

LegCo Panel on Commerce and Industry
Follow-up to special meeting on 22 October 2001
Responses to the Panel on Commerce and Industry

Request (a) : To re-consider extending the Business Installations and Equipment Loan Guarantee Scheme to cover loan guarantee for financing or re-financing installations and equipment already in the applicant SME's possession before submitting the funding proposal to the Finance Committee in November 2001.

Response (a) : We have carefully considered Members' proposal to extend the Business Installations and Equipment Loan Guarantee Scheme (BIG) to cover loan guarantee for financing or re-financing installations and equipment already in the applicant SME's possession. Panel Members' suggestion in effect requests Government to provide guarantee to facilitate SMEs to enhance their cashflow through taking out loans of a non-specific nature using their existing installations and equipment as the collateral. As we have explained to Members at the Panel meeting, the objective of the BIG is to encourage and help SMEs to enhance their competitiveness by investing in business installations and equipment. We therefore have to ensure that loans guaranteed by the Government under the BIG will be used for this specified purpose. However, we cannot ensure this if we simply help SMEs secure loans of a non-specific nature. We therefore do not consider it appropriate to extend the BIG to cover this. We believe that, with the growing readiness of lending institutions to do business with SMEs and the liquidity of the

money market, the general financing needs of SMEs should and can be adequately met by the market.

Request (b) : To report to the Panel the progress of the four funding schemes three months after they have started operation.

Response (b) : We shall be glad to report to the Panel the progress of the funding Schemes. We shall monitor SMEs' responses to the four funding schemes closely and provide the Panel with a report setting out our initial observations four months after the funding schemes have come into operation. This will give us more time to collect data and to come up with more reliable observations and analysis.

Request (c) : To provide up-to-date information and analyses on the Special Finance Scheme (which was terminated in 2000) including details on the default cases by different participating lending institutions.

Response (c) : The total loan facility approved under the Special Finance Scheme (SFS) amounts to about \$ 9.1 billion, involving 11968 loan cases. The total amount guaranteed by the Government is approximately \$5.8 billion.

As at 26 October 2001, loan facilities for 7673 cases have ended, and \$3.1 billion of loan guarantee has been released. The current commitment of the Government is around \$2.7 billion, involving 4295 cases.

According to figures provided by the Treasury, the current default rate of loans approved under the SFS is 9.5%,

involving 846 default cases and a compensation amount of \$295 million.

Most of the bad debt cases concerned loans that have been granted to enterprises from the import/ export trades, manufacturing and wholesale/ retail sectors. The number of defaulted cases for the three sectors stood at 190, 307 and 186 respectively, with a default rate of 12.9%, 7.1% and 12.5%. In money terms, the amount of Government compensation involved was \$120 million, \$106 million and \$32 million respectively.

The bad debt situation for the 68 participating banks and money-lending institutions are as follows -

Default Rate	Number of institutions (%)
Nil	13 (19.1%)
0.1 - 5%	15 (22.1%)
5.1 - 10%	6 (8.8%)
10.1 - 15%	14 (20.6%)
Over 15%	16 (23.5%)
Undeclared	4 (5.9%)

We are not in a position to disclose the default rate of the loans granted by individual banks or money-lending institutions as this involves information on the operation of individual commercial institutions.