

October 28, 2009

By fax and email

To: **Hon Emily Lau Wai-hing**
Chairman of Finance Committee

Re: Submission to the members of Finance Committee for meeting
Date: October 28, 2008
Time: 4:30 p.m.

Dear Hon Emily Lau,

We refer to document no. FCR(2008-09) 42 on SME Loan Guarantee Scheme and SME Market Development Fund to submit our view as follow:

We are of the view that the proposal in document FCR(2008-9) 42 is a step in the right direction in helping SME in the long run. To ease the financial pressure on SME in the current financial turmoil, however, we are of the view that it is not adequate and SME in our suppliers trade and SME in general would have minimal benefit from it, if any.

1. SME Loan Guarantee Scheme

The Administration did not address the most important point under the current severe financial crisis that the banking industry is unwilling to extend loan even with the guarantee when they have to absorb 50% risk.

The Administration cited in the panel on Commerce and Industry held on October 27, 2008 that over 20,000 guarantee had been made since 2001 as an evidence that 50% guarantee had been working under the existing SME Loan Guarantee Scheme. And, the increase of upper limit on loan guarantee to \$6 million would help ease the financial pressure on SME. It will be interesting to ask the Administration on a plot of correlation between economic condition and successful applications/month from 2001 to today. There have been ups and downs since 2001. We would not be surprised to see:

- i. Successful application would be high under normal or good economic conditions and when the banks have lot of money to lend.
- ii. Successful application would be low under unfavourable condition such as SARS period when SME is most in need of money.

It is common sense that under healthy financial circumstance, bank will be more than willing to use the Scheme as an additional security and there had been periods of healthy and sound economy in Hong Kong since 2001 up to today. The 20,000 guarantee made is not an evidence of the success of the scheme.

The reality is bankers are reluctant to take risk on 50% of the loan to help the borderline loan approval for SME that are greatly in need of cash flow to get by this temporary crisis.

For the Scheme to work, **the Administration must have additional provisions for the bank to make loan available to viable SME** under the current financial situation. **The key is to help viable SME that have a chance to recover.** We are not asking the Administration to pass out money unconditionally. **We are only asking the Administration to make the scheme useful and practical under the current crisis situation that help are urgently needed.** The current proposal would certainly help SME under healthy financial condition, but we are not there now.

2. The Export Market Development Fund

The fund is to assist export business. Firstly, we would like to point out that **this fund will not help the supply trade and retail trade that provide goods and service for local consumption.** Relaxing the requirement and increasing assistance to Export Market Development Fund is certainly welcomed by SME. Assistance to SME in the current financial turmoil, however, is minimal. The SME may be forced out of business and there is nothing to develop. It will assist surviving SME with export business to recover **after** the financial turmoil. Our question is **“what assistance would be given to SME not in the export business to recover?”**

Our submission to the Panel on Commerce and Industry is enclosed for your information.

Thank you for your attention

Yours truly,



Albert Tang
Chairman
Hong Kong Suppliers Association

Our Association represents the companies that supply goods to the local retail trade. The financial tsunami just hits Hong Kong. The banking industry tightening up credit is just the beginning of impact to our trade. The full impact and damage is yet to come. The tsunami will come and go; leaving behind many “dead” small and medium size suppliers. If the Administration is really intended to help these SME, now is the time and please stop wasting time on promoting on TV on how we can “turn danger into opportunities”. It is extremely irritating to hear such comments when we cannot see any opportunities and you cannot point out what are the opportunities. You, the Administration, are not helping us. You are not the ones that are suffering. If what you are proposing come from a group of expert on the subject, they are not the expert since what you are proposing so far will not help SME.

For example, the recently well publicized “gesture” of revising the condition on SME Loan Guarantee Scheme to increase the guarantee on working capital from \$1 million to a maximum of \$6 million is either the one that proposed such revision or the Administration is not aware of the reality. In the worst case, the Administration is intended to mislead the public on effort has been made to help the SME, but in fact it is not. It is now common knowledge that the Administration is only guaranteeing 50% of the loan. The bank is at risk for 50% and who knows what bureaucratic procedure is required to get the 50% guaranteed by the Administration if the loan is not paid up by the SME. The bank would not even lend out \$1 million, what is the purpose of increasing it to \$6 million? The financial turmoil is here in Hong Kong and the Administration is giving us false hopes.

An important point we would like to emphasize here and very much would like to put it in record is that, as representative of the supplier trade that supply the local retailer, **we are very disappointed that the Administration had never done anything to help the SME in the wholesales and retail sector that mainly supply goods to the local 7 million resident of Hong Kong.**

The instruments now in place to help SME are tailored for the export trade. Examples included the SME Loan Guarantee Scheme, the SME Development fund, the export credit insurance are all tailored to help export SME.

Today, our focus is on short term measure to help SME suppliers get by the financial tsunami.

The two biggest asset in the accounting book of small and medium size suppliers is inventory and account receivable since they don't have much equipment and machinery or property. Inventory is mainly financed by the bank. Receivable is credited we must extend to the retailer or there is no business. In general, our trade need to keep two to three months inventory and extend two to four months credit to retailers. The Administration can imagine the cash flow problem on inventory when sales slow down due to the financial turmoil and bank refusing to extend credit or even tightening up credit. The Administration can also imagine the cash flow problem when retailers delay payment

or, in the worst case and what suppliers are most afraid of, non-payment due to retailers' insolvency.

The closure of Tai Lin is only a tip of the iceberg. SME suppliers are most afraid of the bankruptcy of large and reputable retailers. Since such large retailers probably account for a very large share of their business. In 2001, the insolvency of Guangnan (KK) Supermarket had caused great hardship to SME suppliers. Many ran out of business because of it, but went unnoticed by the public since it has no news value when these small companies go out of business one by one.

To help SME suppliers, we urge the Administration to take immediately temporary action for the following:

1. Extend the export credit insurance scheme to cover local sales:
The scope and the form of insurance would be differed from the export credit insurance. The Administration should immediately form a working committee with the trade, expert and legislators to implement a local sales credit insurance scheme for no less than 2 years with consideration to make it a long term insurance scheme for suppliers of local trade.
2. Make the SME Loan Guarantee Scheme really useful for the trade for at least two years:
The Administration should negotiate with the banking industry on a % guarantee that the bank would be willing to make the loan to SME. As an alternative, the Administration can make the loan to SME instead of just as a guarantor.
3. Implement urgent measure to ensure that the bank is not tightening credit, Trust Receipt terms or increasing financial burden to the trade without proper reasoning.

The immediate and short term objective is to help viable SME to get by this financial turmoil.

It is outside the scope of this submission and we will not go into details but only stated that the Administration not only had not help SME suppliers and had time after time impose new regulations on the trade that unintentionally cause great hardship to the SME suppliers. If the trend continues, there will not be SME suppliers remaining in Hong Kong. The long term objective is for the Administration to implement policy to help local wholesales and retail SME.

End of submission

Hong Kong Suppliers Association