立法會
Legislative Council

LC Paper No. FC60/08-09
(These minutes have been seen by the Administration)

Ref : CB1/F/1/2

Finance Committee of the Legislative Council

Minutes of the 3rd meeting
held at the Legislative Council Chamber
on Friday, 14 November 2008, at 3:15 pm

Members present:

Hon Emily LAU Wai-hing, JP (Chairman)
Prof Hon Patrick LAU Sau-shing, SBS, JP (Deputy Chairman)
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon LEE Cheuk-yan
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon Fred LI Wah-ming, JP
Dr Hon Margaret NG
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon CHAN Kam-lam, SBS, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP
Hon LEUNG Yiu-chung
Dr Hon Philip WONG Yu-hong, GBS
Hon WONG Yung-kan, SBS, JP
Hon LAU Kong-wah, JP
Hon LAU Wong-fat, GBM, GBS, JP
Hon Miriam LAU Kin-yee, GBS, JP
Hon Andrew CHENG Kar-foo
Hon TAM Yiu-chung, GBS, JP
Hon LI Fung-ying, BBS, JP
Hon Albert CHAN Wai-yip
Hon Frederick FUNG Kin-kee, SBS, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon Vincent FANG Kang, SBS, JP
Hon WONG Kwok-hing, MH
Dr Hon Joseph LEE Kok-long, JP
Hon Alan LEONG Kah-kit, SC

Hon LEUNG Kwok-hung
Hon CHEUNG Hok-ming, SBS, JP
Hon WONG Ting-kwong, BBS
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon KAM Nai-wai, MH
Hon Cyd HO Sau-lan
Hon Starry LEE Wai-king
Dr Hon LAM Tai-fai, BBS, JP
Hon CHAN Hak-kan
Hon Paul CHAN Mo-po, MH, JP
Hon CHAN Kin-por, JP
Hon Tanya CHAN
Dr Hon Priscilla LEUNG Mei-fun
Dr Hon LEUNG Ka-lau
Hon CHEUNG Kwok-che
Hon WONG Sing-chi
Hon WONG Kwok-kin, BBS
Hon WONG Yuk-man
Hon IP Wai-ming, MH
Hon IP Kwok-him, GBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Dr Hon PAN Pey-chyou
Hon Paul TSE Wai-chun
Dr Hon Samson TAM Wai-ho, JP

Members absent:

Hon Timothy FOK Tsun-ting, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon LEE Wing-tat
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP

Public officers attending:

Professor K C CHAN, SBS, JP	Secretary for Financial Services and the Treasury
Mr Stanley YING, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Ms Bernadette LINN, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) 1

Ms Elsie YUEN	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Miss Yvonne CHOI, JP	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)
Miss Vivian LAU	Acting Director-General of Trade and Industry
Miss Belinda KWAN	Assistant Director-General of Trade and Industry (Industries Support)

Clerk in attendance:

Mrs Constance LI	Assistant Secretary General 1

Staff in attendance:

Ms Anita SIT	Chief Council Secretary (1)4
Mr Simon CHEUNG	Council Secretary (1)1
Ms Alice CHEUNG	Senior Legislative Assistant (1)1
Mr Frankie WOO	Legislative Assistant (1)2

Action

Item No. 1 - FCR(2008-09)43

HEAD 181 - TRADE AND INDUSTRY DEPARTMENT
- **Subhead 700 General non-recurrent**

New Item "Special Loan Guarantee Scheme for Small and Medium Enterprises"

The Chairman said that under this item, members were invited to approve under Head 181 - Trade and Industry Department a new loan guarantee commitment of $7 billion with an expected maximum expenditure of $700 million for the Government to provide guarantee under a Special Loan Guarantee Scheme (SpGS) for Small and Medium Enterprises (SMEs) and to meet contingent liabilities arising from this guarantee.

2. Dr David LI declared an interest as the Chairman and Chief Executive of the Bank of East Asia, Limited.

3. At the invitation of the Chairman, Mr Vincent FANG, Chairman of the Panel on Commerce and Industry Panel (CI Panel), reported that at its meeting on 12 November 2008, the CI Panel had been briefed on two further measures to support SMEs, including the proposal for setting up the SpGS. Panel members in principle supported the proposal as a measure to ease SMEs' liquidity problem in the current financial crisis. However, some Panel members were worried that although the Government would provide up to 70% guarantee, banks would still adopt a very stringent approach in SME lending, making it difficult for SMEs to take out loans under the SpGS. While appreciating the need to put in place adequate safeguards to prevent abuse of the Scheme, Panel members hoped that banks would be accommodative and flexible in responding to SMEs' funding needs, and would endeavour to simplify the procedures and shorten the processing time so that the loans could reach the needy SMEs as soon as possible. Besides, since the Government would take up a major portion of the default risk for loans under the scheme, Panel members considered that banks should charge a lower interest rate for these loans.

4. Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) PS(CIT) thanked the CI Panel for its support. She remarked that the SpGS was meant to facilitate SMEs with liquidity problem in obtaining immediate cashflow relief from the commercial lending market. Under the scheme, the Government would provide up to 70% guarantee for loans up to a total amount of $10 billion to be provided by participating lending institutions (PLIs) for eligible SMEs. The maximum amount of loan that each SME might obtain would be $1 million, out of which the SME would be able to obtain a revolving credit line up to $500,000. The application period would last for six months starting from the date of implementation of the scheme. A grace period of six months would be allowed, during which borrowers might only repay the loan interests. Thereafter, the loan should be repaid over a maximum period of 24 months. PS(CIT) added that the Administration would continue to consult different parties and major stakeholders on further measures to assist SMEs to tide over this difficult period.

Implementation arrangements for the SpGS

5. Mr Ronny TONG sought clarification on the amount of funding commitment being sought for the SpGS. The Acting Director-General of Trade and Industry (DG of TI) advised that in accordance with section 28(1)(b) of the Public Finance Ordinance (Cap. 2), prior approval of the Finance Committee (FC) was required for the Administration to provide a guarantee involving any financial liability upon the Government. As the SpGS would cater for a maximum total loan amount of $10 billion and the Government would provide up to 70% guarantee for the loans, the total amount of Government's guarantee commitment will be $7 billion. With an assumed default rate of 10%, the expected maximum expenditure on the part of the Government was estimated at $700 million. For the sake of financial prudence, the Administration would not provide loan guarantee beyond the $7 billion commitment or when expenditure for settling default claims from PLIs was about to reach $700 million, whichever happened first. If there was a need to raise either the loan guarantee

commitment or the expenditure limit, the Administration would submit another proposal to FC for approval.

6. Mr Ronny TONG recalled that the Finance Committee had approved on 28 October 2008 some changes to the existing SME Loan Guarantee Scheme (SGS). He enquired how the SpGS was related to that scheme. Mr WONG Kwok-hing expressed concern that the maximum loan amount of $1 million might not be sufficient for SMEs to cope with their liquidity problem. Dr PAN Pey-chyou expressed the same concern.

7. In response, PS(CIT) advised that the SpGS was an additional support measure for SMEs and would be implemented concurrently with the SGS, under which each SME might obtain a maximum loan amount of $12 million with 50% Government guarantee for the approved loan.

8. On Mr WONG Kwok-hing's concern on whether the six-month application period for the SpGS was too short, PS(CIT) advised that the Administration would review the need for extending the application period in due course.

9. Mr CHAN Kam-lam said that the Democratic Alliance for Betterment and Progress of Hong Kong supported the present proposal. However, as the decision to grant loans under the SpGS still rested with banks, he was gravely concerned that it would still be difficult for SMEs to obtain loans under the current credit crunch. In this regard, he enquired whether the Administration would put in place an appeal mechanism whereby rejected loan applicants could seek a review of their loan applications by providing further proof of their creditworthiness. Furthermore, he hoped that the Administration would negotiate with the PLIs for a concessionary interest rate for loans under the scheme.

10. While expressing appreciation for the swift response of the Commerce and Economic Development Bureau in devising support measures for SMEs under the current financial crisis, Mr WONG Ting-kwong expressed concern about banks' tight lending policy towards SMEs and urged the Administration to closely monitor the situation and devise further measures to support SMEs.

11. In response, PS(CIT) said that there was no plan to set up an appeal mechanism to handle rejected applications under the SpGS. When consulted on the SpGS proposal, the banking industry indicated that with the Government providing up to 70% guarantee and thus taking up a major portion of the default risk, banks would be more forthcoming in offering loans to SMEs. At present, there were a total of 31 lending institutions participating in the existing SGS, and these lending institutions would likely participate in the SpGS. The Administration would encourage SMEs to discuss with different PLIs for credit facility. The Hong Kong Monetary Authority (HKMA) had recently issued a circular letter to banks urging them to adopt a supportive attitude towards their SME customers. On the issue of interest rates, she would relay members' view to the Hong Kong Association of Banks and HKMA for consideration.

12. Given the unprecedented magnitude of the current global financial crisis, Mr Paul TSE considered that vigorous measures should be applied to assist local SMEs in this very difficult period. As the Government was providing 70% guarantee under the SpGS, the Government should play a more active role in the operation of the scheme. Specifically, Mr TSE suggested that the Administration could set up a "shadow assessment agency" to monitor the granting of loans by PLIs. Meanwhile, the Administration should explore with the banking industry the idea of setting up a "one-stop service centre" to obviate the need for SMEs to approach PLIs one by one to enquire about and negotiate for the credit facility. Furthermore, to enable members to assess the effectiveness of the scheme, Mr TSE requested the Administration to submit regular progress reports at about two-month intervals after the implementation of the scheme, with information on the numbers of successful and unsuccessful loan applications (with a breakdown by business sectors), reasons for declining the loan applications, and defaulted loans etc.

13. In response, PS(CIT) said that the idea of setting up a "shadow assessment agency" by the Government might run contrary to the principle that the SpGS should be market-driven. The Government did not have the necessary expertise and thus had to rely on the PLIs to exercise their usual prudential professional judgement in assessing the SMEs' loan applications. PS(CIT) assured members that the Administration would Admin monitor the implementation of the SpGS closely and would provide the information requested by Mr TSE.

14. Mr LAM Tai-fai and Mrs Sophie LEUNG suggested that the Administration should raise the Government's guarantee ratio under the existing SGS from 50% to 70% and combine the SpGS with the SGS to simplify the application procedures. Mrs Sophie LEUNG also expressed grave concern about the exceptionally stringent lending policy of banks towards SMEs in recent months. She considered that banks in Hong Kong should set aside a reasonable percentage of the deposits collected locally to support local commerce and industries. The banks should not divert away local deposits for their credit services or other uses outside Hong Kong.

15. PS(CIT) responded that the two schemes were meant for different purposes. While the SGS was an ongoing scheme, the SpGS was a time-limited scheme set up specifically to facilitate SMEs to obtain immediate cashflow relief during the current financial crisis. She would relay Mrs LEUNG's other views to HKMA for appropriate follow-up action.

16. Dr Priscilla LEUNG welcomed the setting up of the SpGS to meet the immediate liquidity problem encountered by SMEs, and sought clarification on the risk sharing arrangement between the Government and PLIs in cases where collateral was required by PLIs for the loans granted under the scheme. In response, DG of TI and the Assistant Director-General of Trade and Industry (Industries Support) advised that PLIs might require collateral for the grant of a SpGS loan, but irrespective of whether the

loan was collateralized or not, any default loss was to be shared between the PLI and the Government at a fixed ratio of 30% to 70%.

Safeguards against abuse

17. While welcoming the proposed SpGS, Mr LAM Tai-fai expressed concern that the SpGS might not be able to achieve its objective of providing timely financial assistance for some 10 000 to 15 000 SMEs, as the requirements proposed by the Administration to safeguard against abuse, i.e. the requirements set out in paragraph 7 of the Administration's paper, might render the scheme very restrictive resulting in very low utilization of the available loans. He urged the Administration to take a bolder approach to assist SMEs in this very difficult time. He specifically suggested that the Administration should relax the personal guarantee requirement.

18. Mr TAM Yiu-chung echoed the view of Mr LAM Tai-fai. Citing the low default rates of 5.7% and 4.9 % of the two special loan guarantee schemes launched in 1998 and 2003 respectively, he considered that there might be room for relaxing the requirements on SMEs under the SpGS so as to benefit more SMEs with cashflow problems.

19. In response, PS(CIT) reiterated that the SpGS was a further support measure to address the short-term liquidity problem of SMEs. If approved by FC, it would operate concurrently with the existing SGS. While appreciating members' concerns, she remarked that it was necessary for the Administration to put in place necessary safeguards against abuse. Based on the discussions with the banking industry, the Administration understood that it was a common practice within the banking industry to require personal guarantee in offering loans. There was also a personal guarantee requirement under the special loan guarantee scheme implemented during SARS in 2003.

20. Mr Albert CHAN expressed discontent with the requirement that an SME must have no default in other banks in order to be eligible for a SpGS loan. He questioned the reasonableness of the definition of "default" adopted by the Administration, i.e. the failure to make repayment in accordance with the terms and conditions of the approved credit facilities with a lapse of more than 60 days after the due date. He cautioned that given such a definition of "default", even a creditworthy SME which had "defaulted" once (e.g. repayment on the 61st day) in the past would not be eligible for a SpGS loan. He urged the Administration to revise the definition of "default" so as to render effective cashflow relief to those SMEs in genuine need.

21. In response, PS(CIT) said that while the Administration would wish to assist SMEs as far as possible, the Administration had to exercise prudence in the use of public funds. The same requirement on SMEs of having no default in other banks had also been adopted for the special loan guarantee scheme implemented during SARS in 2003. DG of TI added that the same definition of "default" was commonly used within

the commercial and banking sectors, and was adopted by the Commercial Credit Reference Agency for its commercial credit data bank.

22. Mr WONG yuk-man echoed the concern of Mr Albert CHAN and criticized the Administration for placing unreasonable hurdles for SMEs under the SpGS. He considered that in comparison with other neighbouring places such as Dongguan and Macau, Hong Kong had acted in the most conservative manner and hence failed to provide timely assistance to SMEs and needy Hong Kong people under the current financial turmoil.

23. In view of members' concern that the safeguards built in the SpGS to prevent abuse might be restrictive, the Chairman requested and the Administration agreed to include details of the rejected applications in its progress reports on the SpGS. Admin

24. Mr. LEUNG Kwok-hung expressed reservations about the present funding proposal. He commented that the SpGS would only benefit the banks and the better-off enterprises which would be invited by the banks to apply for loans they did not really need. He also urged the Government to step up control over banks' involvement in speculative financial products such as Accumulators and Equity-linked Notes.

25. Dr Priscilla LEUNG enquired about the measures to prevent SMEs from using the credit facility to engage in speculative activities. PS(CIT) advised that similar to the arrangement for the existing SGS, there would be provisions in the deed to be signed between the Government and PLIs which specified that the borrower was required to use the loan solely for meeting the needs of general business uses.

26. Mr James TO referred to the proposed safeguard set out in paragraph 7(d) of the Administration's paper that the loans should not be used for repaying, restructuring or repackaging other loans. He expressed concern that the requirement might be too rigid, as there could be circumstances that an SME borrower had no other choice but use part of the SpGS loan to repay other outstanding loans during the SpGS loan repayment period. Mr TO expressed doubt about the effectiveness of the requirement for personal guarantee as a safeguard against abuse as set out in paragraph 7(a) of the Administration's paper. He pointed out that a major shareholder of an SME operating as a limited company might be rich enough to support the SME to overcome the liquidity problem but did not hold more than 50% of the equity interest of the company. However, the SME in this case could still apply for a loan under the SpGS, although the scheme was not intended to benefit such an SME.

27. Regarding the safeguard set out in paragraph 7(d) of the Administration's paper, PS(CIT) pointed out that the same requirement had already been put in place in the existing SGS pursuant to Director of Audit's recommendations made in respect of the special loan guarantee scheme launched in 1998. However, the Administration would take into account the concerns raised by Mr TO when drawing up the deed to be signed with PLIs to avoid putting SME borrowers of the SpGS loans in a disadvantaged position in complying with the terms of the credit facility.

28. Mr CHAN Mo-po welcomed the present proposal but considered that there was room to fine tune the proposed safeguards against abuse set out in paragraph 7 of the Administration's paper. He shared Mr TO's concern about the safeguard set out in paragraph 7(d) of the Administration's paper. He opined that the safeguard should aim at preventing PLIs from making use of the SpGS to settle outstanding loans of their SME customers, and this should be reflected in the deed between the Government and PLIs for the SpGS. He also shared the view that it might be unduly harsh to require SME to have no default in other banks in order to be qualified for the loan. He considered that the "default" requirement should target only at those SMEs with poor credit records. As regards the personal guarantee requirement, he had reservations about requiring a shareholder holding substantial equity interest but was not involved in the actual operation of the SME concerned to provide personal guarantee. Instead, he considered that the shareholder(s) manning the actual operation of the SME should provide personal guarantee.

29. Sharing the concern over the rigidity of the requirements of the SpGS, Dr Priscilla LEUNG suggested that the Administration could, through the provisions in the deed to be signed with PLIs, allow the senior management of PLIs to exercise discretion to relax the requirements where necessary.

30. In response, PS(CIT) pledged to refine the implementation arrangements where appropriate and feasible, but appealed for members' support for early implementation of the SpGS to enable SMEs to obtain immediate cashflow relief.

Utilization of previous loan guarantee schemes

31. Mr TAM Yiu-chung and the Chairman sought information on the two special loan guarantee schemes launched during the Asian financial crisis in 1998 and SARS in 2003 respectively. In reply, PS(CIT) and DG of TI advised that for the 1998 scheme under which the Government provided up to 70% loan guarantee for SMEs in all business sectors, FC had approved a total loan guarantee commitment of $5 billion. The application period had lasted for 20 months, and there were about 12 000 successful applications. The default rate was 5.7%. For the 2003 scheme under which the Government provided up to 100% loan guarantee for enterprises in four specific sectors, the approved loan guarantee commitment was $3.5 billion. The application period had lasted for three months from May to July 2003, and some 1 500 applications had been approved involving an aggregate loan amount of about $500 million. The default rate was 4.9%. The relatively small number of applications in the 2003 scheme might be attributed to the fact that the SARS outbreak was much relieved from May 2003 onwards.

32. Mrs Regina IP considered that it would be helpful if the Administration could provide more details of the two special loan guarantee schemes, such as the numbers of approved and rejected applications with a breakdown by trades or industries. PS(CIT) and DG of TI agreed to follow up with the responsible

Admin

bureaux/departments to provide the requested information, but remarked that the bureaux/departments might not have kept information on the rejected applications.

Assumed default rate adopted for the Scheme

33. Miss Tanya CHAN enquired about the respective default rates assumed for the two previous loan guarantee schemes implemented in 1998 and 2003 and the existing SGS. DG of TI advised that the Administration did not include an assumed default rate in the proposals to FC for the two loan guarantee schemes implemented in 1998 and 2003. For the existing SGS, the Administration had adopted an assumed default rate of 7.5%. Miss Tanya CHAN expressed concern that by assuming a default rate of 10% for the SpGS, the Administration might have over-estimated the default risk of SMEs under the scheme and thus proposed to build in the relatively stringent safeguards. She concurred with other members that there was a need to closely monitor the effectiveness of the SpGS, in particular the situation of rejected applications.

34. In response, PS(CIT) advised that the assumed default rate of 10% was for planning purpose and was adopted having regard to the uncertainties, both over the economic outlook and SMEs' behaviour or business performance. If the actual default rate was greater than 10% and thus the expenditure limit of $700 million for settling default claims from PLIs was reached earlier than the loan guarantee commitment of $7 billion, the Administration would consider whether FC's approval should be sought for raising the expenditure limit. She further advised that in devising the safeguards against abuse for the SpGS, the Administration had drawn reference from the loan guarantee schemes implemented in the past and had discussed with chambers of commerce and SME associations. She however agreed to take into consideration members' concerns in devising further support measures to assist SMEs.

Further support measures

35. Mr Vincent FANG said that he supported the proposed SpGS. He pointed out that while the beauty trade was engaging a large number of young and energetic operators, their operating environment had been very difficult partly because banks had adopted a 60 to 90-day settlement period for credit card transactions for the trade. While the Administration had informed members that some banks had shortened the settlement period to 14 days for certain merchants, he understood that the settlement period for the beauty trade still stood at 60 to 90 days. He thus urged the Administration and HKMA to step up their efforts in this regard. Besides, he was concerned that the media was painting a rather gloomy picture of the economy and, by doing so, would deter the Hong Kong people from spending money. It was hence necessary for the Administration to organize promotion programmes to cheer up the community and to stimulate the economy. As a more long-term measure, he asked whether the Hong Kong Export Credit Insurance Corporation (HKECIC) would set up a credit data bank in respect of local companies not engaged in the export trade. He considered that such a credit data bank would facilitate SMEs to obtain credit facilities from banks.

36. In response, PS(CIT) pointed out that the collection of credit information on local companies not involved in the export trade fell outside the purview of HKECIC. She would however relay Mr FANG's suggestion as well as his concern about the credit card transaction settlement period to HKMA for follow-up actions. She also undertook to relay Mr FANG's views concerning stimulation of local economy to the relevant inter-departmental task force led by the Financial Secretary for consideration.

37. Dr Priscilla LEUNG commented that in the present economic situation, it was necessary for the Administration to boost the confidence of Hong Kong people and to promote local consumption.

38. Mr WONG Kwok-hing expressed support for the proposed SpGS. While he was sympathetic with the financial difficulties faced by many SME employers, he hoped that they would look after the interests of their employees and would not resort to layoffs or effecting substantial salary cuts.

39. Dr PAN Pey-chyou said that as his prime consideration was in the protection of jobs, he would suggest that flexibility be built into the SpGS such that the loan ceiling and the Government guarantee percentage could be adjusted based on number of jobs being offered by the SME or the labour-intensiveness of the business establishment.

40. In response, PS(CIT) said that SMEs constituted 98% of the business establishments in Hong Kong, and 80% of the SME applicants under the SGS were employing less than 10 employees in Hong Kong. The Administration did not wish to confine the application of the SpGS to enterprises in specific sectors or industries, so that the greatest flexibility was provided to PLIs in offering loans to eligible SME in need of cashflow relief. She however added that the Administration could consider the factor raised by Dr PAN in devising further measures to assist SMEs.

41. The Chairman put the item to vote. The Committee approved the proposal.

42. The meeting was adjourned at 5:03 pm.

Legislative Council Secretariat
6 February 2009