

立法會
Legislative Council

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Panel on Commerce and Industry

**Minutes of special meeting
held on Monday, 16 December 2002 at 4:30 pm
in the Chamber 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 Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon CHAN Kam-lam, JP
Hon SIN Chung-kai
Hon Henry WU King-cheong, BBS, JP
Hon MA Fung-kwok, JP
- Non-Panel Members attending** : Hon Eric LI Ka-cheung, JP
Hon CHAN Yuen-han, JP
- Members absent** : Hon NG Leung-sing, JP
Hon CHEUNG Man-kwong
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
- Public officers attending** : Mr Henry TANG Ying-yen
Secretary for Commerce, Industry and Technology
- Mr Kevin HO Chi-mong
Director-General of Trade and Industry
- Mr Joseph LAI Yee-tak
Deputy Director-General of Trade and Industry

Attendance by invitation : Mr CHAN Tze-ching
Convenor of the Roundtable on SME Financing of SMEC

Mr Anthony AU Wai-hung
Convenor of the Technology Applications Working Group of SMEC

Hon HUI Cheung-ching, JP
Convenor of the Business Environment Working Group of SMEC

Mr Danny NGAI Kam-fai
Convenor of the Market Expansion Working Group of SMEC

Mr Gilbert LAU Wai-kwong
Convenor of the Human Resources Development Working Group of SMEC

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

Staff in attendance : Mr S C TSANG
Senior Assistant Secretary (1)7

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I Small and Medium Enterprises Funding Schemes
(LC Paper No. CB(1) 530/02-03(01) and 533/02-03)

The Secretary for Commerce, Industry and Technology (SCIT) briefed members on the recent review of the four Small and Medium Enterprises (SMEs) Funding Schemes (the Schemes) namely, SME Business Installations and Equipment Loan Guarantee Scheme (BIG), SME Export Marketing Fund (EMF), SME Training Fund (STF) and SME Development Fund (SDF). The Director-General of Trade and Industry (DGTI) highlighted the recommendations made by the Small and Medium Enterprises Committee (SMEC) on the Schemes. The Administration considered that by suitably raising the ceilings of the guarantee/grant for individual SMEs, broadening the scope of individual schemes and rationalizing the application procedures, the Schemes would be able to address the needs of SMEs more fully and effectively, as well as benefit more SMEs. Details of the review and the SMEC's recommendations were provided in Annexes B and C of the information paper.

Definition of SMEs

2. Ms CHAN Yuen-han enquired about the size of a SME to be eligible for assistance under the Schemes. In view of the economic downturn, she opined that the Administration should consider relaxing the definition of SMEs in order to benefit more SMEs. In response, DGTI clarified that SMEs under the Schemes referred to companies with less than 100 local employees in the manufacturing sectors and companies with less than 50 local employees in the service sector. He added that the existing definition of SMEs was well established and accepted by the community.

Training support

3. Responding to Ms CHAN Yuen-han's comment that it was difficult for employees to benefit from the STF, DGTI advised that the STF was established to subsidize SME employers and employees to attend training which was relevant to their business operation. He explained that a main reason for rejecting applications was the failure of SMEs in meeting the qualification criteria. For example, an applicant did not submit the application prior to the commencement of the training course.

4. In reply to Ms CHAN Yuen-han's further enquiry on whether individual employees could submit applications for the STF without routing through their employers, DGTI said that as subsidies under the STF were granted on a company basis and as the SMEs and the Government had to contribute, on a dollar-to-dollar matching basis, towards the training cost, the STF only accepted applications put up by employers. Ms CHAN remarked that such requirement might put pressure on employees since they would fear losing their jobs if they failed to perform better after attended the training. DGTI stressed that the aim of the STF was to subsidize training for SME employers and employees with a view to enhancing their competitiveness. The performance of employees after attending the training course was not a factor in considering the application.

5. Ms CHAN Yuen-han enquired about the number of applications rejected by the STF, the industries they belonged to and the size of the SMEs concerned. DGTI replied that as at the end of November 2002, a total of 564 applications had been rejected. The main reasons for rejection included failure of the applicants to produce valid proof of business registration or other supporting document, the applicant had already used up its subsidy, applications were submitted only after the training course had commenced, the training course was irrelevant to the operation of the SME etc. At members' request, the Administration undertook to provide the Panel, after the meeting, with information on the industries the rejected applications belonged to and the size of the SMEs concerned. It would also check whether information on the number of cases in which individual employees intended to apply for the STF but were not supported by their employers was available and provide the information for members' reference.

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Financial position of the Schemes

6. Since there would be default cases under the BIG and with the expanded scope of the Schemes, Mr SIN Chung-kai was concerned for how long the Government committed amount of \$7.5 billion for the Schemes would be used up.

7. In response, SCIT remarked that in view of the growing fiscal deficit problem, it would be unlikely for the Government to allocate additional resources for implementation of the new recommendations. SCIT anticipated that the existing fund could be able to support operation of the Schemes for a few years. He advised that the Administration would seek the Finance Committee (FC)'s approval on the recommendations to improve the Schemes at the latter's meeting scheduled for 24 January 2003. In order to address Mr SIN's concern, SCIT undertook to provide projection on the financial position of the Schemes for the next few years and the underlying assumptions in the paper to be submitted to the FC. SCIT added that the SMEC and the Administration would keep the Schemes under review in the light of implementing the new recommendations.

8. Mr CHAN Tze-ching, Convenor of the Roundtable SME Financing Working Group of SMEC stressed that the present recommendations had been put forward after careful consideration by the SMEC. He advised that about \$1 billion of the Government guarantee and subsidies approved for the Schemes had been granted so far. The SMEC estimated that the present level of funding could enable the Schemes to continue to operate for about five years. With implementation of the new recommendations, the Schemes could continue to operate up to end of 2004.

9. Mr CHAN Kam-lam supported the new recommendations on the Schemes to strengthen support for SMEs. However, given the past experience in implementing the Special Financing Scheme (SFS) for SMEs, Mr CHAN expressed concern about the repayment of loans under the BIG and suggested that the Administration should put in place measures to prevent the abuse of loans and the occurrence of default cases. Moreover, he opined that the Administration should carefully assess the eligibility of individual SMEs, in particular, their financial position, before approving the applications.

10. SCIT stressed that the BIG was different from the SFS, which was launched in 1998 and terminated in 2000. The current default rate of the SFS was 7.5%. On the other hand, the STF, EMF and SDF provided direct subsidies to the SMEs and did not involve any fund repayment. As regards the BIG, SCIT advised that since the scheme was launched in early 2002 and that successful applicants had not yet entered their loan repayment period, it would be too early to make an assessment on the scheme's default situation.

11. The Chairman supported the SMEC's recommendations on the Schemes. He enquired whether SMEs with their SFS applications rejected before could apply for the BIG. SCIT replied in the affirmative and anticipated that the proposed improvements on the Schemes would benefit more SMEs. Notwithstanding there were default cases, SCIT pointed out that the SFS had saved some 8 000 SMEs from collapse.

12. Pointing out that most business installations and equipment would have a life span less than five years, Mr SIN Chung-kai opined that it might not be appropriate to extend the guarantee period for BIG loans from three to five years. DGTI explained that in line with existing arrangement, all BIG applications would be vetted by the participating lending institutions in accordance with their professional judgement. The Government would then decide whether guarantee should be provided for the loans which the institutions intended to provide. It would be up to the lending institutions to decide, in respect of each loan application, whether the repayment period should be five years or less, after considering the merit of the case. DGTI added that as business installations and equipment were costly, an extension in the guarantee period could help reduce the financial burden on the SMEs.

Industries supported by the Schemes

13. Noting that most of the applications for the Schemes were from the manufacturing industry, the Chairman said that members had expressed concern about assistance available to the non-manufacturing industry, such as the service sector. Pointing out that only about 30% of the beneficiaries of the BIG were from the non-manufacturing industry, Mrs Selina CHOW asked whether the situation was due to insufficient publicity in promoting the Schemes to the non-manufacturing industry. DGTI replied that there was no restriction on industries which would be eligible for assistance under the Schemes. The Administration had arranged publicity through the media to promote the Schemes to SMEs in all industries. As regards promoting the Schemes to SMEs in the service sector, DGTI advised that the Administration had already stepped up its effort through liaison with the relevant trade associations to publicize the Schemes and invite applications from SMEs concerned. According to the Administration's record, most of the applications from SMEs of the non-manufacturing industry had been approved. Deputy Director-General of Trade and Industry explained that the lower number of BIG applications from the non-manufacturing industry might be attributed to less demand for business the installations and equipment from the SMEs concerned. Moreover, as loans applied by SMEs in the service sector were usually of small amount, their demand for credit facilities would be met by the lending institutions without resorting to the BIG. The Administration considered that extending the scope of the BIG to provide working capital loan guarantee would benefit more SMEs from the non-manufacturing industry.

14. Mr HUI Cheung-ching, Convenor of the Business Environment Working Group of SMEC urged the Administration to implement the SMEC's

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recommendations as soon as possible to provide timely assistance to the SMEs.

15. The Chairman concluded that the Panel noted the review and supported the SMEC's recommendations to improve the Schemes.

II Any other business

16. There being no other business, the meeting ended at 6:00 pm.

Council Business Division 1
Legislative Council Secretariat
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