lending institutions which might not be obtained easily. However, he would try to collect such information and provide an analysis for members' reference. The Assistant Director-General of Trade and Industry (ADGTI) added that a high default rate did not mean that individual banks were imprudent in vetting and approving loans. Many other factors, such as market development and economic conditions, were also at play.

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(*Post-meeting note*: The Administration had responded to members' request. Details were set out in LC Paper No. CB(1) 229/01-02.)

13. Mr LEUNG Fu-wah expressed reservation on the repayment period under the BIG stated in paragraph 15 of the paper. He considered the interval between each instalment not exceeding three months too short, which might cause cash flow problems to SMEs. SCI(Ag.) advised that such a repayment arrangement could help the Administration monitor the loans concerned so as to reduce default payments. As indeed, such repayment arrangement was the prevailing market practice. Therefore, he believed that it would not have any adverse impacts on the cash flow of SMEs.

The SME Training Fund (STF)

14. Dr LUI Ming-wah enquired why the subsidy ceiling for employers' training under the STF was lower than that for employees' training. Moreover, he considered that providing subsidies on a cumulative basis for a SME would obviously limit its chance to obtain funding support. The Chairman advised that at the Panel meeting held on July 9, members had also expressed concern that training subsidies were inadequate. Mr Henry WU shared the view that the proposed subsidy ceilings under the STF were too low, which might not help to promote training in SMEs. He pointed out that as training courses presently available in the market often charged high fees, employers or employees might

not be able or willing to pay for the costs, and would therefore defeat the intended purposes of STF. SCI(Ag.) explained that the present subsidy ceilings under the STF were worked out on the basis of the potential numbers of employers and employees who would be benefited. Although the maximum cumulative amount of subsidies for employers' training was $5,000, each employer in fact received more subsidies than each employee as there were usually fewer employers than employees in an SME. Hence, employers of SMEs could attend high level training courses. He further pointed out that due to limited resources, the Administration would conduct a comprehensive review a year after the implementation of the four proposed funding schemes to assess whether it was necessary to raise the subsidy ceilings of the STF. DGTI(Ag.) reiterated that the proposed STF aimed at providing SMEs with incentives rather than fully subsidizing their training activities. The main objective of the funding scheme was to provide encouraging support to SMEs to face the challenges arising from globalization, China's accession to the World Trade Organization and the emergence of a knowledge-based economy.

15. Dr LUI Ming-wah further enquired whether there was time limit for making application to the STF. In response, SCI(Ag.) said that the STF was not subjected to any timeframe. The arrangement proposed was flexible as resources would be allocated to the SMEs in need of support on a first-come-first-served basis. Provided that the funds under the STF had not been exhausted, individual SMEs could still receive funding support not exceeding their maximum cumulative amount.

16. Mr LEUNG Fu-wah enquired whether the Administration would consider combining the subsidies for employers and employees under the STF to allow greater flexibility for resources deployment. DGTI(Ag.) responded that the Financial Secretary had undertaken in the 2001-02 Budget that an extra $300 million would be set aside for subsidizing training programmes for employees of SMEs. For this purpose, separating the funding support for employers and employees could help rationalize the allocation of training resources.

17. In response to Miss CHOY So-yuk's enquiry, ADGTI advised that the employers and employees who received subsidies under the STF had to be Hong Kong residents. Mainland staff employed by local SMEs could not be benefited. DGTI(Ag.) supplemented that priority should be given to enhance the capacity and quality of SMEs' local employers and employees.

The SME Export Marketing Fund (Export Marketing Fund)

18. Dr LUI Ming-wah and Mr James TIEN both commented that the Export Marketing Fund's subsidy ceiling of $10,000 was too low. SCI(Ag.) responded that instead of offering full subsidy, such funding support aimed at providing SMEs with incentives to encourage them to participate in relevant market promotion activities, such as trade fairs and study missions.

Other concerns

19. Mr Henry WU enquired whether the Administration would consider redeploying funds under the schemes such as topping up the STF with the funds under the SME Development Fund (the Development Fund), so as to better cater for the needs and development of SMEs, ADGTI clarified that instead of targeting at individual SMEs, the Development Fund aimed at subsidizing projects to be carried out by eligible support organizations, trade and industrial organizations, professional bodies and research institutes to enhance the competitiveness of SMEs in general or those in specific sectors. While aware of the problem of insufficient training resources faced by some SME employers, he opined that these employers had to set training priorities for their employees. DGTI(Ag.) added that whether the subsidy ceiling of $10,000 for each SME regarding employees' training was adequate would depend on such factors as the nature and duration of the training courses concerned.

20. Mr LEUNG Fu-wah was concerned that if the proposed funding schemes were excessively driven by the market, they might not really facilitate the development of SMEs. In response, DGTI(Ag.) said that although the funding schemes proposed by the Administration aimed at providing more support to SMEs to facilitate their development, it could not, to a certain extent, change the rule that the strongest survive in the market. Therefore, the purpose of these schemes was to strike a balance between facilitating the development of SMEs and the market mechanism.

21. Responding to the inquiry of Mr LEUNG Fu-wah regarding the creation of four non-directorate civil service posts for administration of the four proposed funding schemes as pointed out in paragraph 40 of the paper, DGTI(Ag.) advised that these posts which included clerks and Assistant Trade Officers I and II would be temporary in nature.

Review and Monitoring

22. Members noted that the Administration would review the cost-effectiveness, funding levels and the modus operandi of the four funding schemes one year after they started operation.

23. Mr LEUNG Fu-wah enquired about the number of SMEs which had indicated their wish to participate in the funding schemes, in particular the BIG. SCI(Ag.) advised that so far, the Administration had not made any assessment on SMEs' response to the four funding schemes. However, according to the enquiries received recently, most SMEs had expressed interest in applying for funding support and individual trade associations also considered the funding schemes would be conducive to the development of SMEs.

24. Mr SIN Chung-kai suggested that when implementing the four funding schemes, the Administration should in parallel examine ways to assess their

effectiveness and work out relevant indicators. He emphasized that the assessment results should be reported to LegCo in due course. SCI(Ag.) noted Mr SIN's suggestion and advised that such indicators would be worked out jointly by the Administration and the SMEC. He undertook to report the results of the comprehensive review on the funding schemes to members upon its completion.

25. Mr Henry WU reiterated the importance of exercising flexibility in using the resources of the schemes with a view to supporting SMEs more effectively and facilitating their development. DGTI(Ag.) advised that Mr WU's suggestion would be considered in the context of the comprehensive review of the schemes.

26. Mr James TIEN commented that the Administration should review the four funding schemes as early as possible, rather than one year, after their implementation. SCI(Ag.) advised that in principle, the Administration could conduct an initial review three months after the implementation of the schemes. The review conducted at the end of the one year period would be a comprehensive assessment on the overall effectiveness of various funding schemes. Mr James TIEN requested the Administration to report the progress of the four funding schemes to the Panel three months after they had come into operation. The Administration noted Mr TIEN's suggestion.

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(*Post-meeting note*: The Administration had responded to Mr James TIEN's suggestion. Details were set out in LC Paper No. CB(1) 229/01-02.)

Conclusion

27. The Chairman concluded that in principle, the Panel supported the implementation of the four proposed funding schemes to support SMEs and hoped that the schemes could be launched as soon as possible.

**II Any other business**

28. There being no other business, the meeting ended at 12:05 pm.

Legislative Council Secretariat
5 December 2001