

## **ITEM FOR FINANCE COMMITTEE**

### **LOAN FUND**

#### **HEAD 275 - SMALL AND MEDIUM ENTERPRISES**

##### **Subhead 101 Special finance scheme for small and medium enterprises**

Members are invited to approve changes to the Special Finance Scheme for Small and Medium Enterprises.

### **PROBLEM**

We have reviewed the operation of the Special Finance Scheme for Small and Medium Enterprises (the Scheme). We need to decide whether to implement the changes recommended in the review.

### **PROPOSAL**

2. We propose to adopt the recommendations made in the review of the Scheme as summarized in paragraph 5 below.

### **JUSTIFICATION**

#### **The Review**

3. The Government has been closely monitoring feedback on the Scheme since its launch in August 1998. In December 1998, we embarked on a comprehensive review to assess the feedback and to examine ways to improve the operation of the Scheme. As part of the review, we have conducted three surveys to gather the views of successful applicants, participating lending institutions (PLIs) and Small and Medium Enterprises (SMEs) which have not made use of the Scheme or have failed to obtain credit facilities under the Scheme. We have

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also consulted the major political parties as well as a number of bankers. The detailed findings of the review and our recommendations are set out in the report at Enclosure 1.

4. In general, we have found that, for successful SME applicants, the Scheme has achieved its objective of helping them obtain loans from lending institutions. Although the liquidity problem has eased in the past few months, the need for financing assistance remains strong because of the recession. However, it seems that PLIs tend to remain over-cautious, thus making it very difficult for many SMEs to obtain financing under the Scheme. There are calls to revise the Scheme to induce the PLIs to lend to SMEs more readily.

5. The review report has made the following recommendations -

- (a) the operation of the Scheme should continue;
- (b) the four existing underlying principles, viz., market-driven basis, risk-sharing, risk-capping and administrative simplicity, should continue to apply;
- (c) the assessment of applications should continue to be conducted by the PLIs;
- (d) the risk-sharing ratio between the Government and the PLIs should be revised from the present 50:50 split to 70:30;
- (e) the maximum guarantee limit of \$2 million should remain unchanged;
- (f) the current one-year maximum guarantee period should be extended to two years;
- (g) the requirement for the PLIs to declare that the applicant has not missed loan repayments to the PLIs for more than 60 days after the due date in the past 12 months should be removed; and
- (h) additional injection into the Scheme is unlikely given the temporary nature of the Scheme. The longer term question of assistance for SMEs should be dealt with separately.

**/Consideration .....**

## Consideration

6. As regards the *continued operation of the Scheme*, we have from the beginning made it clear that the Scheme will not be a permanent measure. Nonetheless, while the liquidity problem of the banks may have eased, for many firms the difficulty of obtaining financing has remained due to the overall economic climate and the drastic decrease in collateral values. There is therefore a need for the Scheme to continue for the time being. In keeping with the short-term nature of the Scheme, the current *underlying principles*, with the *PLIs assessing the applications*, should remain in place.

7. As regards the *risk-sharing ratio*, the overwhelming majority of the SMEs and other parties consulted consider the current ratio of 50:50 as the single most important impediment to the PLIs extending loans to SMEs. At the same time, we are aware of the concern that we should not increase the Government's share of the risk only to benefit the PLIs. We need to strike a balance between encouraging lending to SMEs and safeguarding the proper use of public money. We believe that the proposed 70 (Government) : 30 (PLIs) ratio would not excessively tilt the balance. The PLIs would still have to look after their own share of the risk. With the new risk-sharing ratio, the maximum guarantee limit of \$2 million will effectively cap the maximum loan available to SMEs at \$2.86 million (\$2 million being 70% of \$2.86 million) compared with the current effective cap of \$4 million<sup>1</sup>. However, in view of the relatively small size of the Government guarantee required so far for the successful applications (less than \$1 million on average), we believe that the *maximum guarantee limit* of \$2 million would remain sufficient even when the risk-sharing ratio is changed.

8. As regards the *maximum guarantee period*, we have received many representations that it is too short. While extending the guarantee period could lead to a reduction in the number of beneficiaries under the Scheme, we consider that the change would enable the Scheme to expand its scope of assistance to cover those SMEs requiring loans of longer duration. On balance, we recommend that the maximum guarantee period be extended to two years to provide greater flexibility.

9. The *60-day declaration requirement* has been introduced as a means to discourage the PLIs from off-loading bad loans on to the Scheme. As the Deed between the Government and the PLIs already requires the latter to assess the

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<sup>1</sup> There is no Government-imposed cap on the loan size.

applications on a prudent basis, this declaration requirement is no more than an information-gathering device. So far, except for one case, we have approved all cases declared by the PLIs under the 60-day declaration requirement. It is therefore doubtful whether this requirement serves any useful purpose. More importantly, it is clear from the representations we have received that this requirement has become a disincentive for the PLIs to make full use of the Scheme. We therefore suggest to remove this requirement.

10. Given the temporary nature of the Scheme, additional funding is unlikely in the near future. Government's commitment under the Scheme should remain at \$2.5 billion. Nonetheless, we are looking into various possibilities to provide assistance to SMEs on a longer term basis. We shall consult interested parties when more concrete proposals are available.

11. We believe that the proposed changes outlined above should make the Scheme more user-friendly and provide a greater incentive for the PLIs to extend loans to SMEs while still upholding the market driven principle.

## **FINANCIAL IMPLICATIONS**

12. The proposed changes to the Scheme will involve no additional funding or staffing requirement. The proposed increase in the risk-sharing ratio could induce more PLIs to extend loans to SMEs, thus increasing the rate at which the funding of the Scheme is drawn down. In the event of default payment by approved SME borrowers, the Government would have to meet larger claims arising from the proposed increase risk-sharing ratio.

## **BACKGROUND INFORMATION**

13. As part of the package of special relief measures announced by the Government on 22 June 1998, the Scheme aims to help SMEs to cope with the liquidity crunch problem and to secure bank loans to meet genuine commercially viable business needs. On 31 July 1998, this Committee approved a financial commitment of \$2.5 billion for the establishment of the Scheme. The Scheme was launched on 24 August 1998. Under the Scheme, the Government acts as the guarantor, in respect of each approved loan, for up to 50% of the approved loan or \$2 million, whichever is the less, for up to 365 days.

14. As of 8 April 1999, we received a total of 1 335 applications under the Scheme. All except one was approved. However 21 applicants subsequently withdrew their applications. Three default cases was registered. The cumulative guarantee and the loan involved amounted to \$777 million and \$1,585 million respectively. The detailed statistics showing the various aspects of the performance of the Scheme as of 8 April 1999 are set out at Enclosure 2.

Encl. 2

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Trade and Industry Bureau  
April 1999

**Review on the Special Finance Scheme  
for Small and Medium Enterprises**

**Purpose**

This paper reports on the findings of a review of the Special Finance Scheme for Small and Medium Enterprises (SMEs).

**Background**

2. The Special Finance Scheme for SMEs was launched on 24 August 1998 as one of the Government's initiatives to ease Hong Kong's liquidity crunch problem. The objective of the Scheme is to help those SMEs that are creditworthy, have good track record and business prospects to obtain adequate financing from lending institutions. The Government approved a total commitment of \$2.5 billion for the Scheme.

3. Under the Scheme, the Government acts as a guarantor for loans to SMEs approved by participating lending institutions (PLIs). The maximum amount of guarantee offered by the Government to assist each enterprise is \$2 million or 50% of the approved loan, whichever is the less. The guarantee period is up to a maximum of 365 days. The PLIs are expected to exercise prudent professional judgment in assessing loan applications.

4. Since the inception of the Scheme, the Government has received comments on it from various interested parties. In his Policy Address delivered in October 1998, the Chief Executive announced that the Scheme would be reviewed in early 1999 to decide whether and how improvements need to be made.

## Review

### Aim

5. The aim of the review is to assess:
  - (a) whether the Scheme has met its intended objective; and
  - (b) whether and how improvements to the Scheme should be made.

### Scope

6. The scope of the review covers:
  - (a) progress of implementation of the Scheme;
  - (b) public response to the Scheme and its receptiveness;
  - (c) underlying principles of the design of Scheme;
  - (d) main features of the Scheme including eligibility criteria, maximum guarantee period, size of guarantee, risk-sharing ratio, matching deposit arrangement, responsibility for assessment of applications and administration of the Scheme;
  - (e) effectiveness of the Scheme; and
  - (f) formulation of recommendations.

### Methodology

7. The Government has examined the statistics on the progress of implementation of the Scheme and also opinions expressed by PLIs, SMEs, politicians and concerned industrial and trade organisations. Three surveys were conducted to collect the views of:

- (a) 510 applicants that have successfully obtained loans from the Scheme up to 30 November 1998 [the sample questionnaire is at [Annex A](#)];
- (b) 150 other SMEs that have not made use of the Scheme or have failed to obtain credit facilities under the Scheme [the sample questionnaire is at [Annex B](#)]; and
- (c) all the 77 PLIs [the sample questionnaire is at [Annex C](#)].

8. The response rates of the three surveys are as follows:

<b><u>Target</u></b>	<b><u>Sample Size</u></b>	<b><u>Response</u></b>	<b><u>Response rate</u></b>
Successful Applicants	510	223	43.7%
Other SMEs	150	16	10.7%
PLIs	77	50	64.9%

9. The Industry Department has received a number of written submissions. In response to the invitation from the LegCo Panel on Trade and Industry, a number of SMEs and organisations have also submitted their views on the Scheme to the Panel. All these views have been taken into consideration in the review. A list of the concerned organisations / individuals is at [Annex D](#).

## **Progress of Implementation**

### *Participation of Lending Institutions*

10. All the authorised institutions (AIs) under the Banking Ordinance were invited to join the Scheme on a voluntary basis. Up to now, a total of 76 AIs are participating in the Scheme. Among them, 52 have made referrals to the Scheme.

### *Approval of Applications*

11. Up to 15 March 1999, a total of 1 152 cases had been received. Apart from 18 cases withdrawn by the PLIs, all the remaining 1 134 cases were approved. The total amount of Government guarantee commitment



was \$706.13 million vis-à-vis a loan amount of \$1,437 million. The guarantee commitment constituted 28.2% of the total commitment of \$2.5 billion. The beneficiaries included companies of different sizes from different industrial sectors. Detailed statistics are at Annex E.

### Interest

12. The interest charged by PLIs on the guaranteed loans could broadly be classified into three types : fixed interest rates, prime-linked rates and other combinations of Hong Kong Inter-bank Offering Rate (HIBOR) and prime rate. Breakdowns are at Annex F.

### Default

13. Up to 15 March 1999, the Government has received no claim for default. However, Director of Accounting Services has been alerted of fifteen possible cases of default payment forthcoming.

### Matching Deposits

14. The Government and the PLIs have agreed that the spread between the interest a PLI charges a successful applicant for a loan and the interest the PLI pays to the Government for the corresponding deposit should be 3%. Up to 15 March 1999, a total of 138 cases had demanded deposits from the Government. The deposit amounted to \$154.93 million.

## **Underlying Principles of Design of Scheme**

15. Before we evaluate the opinions gathered and suggestions received, we have re-examined the underlying principles of the design of the Scheme. We are of the view that all the following four principles should continue to be adopted :

**(a) Market-driven**

The market-driven principle is coherent with our policy of maintaining a free economy with minimum intervention. In view of the need to safeguard the proper use of public money, it remains our view that only creditworthy and viable SMEs should be provided with assistance from the Scheme

**(b) Risk-sharing**

Risk-sharing is the best way to ensure that the Scheme is not abused since PLIs have a stake as well. However, whether or not the risk-sharing ratio should remain at 50:50 would be separately addressed below.

**(c) Risk-capping**

Since the Government commitment is capped at \$2.5 billion and our aim is to assist as many SMEs as possible, there should be a need to continue imposing a cap per enterprise. Such a cap could also help ensure that mainly SMEs would benefit from the Scheme and restrict the Government's risk exposure to any individual applicant.

**(d) Administrative simplicity**

Administrative simplicity should be built in to facilitate applicants of the Scheme and minimise the transaction cost involved.

## **Evaluation of Opinions Gathered**

### *Publicity*

**(A) Opinions Gathered**

16. Our survey findings suggest that publicity of the Scheme was generally adequate. All (100%) of the SMEs that responded to our survey were aware of the Government's Scheme. This was echoed by the surveys conducted by the Federation of Hong Kong Industries (FHKI) and the Hong Kong Chamber of Small and Medium Business (HKCSMB). The survey

by the FHKI found that 94% of respondents were aware of the Scheme whereas survey by the HKCSMB found that 71% of the respondents were aware of one or more PLIs under the Scheme.

17. The outcome of our survey indicates that successful applicants learnt about the Scheme mainly from:

- their lending institutions (39%);
- newspaper reports (34%); and
- advertisements on television (32%).

Other SMEs mostly learnt about the Scheme from newspaper reports (63%).

18. On the other hand, some SMEs still had some misunderstanding concerning the Scheme. 56% of the responded PLIs expressed that their clients did not fully understand the Scheme. Common areas of misunderstanding included:

- given Government's guarantee, loan applications would be easily approved irrespective of outcome of credit assessment;
- the Scheme would provide emergency funding to SMEs facing financial difficulty;
- the Scheme would finance new business start-up; and
- financing would come from the Government direct.

## **(B) Evaluation**

19. The Scheme has been widely publicised and successfully drawn the attention of SMEs. However, some SMEs have a misconception on the Scheme, such as the Scheme is an unconditional funding Scheme.

### Application Procedures

#### **(A) Opinions Gathered**

20. The application procedures were regarded as well designed:

- 94% of the responded PLIs considered the application procedures simple and easy to comprehend;
- 78% of the responded PLIs considered it not necessary to make any changes to the application procedures;
- 82% of the responded PLIs considered it not necessary to make any changes to the application forms.

**(B) Evaluation**

21. The application procedures have received no major criticism. We should maintain the current practice as far as possible to minimise the need for PLIs to familiarise themselves with any new procedures.

Assessment of Applications

**(A) Opinions Gathered**

22. The outcome of the survey with successful applicants reflected that lending institutions had generally assessed the loan applications in a comprehensive manner :

- 93% of the responded successful applicants believed that lending decisions were made based on an assessment of various factors such as track record, creditworthiness, business prospects, etc, instead of solely on one single factor such as the availability of collateral;
- 67% of the responded successful applicants expressed that the lending institutions did not request full collateral backup for their credit facilities.

However, there were comments from other quarters that the PLIs considered loan applications largely on the availability of collateral, whose value had depreciated substantially due to the economic adjustment.

**(B) Evaluation**

23. Successful applicants generally considered that their applications had been assessed comprehensively by PLIs. However, there are different views expressed calling for more Government involvement in the assessment.

24. While the predicament of many SMEs is understandable, many of the suggestions on increased direct Government involvement are not entirely practical.

25. Under the market-driven principle, PLIs are best positioned to assess the creditworthiness of SMEs. The Government has no expertise to conduct loan assessments. Setting up a new body or engaging an independent body to do second vetting would likely slow down instead of speed up the application process. The resource implications are also considerable.

### **Risk-sharing ratio**

#### **(A) Opinions Gathered**

26. There were comments that PLIs were not interested in extending credit facilities to SMEs under the Scheme as the Government's share of risk was not high enough:

- 68% of the responded PLIs considered the current risk-sharing ratio of 50:50 between the Government and PLIs not acceptable.

27. Suggestions on raising the risk-sharing ratio ranged from 60% to 100% but many suggestions favoured a 70:30 ratio between the Government and the PLIs.

#### **(B) Evaluation**

28. The risk-sharing ratio of 50:50 is regarded as too conservative by many SMEs and PLIs. Due to depreciation of property value, many SMEs have found it difficult to provide sufficient security to back up their loans, even if the loans are 50% guaranteed by the Government. Many PLIs have been criticised of failing to understand the unique business nature of individual sectors/companies, and considering only their security available but not business prospects.

29. To induce PLIs to extend more loans to SMEs, there is a case to raise the risk-sharing ratio from the current 50% to a higher level. On the other hand, if the Government were to shoulder too high a share, it would run the risk of encouraging over aggressive lending and may eventually incur huge loss for Government. To strike a balance and to safeguard the proper use of public money, it appears that a 70:30 share between the Government and PLIs would be appropriate. This ratio is considered prudent and appropriate compared to similar schemes in Singapore, U.S. and Taiwan (see Annex G).

30. In raising the risk-sharing ratio, the Government's actual risk exposure per loan application might be increased. However, given that there is a maximum guarantee limit of \$2 million per enterprise, the Government's maximum risk exposure per company remains the same. Statistics on actual usage of the Scheme reflect that the average loan size per applicant was only \$1.38 million and the average guarantee size was \$0.68 million

#### Maximum Guarantee Limit

##### **(A) Opinions Gathered**

31. It was considered that the \$2 million maximum limit per applicant was reasonable and generally adequate for financing SMEs:

- 67% of the responded successful applicants considered that the \$2 million limit reasonable;
- 52% did not support an increase of guarantee limit if this would cause fewer companies to benefit from the Scheme;
- 92% of the responded PLIs considered the maximum guarantee amount reasonable.

32. Despite the fact that the current maximum limit was generally supported, there were also some suggestions on linking the maximum limit for each applicant with the number of employees of that company or with the past record of its tax payment or networth.

**(B) Evaluation**

33. The maximum guarantee limit is largely regarded as reasonable by SMEs and PLIs. Statistics on actual usage of the Scheme also reflect that the average loan size and guarantee commitment per applicant were \$1.38 million and \$0.68 million respectively. It appears that there is no need to raise the maximum guarantee limit. Further raising the maximum limit, if coupled with raising the risk-sharing ratio, might have the effect of substantially increasing the Government's exposure on a per company basis.

*Maximum Guarantee Period***(A) Opinions Gathered**

34. The current maximum guarantee period of 365 days was generally considered inadequate for SMEs in obtaining loans:

- 73% of the responded successful applicants considered the current maximum guarantee period insufficient;
- 65% supported an extension of the guarantee period even if this would cause fewer companies to benefit from the Scheme;
- 78% of the responded PLIs thought that the 365 days of maximum guarantee period inadequate for SMEs in obtaining financing.

35. Suggestions on raising the maximum limit ranged from 18 months to five years or more but most respondents considered a maximum of 2 to 3 years most helpful. There was also suggestion on introducing a flexible maximum guarantee period by allowing PLIs to exercise their discretion to renew the guarantees upon maturity.

**(B) Evaluation**

36. The 365 days maximum guarantee period was generally regarded as too short for SMEs and many critics called for a longer guarantee period. Statistics of usage of the Scheme reflect that about 60% of the cases had a maturing period shorter or equal to one year, 16% of the approved cases had a maturity period between 1 and 2 years and another 24% had a maturity period of over 2 years. A longer guarantee period could enable applicants

to negotiate more flexible repayment schedule with the PLIs, thereby relieving their liquidity pressure.

37. The other side for consideration of extending the maximum guarantee period is the slowing down of the recycling of funds under the Scheme. This would have implications on the number of SMEs that could benefit from the Scheme. However, having considered the actual experience of operating the Scheme, it appears that consideration may be given to extending the maximum guarantee period to 2 years.

### Matching Deposit

#### **(A) Opinions Gathered**

38. Matching deposit was not considered to be particularly useful by PLIs:

- only 25% cases demanded a deposit (138 cases out of 558 cases approved by licensed banks); and
- 57% of the responded PLIs considered the provision of matching deposit not useful in helping them to extend loans to SMEs.

39. As regards the interest for the deposit, 68% of the responded PLIs considered the 3% interest spread reasonable. There was also a comment that the provision of matching deposit should be extended to all PLIs instead of only participating licensed banks.

#### **(B) Evaluation**

40. Usage of the provision of matching deposit does not appear to be very keen. Out of a total of 558 cases approved by licensed banks, only 138 cases (25%) demanded for matching deposits. The deposit arrangement does not appear to be a major attraction to PLIs in making use of the Scheme. Coupled with the fact that the financial sector is no longer facing a severe liquidity problem, there is no case to extend this provision to all PLIs.



First Claim on Collateral**(A) Opinions Gathered**

41. Under the current Scheme, the Government and the PLIs have equal rights of claim over the collateral of default payment. There were suggestions mainly from the financial sector that PLIs should be given the first priority in the right of claim.

**(B) Evaluation**

42. The PLIs have strongly demanded that they be given the first priority to claim the collateral in case of default. This would better safeguard the interest of the PLIs and encourage them to be less stringent in offering loans to SMEs. However, allowing PLIs to have first claim on collateral, if coupled with the revision of the risk-sharing ratio, might indirectly encourage aggressive lending and might lead to larger loss for Government in case of default. PLIs would be able to fully protect themselves by requiring security coverage only on the non-guaranteed portion of the loans, and thereby defeating the principle of risk-sharing.

Default Arrangement**(A) Opinions Gathered**

43. The Scheme requires PLIs to apply interest payment credits received prior to default back in reduction of the principal amount indebtedness. Some PLIs considered this arrangement inequitable and suggested that this requirement be repealed.

**(B) Evaluation**

44. The Hong Kong Monetary Authority has earlier confirmed that it was normal practice for repayments of a loan account which is performing, to be applied towards both outstanding principal and interest amounts. For performing loans, such arrangement appears to be reasonable and acceptable under the Scheme. However, following default, any amount recovered should be used to repay the principal portion first.

### 60-days Declaration

#### **(A) Opinions Gathered**

45. PLIs were required to declare that the applicants have no overdue payments for over 60 days 12 months prior to application. A suggestion received was that this clause be repealed as it would deprive many SMEs the chance of success in application.

#### **(B) Evaluation**

46. The declaration was intended to help Government better ensure that the applicants have good track record and reduce the possibility of PLIs offloading possibly bad loans to Government. However, it seems that the requirement has the effect of reinforcing banks' conservatism. Moreover, the overall design of the Scheme is to let the PLIs exercise their professional judgement to assess the creditworthiness of applicants. The Government is not supposed to conduct a second assessment. We recommend that this declaration requirement be removed.

### More Direct Involvement of Government

#### **(A) Opinions Gathered**

47. There were comments that the Government should be more directly involved in the Scheme instead of merely playing the role of guarantor. The following approaches were suggested:

- **Government as direct lender**  
The Government could consider lending out the money directly to SMEs instead of providing guarantees only. Assessment could either be conducted by the Government itself or by engaging PLIs or fund managers on an administrative fee basis.
- **Government to conduct loan applications assessment**  
The Government could consider assessing loan applications for all cases, or just those cases rejected by PLIs to ensure fair assessment for all applicants.

- **Government to designate a body to conduct assessment**  
The Government could consider designating a body to conduct assessment to ensure impartial and consistent treatment for all applicants.
  
- **Government to establish guidelines for assessment**  
The Government could consider establishing guidelines for PLIs to ensure consistent treatment for all applicants. Such guidelines might include:
  - requiring PLIs to assess loan applications on less stringent criteria;
  
  - requiring PLIs to assess applications based on the applicants' business prospects, profitability, orders in hand, track record, etc, instead of merely the availability of collateral;
  
  - requiring PLIs to consider accepting assets in Mainland of China as collateral; and
  
  - devising a checklist and merit system to guide PLIs in assessing cases.
  
- **Applications should be submitted through the Government**  
Applications should be submitted to PLIs through the Government so that the Government could get hold of information about the real number of applications received and rejected by PLIs.

## **(B) Evaluation**

48. The above suggested approaches have different limitations or impracticalities. They are analysed as follow:

- **Government as direct lender**  
The Government has no expertise or mechanism in-place to assess loan applications. Compared with the lending institutions, the Government is not well-equipped to determine the appropriate different interest rates for different applications. It would be against the market-driven principle to set a standard flat

rate for all applicants. On the idea of entrusting selected PLIs to conduct loan assessments for the Government on an administrative fee basis, it is doubtful whether they will be interested considering the workload and the fee return.

- **Government to conduct loan applications assessment**  
Again this option requires expertise which the Government currently does not possess. Under the market-driven principle, there is little reason to believe that the Government will be in a better position than the PLIs to judge the creditworthiness and business prospect of business firms.
- **Government to designate a body to conduct a second assessment**  
Considering the large number of cases approved and the even larger number of cases rejected by various PLIs, the workload of any body designated to do all assessments would be huge. The administrative cost is also a major consideration. It should be noted that the Pilot Credit Guarantee Scheme which required the Hong Kong Export Credit Insurance Corporation to do some second stage processing was criticised as prolonging the processing time.
- **Government to establish guidelines for assessment**  
Under the market-driven principle, it would be inappropriate for the Government to draw up guidelines or directives for PLIs to follow. This would only provide disincentive for PLIs to approve loans under the Scheme. Moreover, different PLIs have different internal methodologies on assessing loan applications. It is not realistic to expect all of them to follow some new standard vetting criteria set by Government.
- **Applications should be submitted through the Government**  
There is little value-added for applications to be submitted through the Government. It would only create a lot of paper work between the Government and PLIs and slow down the application processing.

Insurance

**(A) Opinions Gathered**

49. We have received a proposal of introducing an insurance system for Government to charge an insurance premium for any additional guarantee on top of the usual 50% ceiling to enable the Government to offer higher percentage guarantee.

**(B) Evaluation**

50. In theory, the logic is sound for Government to charge an insurance premium for any additional guarantee on top of the usual 50% ceiling. The down side is that the Scheme would be administratively more complicated. There will be more account management work. Moreover, unless a high fee is charged, the fee collected would unlikely be sufficient to cover losses due to default.

The Mortgage Corporation Approach

**(A) Opinions Gathered**

51. There was a suggestion to securitize the loans to enable their acquisition by interested investors or some new body established along the model of the Hong Kong Mortgage Corporation.

**(B) Evaluation**

52. The proposal received was not explained in detail. However, it should be noted that the Hong Kong Mortgage Corporation accepts only good quality mortgages. The securitized loans of SMEs might not be very attractive to investors.

Mechanism for Appeal

**(A) Opinions Gathered**

53. It was suggested that a mechanism for appeal should be established so that applicants being rejected could have an opportunity to request the Government to revisit their applications.

**(B) Evaluation**

54. Under the market-driven principle, it is essentially a commercial decision for PLIs to accept or reject loan applications. If an appeal mechanism were to be established, the Government would need to designate a body to review the appeal cases and the same consideration as aforementioned would come into play.

*Increase Government Commitment*

**(A) Opinions Gathered**

55. There were suggestions to increase Government's commitment from the current \$2.5 billion to \$10-\$30 billion so as to benefit more SMEs.

**(B) Evaluation**

56. During the first seven months of implementation, about 28% of the total provision of \$2.5 billion was committed. Assuming the Scheme will continue in more or less the same pace, about 65% of the provision would be tied up by the end of 1999. However, if the rate of approval of new application increases, the current provision of \$2.5 billion will soon be exhausted and not able to cater for the demand. Two possible ways to address this problem are:

- (a) increase the provision; or
- (b) adopt the concept of leverage and enter into a total guarantee commitment larger than \$2.5 billion despite no additional capital injection.

57. Given the temporary nature of the scheme, an additional injection is unlikely. As regards whether the concept of leverage should be adopted, we recommend that the issue be revisited a year later or when, say, 90% of the \$2.5 billion has been committed, whichever is earlier.

Simpler Procedures**(A) Opinions Gathered**

58. Some SMEs expressed that application through PLIs was complicated and urged PLIs to simplify their procedures by requiring less document and expedite processing in view of the urgent needs of SMEs in the prevailing economic condition.

**(B) Evaluation**

59. Application procedures on the guarantee part of the Scheme were regarded as simple by many PLIs and even some successful applicants. The Treasury normally only requires one working day to grant approval in principle. Processing of the loan application depends on individual case and the policy of individual PLIs.

Interest Rate**(A) Opinions Gathered**

60. There were comments that the interest rate charged on the loans by PLIs was too high for SMEs and preferential or concessionary interest rate should be offered to successful applicants. Suggested rate ranged from 6% to no more than the best lending rate (currently around 9%).

**(B) Evaluation**

61. Under the market-driven principle, the interest rate should be determined by market forces. The Government could not arbitrarily devise a cap, since interest rate should reflect the varying degrees of risk of different loans.

Handling Fee**(A) Opinions Gathered**

62. Some SMEs commented that the handling fee for applying for credit facilities was too high.

**(B) Evaluation**

63. It is a common practice for lending institutions to charge handling fee. This is not a specific surcharge arising from the Scheme. Under the market-driven principle, whether the handling fee is acceptable should be a matter between PLIs and applicants. It would not be appropriate for Government to absorb the handling fees and directly subsidise the SMEs.

*Flexible Repayment***(A) Opinions Gathered**

64. Many SMEs were of the view that more flexible repayment should be allowed. For instance, there were suggestions that repayment should be allowed to be made at one go at the end of the guarantee period, instead of regularly, or only interest be repaid at the initial stage.

**(B) Evaluation**

65. The repayment schedule should be negotiated between PLIs and applicants according to the market-driven principle.

*Preferential Loans***(A) Opinions Gathered**

66. Some suggested that priority should be given to certain groups of SMEs, eg. to those SMEs with Letter of Credit or order of goods in hand, or to those manufacturers whose production bases were in Hong Kong.

**(B) Evaluation**

67. The financial turmoil has affected SMEs in different fields. In the context of the Scheme, no preference should be given to any particular industry sectors.



### Participation of Lending Institutions

#### **(A) Opinions Gathered**

68. The Scheme is open to all AIs for participation on a voluntary and equal basis. We have received different comments in this respect. Some suggested that all AIs should be required to join the Scheme. Some suggested that a quota system should be imposed so that each PLI would be allocated a certain guarantee ceiling having regard to its size. Some money lenders had separately enquired on the possibility of joining the Scheme. Another suggestion received was that participation be limited to a few selected lending institutions who would offer loans based on comprehensive assessment rather than solely on collateral.

#### **(B) Evaluation**

69. Under the market-driven principle, participation of lending institutions should be voluntary. As regards extending the eligibility of participation to all money lenders, it is considered inappropriate considering the limited pool of Government provisions available and the fact that money lenders are not monitored by the Hong Kong Monetary Authority.

70. As regards the idea of entrusting selected PLIs to continue with the Scheme, the major problem would be the basis of selection. The associated problem would be the negative reaction of those existing PLIs which were not selected.

### Venture Capitalists

#### **(A) Opinions Gathered**

71. There was a suggestion that the Government should consider entrusting part of the Scheme to venture capital firms in the private sector as in the case of the Applied Research Fund.

#### **(B) Evaluation**

72. The objective of the Scheme is to ease the liquidity crunch problem faced by SMEs. The role of venture capitalists on the other hand is to fund companies with development prospects and eventually take a share of these

companies' future profits. It is doubtful whether they are interested in handling general commercial lending.

### Usage of Funds

#### **(A) Opinions Gathered**

73. There were comments that the usage of the loans should be clearly defined to protect the interest of applicants. We have received a complaint alleging that a bank used the proceed of an approved loan under the Scheme to cover the outstanding amount of the applicant's other facilities, without seeking prior agreement of the applicant.

#### **(B) Evaluation**

74. To allow for maximum flexibility and meeting different business needs, Government has not stipulated special conditions on the use of the loans. Under the market-driven principle, usage of funds should be negotiated between PLIs and applicants.

### Small Loans

#### **(A) Opinions Gathered**

75. There were suggestions that a separate scheme with simpler application procedures be devised for small loans, say up to \$200,000 or \$500,000, to help those SMEs which needed only small amount of financing.

#### **(B) Evaluation**

76. It was considered confusing if a two-tier system is devised with different eligibility criteria and application procedures. In fact the application procedures for the guarantees on the part of the Government are already very simple no matter how large or small a loan is involved. For small loans (say those less than \$100,000), there are various personal credit facilities available in the market. If a certain SME is not even able to borrow a small sum from the financial institutions, its creditworthiness and business prospect seem doubtful.

77. If the Government is to devise a separate scheme for small loans, the issue for consideration is whether the Government can establish a set of simple and non-discriminatory eligibility criteria which at the same time could safeguard against abuse. The MicroLoan of the U.S. Small Business Administration (see Annex G) is not easy to be replicated in Hong Kong as we do not have similar non-profit groups that have the experience and expertise to operate similar scheme. The Government will consider the question of developing new SME assistance/support programs separately.

## **Conclusions and Recommendations**

78. The Scheme has effectively achieved its objective of helping SMEs obtain loans considering that:

- overall 88% of the successful borrowers had less than 50 employees;
- 83% of successful applicants that responded to the survey thought that the Scheme had helped them to borrow from lending institutions;
- 81% of the responded successful applicants considered the Government guarantee critical in helping them to secure the loans; and
- 60% of the responded PLIs considered the Scheme generally able to make it easier for SMEs to obtain financing.

79. Although liquidity of the economy has eased in the last few months, many SMEs are still in need of financing assistance as reflected from opinions gathered from SME-bodies and industrial and trade organisations. It is believed that the Scheme should be continued.

80. However, we note that there are many comments that the prudent or conservative attitude of some PLIs has turned away some SMEs which are creditworthy but without sufficient collateral. There is hence room for the Government to revise the Scheme to induce PLIs to extend loans to SMEs.

81. Having considered the various suggestions and their implications, our recommendations are as follow:

- a) the operation of the Scheme should continue;
- b) the four existing underlying principles, viz. market-driven, risk-sharing, risk-capping and administrative simplicity, should be maintained;
- c) the assessment of applications should continue to be conducted by PLIs;
- d) the risk-sharing ratio between the Government and PLIs should be revised to 70:30;
- e) the maximum guarantee limit of \$2 million should remain unchanged;
- f) the maximum guarantee period should be extended to 2 years;
- g) in case of default, interest payments received prior to default would not be required to be applied back towards reduction of principal amount. However, any sum recovered after default must be used to repay the outstanding principal first;
- h) the 60-day declaration requirement should be removed; and
- i) additional injection into the Scheme is unlikely. The longer term question of assistance for SMEs should be separately dealt with.

[SME-misce1/2/Review-Rept-Legco.cw97]

中小型企業特別信貸計劃問卷調查  
Survey on the Special Finance Scheme for Small and Medium Enterprises

此問卷調查旨在向成申請「中小型企業特別信貸計劃」的人士，蒐集對計劃的意見。

This survey aims to collect opinions of successful applicants under the Special Finance Scheme for Small and Medium Enterprises.

宣傳 Publicity

1. 你從甚麼途徑得悉中小型企業特別信貸計劃？（下稱“計劃”）  
 Where did you learn about the Special Finance Scheme for Small and Medium Enterprises (hereafter referred as ‘the Scheme’)?

- |   |  |
|---|--|
| <input type="checkbox"/> 報紙廣告 newspaper advertisements    | <input type="checkbox"/> 工商團體 industry and trade organizations |
| <input type="checkbox"/> 報章報導 newspaper reports           | <input type="checkbox"/> 簡布會／講座 briefings/talks                |
| <input type="checkbox"/> 雜誌廣告 advertisements in magazines | <input type="checkbox"/> 政府網頁碼 government's homepage           |
| <input type="checkbox"/> 電視廣告 advertisements on TVs       | <input type="checkbox"/> 相熟銀行 my bank                          |
| <input type="checkbox"/> 電台廣告 advertisements on radio     | <input type="checkbox"/> 朋友／同事 friends/colleagues              |
| <input type="checkbox"/> 街上張貼的海報 poster on the street     | <input type="checkbox"/> 其他 Others                             |
| <input type="checkbox"/> 地鐵路軌廣告牌 MTR trackside panel      | (請說明 Please specify) _____                                     |

申請的審批 Assessment of applications

2. 你賑偉U款機構在批核你的申請時有否對你的申請作全面性的評估？  
 （即審批時貸款機構會對你的各方面條件如業績、信譽、業務前景等作出評估，而非只偏重考慮@項因素，如有否抵押品）

Do you think the lending institution's decision of lending to you under this Scheme has been based on a comprehensive assessment of your application? (i.e. an assessment of various factors such as track record, creditworthiness, business prospect etc. instead of solely considering one single factor e.g. the availability of collateral)

- 是 Yes     不是 No (請說明 Please explain \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_)

3. 貸款機構有否要求你為是次計劃的貸款提供十足抵押？  
 Has the lending institution requested full collateral backup for the loan/facilities it lent to you under this Scheme?

- 有 Yes                       沒有 No

風險分擔比率：根據畢曉w排，政府與貸款機構會各分擔一半的借貸風險。  
Risk sharing ratio : under the current arrangement of the Scheme, the government will share the risk of the loans/facilities with the lending institutions on a 50 : 50 basis.

4. 你認為政府對貸款的擔保，是否助你成申請是次貸款的決定性因素？

Do you consider the Government guarantee critical in helping you to secure the loan?

是 Yes                       否 No

政府擔保上限：根據畢曉w排，每間公司從計劃中所獲得的政府保證額，最高為港幣二百萬元或獲批貸款的一半，兩者以數目較少者為準。

Limit of Government Guarantee : Under the current arrangement, the maximum amount of government guarantee offered to each enterprise under the Scheme is HK\$2 million or 50% of the approved loan, whichever is the less.

5. 你認為二百萬元的保證額上限是否合理？  
Is the current maximum limit of \$2 million per applicant reasonable?

是 Yes                       否 No

6. 假如增加保證額上限，會使較少公司能從計劃受惠，你是否支持改動？

An increase in the guarantee limit could result in fewer companies being able to benefit from the Scheme. Do you support such modification?

是 Yes                      否 No

保證期：根據畢曉w排，計劃對每宗貸款所提供的保證期最高為365天。

Guarantee Period : Under the current arrangement, the maximum guarantee period for each loan/facility under the Scheme is 365 days.

7. 你認為365天的最長保證期是否大致上足夠幫助中小型企業申請貸款？

Do you think the current maximum guarantee period of 365 days is generally adequate for SMEs in obtaining financing?

是 Yes                      否 No

8. 假如延長保證期，會使較少公司能從計劃中受惠，你是否支持改動？  
An extension of the guarantee period could result in fewer companies being able to benefit from the Scheme. Do you support such modification?

是 Yes                      否 No

整體 Overall

9. 你認為計劃有否幫助你向貸款機構貸款？  
Do you think the Scheme has helped you to borrow from lending institutions?

有 Yes

沒有 No

10. 你對計劃有否其他的意見？  
Do you have any other comment on the Scheme?

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「中小型企業特別信貸計劃」問卷調查  
Survey on the Special Finance Scheme for Small and Medium Enterprises

此問卷調查旨在就政府推行的二十五億元「中小型企業特別信貸計劃」，蒐集中小型企業的意見，從中所獲得的意見將會用作檢討計劃之用，所有內容將作保密處理。

This survey aims to collect opinions of small and medium enterprises (SMEs) towards the Government's \$2.5 billion Special Finance for SMEs. The opinions collected will be used for reviewing the scheme and will be kept in strict confidence.

宣傳Publicity

1. 你是否知道政府已推出「中小型企業特別信貸計劃」（下稱“計劃”）以協助中小型企業融資？  
 Are you aware that the Government has introduced the Special Finance Scheme for SMEs (hereafter referred as ‘the Scheme’) to help SMEs to obtain financing?

- 知道 Yes                       不知道 No (多謝你填寫此問卷。請按卷末之指示交回問卷。  
 Thank you for taking the time to complete this questionnaire. Please return it according to directions at the end.)

2. 你從甚麼途徑得悉中小型企業特別貸計劃？  
 Where did you learn about the Scheme?

- |   |  |
|---|--|
| <input type="checkbox"/> 報紙廣告 newspaper advertisements    | <input type="checkbox"/> 工商團體 industry and trade organizations |
| <input type="checkbox"/> 報章報導 newspaper reports           | <input type="checkbox"/> 簡布會／講座 briefings/talks                |
| <input type="checkbox"/> 雜誌廣告 advertisements in magazines | <input type="checkbox"/> 政府網頁碼 government's homepage           |
| <input type="checkbox"/> 電視廣告 advertisements on TVs       | <input type="checkbox"/> 相熟銀行 my bank                          |
| <input type="checkbox"/> 電台廣告 advertisements on radio     | <input type="checkbox"/> 朋友／同事 friends/colleagues              |
| <input type="checkbox"/> 街上張貼的海報 poster on the street     | <input type="checkbox"/> 其他 Others                             |
| <input type="checkbox"/> 地鐵路軌廣告牌 MTR trackside panel      | (請說明 Please specify) _____                                     |

申請的審批 Assessment of applications

3. 你會否嘗試透過是項計劃向貸款機構申請貸款？  
 Have you attempted to apply for loans from lending institutions under the Scheme?

- 有 Yes                               沒有 No (多謝你填寫此問卷。請按卷末之指示交回問卷。  
 Thank you for taking the time to complete this questionnaire. Please return it according to directions at the end.)





- |  |  |
|--|--|
| <input type="radio"/> 還款紀錄不佳<br>unsatisfactory repayment record                            | <input type="radio"/> 賑飢瑣膝q的管理不完善<br>consider the management of my company is unsatisfactory |
| <input type="radio"/> 所從事的行業前景不明朗<br>the prospect of my industry is uncertain              | <input type="radio"/> 非香港註冊公司<br>not Hong Kong registered company                            |
| <input type="radio"/> 賑飢瑣肆彳瑣熊o展計劃缺少市場前景<br>consider my proposal has little market prospect | <input type="radio"/> 未能提交足夠資料<br>unable to provide sufficient information                   |
| <input type="radio"/> 缺乏足夠抵押品<br>lack of sufficient collateral                             | <input type="radio"/> 其他 Others<br>請說明 please specify_ _____<br>_____<br>_____               |

不知道 No

風險分擔比率：根據畢璽w排，政府與貸款機構會各分擔一半的借貸風險。  
Risk sharing ratio : Under the current arrangement of the Scheme, the government will share the risk of the loans/facilities with the lending institutions on a 50:50 basis.

8. 你賑假行的風險分擔比率是否合理？  
Do you think that the current risk sharing ratio is reasonable?

是 Yes                       否 No

9. 假如提高政府的風險分擔比率，會使較少公司能從計劃受惠，你是否支持改動？  
An increase in the Government's guarantee ratio could result in fewer companies being able to benefit from the Scheme. Do you support such modification?

是 Yes                       否 No

政府擔保上限：根據畢璽w排，每間公司從計劃中所獲得的政府保證額，最高為港幣二百萬元或獲批貸款額的一半，兩者以數目較小者為準。  
Limit of Government Guarantee : Under the current arrangement, the maximum amount of government guarantee offered to each enterprise under the Scheme is HK\$2 million or 50% of the approved loan, whichever is the less.

10. 你賑假行二百萬元的保證額上限是否合理？  
Is the current maximum limit of \$2 million per applicant reasonable?

是 Yes                       否 No

11. 假如增加保證額上限，會使較少公司能從計劃受惠，你是否支持改動？

An increase in the guarantee limit could result in fewer companies being able to benefit from the Scheme. Do you support such modification?

- 是 Yes                       否 No

保證期：根據畢總w排，計劃對每宗貸款所提供的保證期最高為365天。

Guarantee Period : Under the current arrangement, the maximum guarantee period for each loan/facility under the Scheme is 365 days.

12. 你認為365天的最長保證期是否大致上足夠幫助中小型企業申請貸款？

Do you think the current maximum guarantee period of 365 days is generally adequate for SMEs in obtaining financing?

- 是 Yes                       否 No

13. 假如延長保證期，會使較少公司能從計劃中受惠，你是否支持改動？  
An extension of the guarantee period could result in fewer companies being able to benefit from the Scheme. Do you support such modification?

- 是 Yes                       否 No

整體Overall

14. 你對計劃有否其他的意見？  
Do you have any other comment on the Scheme?

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Special Finance Scheme for Small and Medium Enterprises

**Opinion Survey**

This survey aims to collect opinions of lending institutions that participate in the Special Finance Scheme for Small and Medium Enterprises (SMEs).

Objective

1. Do you think that the scheme is generally able to make it easier for SMEs to obtain financing from lending institutions?  
 Yes  
 No (Please give reasons : )

Publicity

2. Do most of your clients fully understand the Scheme?  
 Yes (please go to Q. 4)  
 No
3. What are the common areas of misunderstanding about the scheme?

Application Procedures

4. Are the current application procedures simple and easy to comprehend?  
 Yes  
 No

5. Would you recommend any changes to the application procedures?

6. Would you recommend any changes to the application forms?

Design of the Scheme

7. Do you consider the current risk-sharing ratio of 50:50 between the Government and the lending institutions generally acceptable?

Yes

No (please give reason : \_\_\_\_\_ )

8. Is the current maximum guarantee limit of \$2 million per applicant reasonable?

Yes

No (please give reason : \_\_\_\_\_ )

9. Do you think that the current maximum guarantee period of 365 days is generally adequate to SMEs in obtaining financing?

Yes

No (please give reason : \_\_\_\_\_ )

Matching Deposit

10. Do you consider the provision of matching deposit useful in helping you to extend loans to SMEs?

Yes

No

11. Do you consider the 3% interest spread on the matching deposit reasonable?

Yes

No

### Overall Comments

12. Which of the following do you think is the most important factor which will induce you to extend more loans to SMEs under the scheme?

Improvement of overall

Government taking up more than 50% of

Extending the guarantee period to beyond one year

Removing the 60 days overdue payment declaration

Simplifying the application

None of the above

13. Do you have other comments on the design of the scheme?

### Particulars

Name of Lending Institution : \_\_\_\_\_

Contact Person : \_\_\_\_\_

Contact Telephone Number : \_\_\_\_\_

***- Thank you for completing the questionnaire -***

**List of Views / Suggestions Given By :**

**[LegCo]**

Finance Committee

Panel on Trade and Industry

**[Organisations]**

Chekiang First Bank

Chinese Manufacturers' Association of Hong Kong

Citizens Party

DTC Association

East Asia Heller Limited

Federation of Hong Kong Industries

Graphic Arts Association of Hong Kong Limited

Hong Kong Chamber of Small and Medium Business Limited

Hong Kong Economic and Trade Association Limited

Hong Kong General Chamber of Commerce

Hong Kong Progressive Alliance

Hong Kong Productivity Council

Hong Kong Trade Development Council

Liberal Party

The Hong Kong Association of Banks

The Hong Kong and Shanghai Banking Corporation Limited

The Hong Kong Small and Medium Business Association

The International Management Association

**[Individuals]**

Totally, 10 Individuals have given voice to the Scheme.

**Breakdowns of Application**  
(Position as at 15.3.99)

I.	<u>Guarantees</u>				
	No. of applications received	:		1,152	
	No. of cases withdrawn	:		18	
	No. of cases rejected	:		0	
	No. of guarantee issued	:		1,134	
	No. of guarantee completed and discharged	:		9	
	No. of guarantee outstanding	:		1,125	
	Cumulative of guarantee commitment	:		\$706.13 million	
	Outstanding guarantee commitment	:		\$702.23 million	
II.	<u>Default</u>				
	No. of default cases	:		0	
	Payment for default cases	:		\$0	
III.	<u>Deposits</u>				
	No. of cases required deposit	:		138	
	Amount of deposit	:		\$154.93 million	
IV.	<u>Applications</u>				
(A)	<u>Profile of Successful Applicants</u>				
	Total no. of applicants/borrowers=1,038				
		<u>No</u>	<u>%</u>	<u>Amount of facilities</u>	<u>%</u>
				<u>(HK\$)</u>	
	<u>Structure of business</u>				
	Limited company	739	71%	1,220,203,149	85%
	Partnership	83	8%	50,877,120	3%
	Sole proprietorship	216	21%	165,915,050	12%
	others				
	<u>Nature of Business</u>				
	Agriculture & Fishing				
	Mining & Quarrying	1	1%	2,000,000	1%
	Manufacturing	631	61%	723,531,992	50%
	Construction	35	3%	66,398,236	5%
	Wholesale & Retail	59	6%	94,184,012	7%
	Import & Export Trades	232	22%	460,634,800	32%
	Restaurants & Hotels	10	1%	18,100,000	1%
	Transport, Storage & Communication	35	3%	29,021,742	2%
	Financing, Insurance & Business Services	24	2%	29,490,301	2%
	Community, Social & Personal Services	11	1%	13,634,235	1%
	Others				
	<u>No of Employees in HK</u>				
	0-9	608	58%	605,085,761	42%
	10-19	214	21%	326,133,511	23%
	20-19	145	14%	336,862,551	23%
	50-99	47	4%	100,516,260	7%
	100-199	17	2%	44,217,236	3%
	200 and above	7	1%	24,180,000	2%



(B) Profile of Facilities Covered by Successful Cases

Total no. of successful cases = 1,134

	<u>No</u>	<u>%</u>	<u>Amount of facilities (HK\$)</u>	<u>%</u>
<u>Type</u>				
Term loan	989	87%	1,122,590,319	78%
Credit line	145	13%	314,405,000	22%
<u>Size</u>				
<=HK\$1M	707	62%	340,502,700	24%
>HK\$1M - HK\$2M	246	22%	427,877,412	30%
>HK\$2M - HK\$3M	61	5%	169,703,415	12%
>HK\$3M - HK\$4M	113	10%	447,858,992	31%
>HK\$4M	7	1%	51,052,800	3%
<u>Duration</u>				
<=1/2 year	25	2%	25,833,000	2%
>1/2 year - 1 year	659	58%	1,149,246,922	80%
>1 year - 2 years	177	16%	89,023,537	6%
>2 years - 3 years	203	18%	109,982,911	8%
>3 years	70	6%	62,908,950	4%

Table on Breakdown of Interest Rate Charges  
(as at 15 March 1999)

	Average (% p.a.)	Mode (% p.a.)	No. of Cases	% of Total Cases
<b>Breakdown on Overall Interest Rate Charges</b>				
Fixed Interest Rates	15.43	15.55	522	46
Prime + Linked Rates	P + 2.55	P + 3.00	531	47
Other*	n/a	n/a	81	7
<hr/>				
<b>Interest Rate Charged on Different Credit Facilities</b>				
<i>Term Loan</i>				
Fixed Interest Rates	15.46	15.55	515	52
Prime + Linked Rates	P + 2.35	P + 3.00	417	42
Others*	n/a	n/a	57	6
<i>Credit Line</i>				
Fixed Interest Rates	13.31	11.25	7	5
Prime + Linked Rates	P + 3.29	P + 1.50	114	79
Others*	n/a	n/a	24	16

\* Others = Different combination of HIBOR or Prime + Linked rates

## **Examples of Comparable Schemes**

### ***Local Enterprise Finance Scheme (LEFS)***

The LEFS is a fixed interest rate financing programme administered by the Singapore Productivity and Standards Board (PSB) to encourage local companies to expand, upgrade and modernise their operations and raise productivity.

2. Applications under the LEFS should be submitted to any of the 31 PLIs, which will undertake the credit assessment and decide whether the applications should be accepted. Applications endorsed by the PLIs would be put forward to PSB for second round vetting based on the PLIs' assessment reports and other supporting documents. Successful applicants would obtain loans from the PLIs.

3. PSB's share of risk ranges from 50% to 70% depending on nature of the loans. PSB's share would be first disbursed to the PLIs which will then lend out the total amount of approved loans. Interest rates are capped at 6.25% - 6.75% depending on nature of loans whereas the prime rate is about 5.5% recently. Interests earned are shared according to the risk sharing ratio between PLIs and PSB.

4. In case of default, the PLIs would be responsible for recovery of bad debt and bear all the legal costs. PSB would be the first creditor.

### ***Small Business Administration (SBA) Loan Guaranty***

5. The U.S. SBA Program 7(a) guarantees loans to small businesses that cannot obtain financing through normal lending channels. The program is to promote small business formation and growth. The SBA can guarantee 75% of the loan amount up to US\$750,000 and 80% for loans of US\$100,000 or less. The interest rate is not to exceed 2.75% over prime rate.

6. The SBA also administers a MicroLoan scheme for short term loans of up to US\$25,000. Proceeds could be used for purchase of equipment and fixtures or as working capital but could not be used to pay existing debts. These loans are made through SBA-approved non-profit groups which must have previous experience in lending and technical assistance. Apart from lending to SMEs, these groups must undertake to provide a package of technical help to SMEs. For every US\$1 of loan made to SMEs, SBA would provide a grant of 20 cents to the approved groups to fund their technical assistance services.

**Small and Medium Business Credit Guarantee Fund**  
**(SMBCGF)**

7. The Taiwan SMBCGF offers credit guarantees for SMEs. Its funding comes from irregular contributions from the central government (63%), local governments (11%) and financial institutions (26%). The SMBCGF provides guarantees of up to 90% of loans for 11 different credit facilities (e.g. guarantees for export loans, material purchase revolving loans, creating own brand name loans, etc). About 90% of the guarantee loans are related to export. The maximum guarantee period for loans related to export bills is 180 days and a year for other. The maximum limit per loan on individual enterprise should not exceed 50% of its annual turnover whilst the maximum outstanding at any one time for any enterprise and its related companies are limited to NT100 million. A fixed guarantee fee of 0.75% is charged to all applicants.

[c:\smeloan\annex-h]

中小型企業特別信貸計劃  
**(Special Finance Scheme for Small and Medium Enterprises)**

於一九九九年四月八日的統計數字  
**(Statistics as of 8.4.1999)**

1. 申請數目  
(Number of Applications)

<u>收到</u> (Received)	<u>批准</u> (Approved)	<u>拒絕</u> (Rejected)	<u>被申請者撤回</u> (Withdrawn by applicants)
1335	1334	1	21

2. 累積承擔的保證及貸款金額數目  
(Cumulative amount of Guarantees and Facilities Committed)

<u>承擔個案的 累積總數</u> (Cumulative Number of cases Committed)	<u>期滿，已解 除或撤消的 個案總數</u> (Number of cases expired, released or discharged)	<u>保證金額 累積總數</u> (Cumulative Amount of Guarantees) (HK\$)	<u>貸款金額累 積總數</u> (Cumulative Amount of Facilities) (HK\$)	<u>涉及的公司 累積總數</u> (Cumulative Number of companies involved)	<u>涉及的貸 款機構累 積數目</u> (Cumulative Number of lending institutions involved)
1 313	14	777,037,006	1,585,311,157	1 178	52

3. 在貸款機構的存款  
(Deposits with Lending Institutions)

<u>個案總數</u> (Number of cases)	<u>存款總數</u> (Total Amount of Deposit) (HK\$)	<u>涉及貸款機構 總數</u> (Number of lending institutions involved)
129	141,830,000	9

4. 壞賬個案(Default Cases): 3

5. 參與計劃的貸款機構總數: 76  
(Total Number of Participating Lending Institutions)

6. 查詢總數(Total Number of Enquiries Received) : 6 588

7. 成申請者的資料  
(Profile of Successful Applicants)

<u>行業類別</u> (Nature of Business)	<u>數目</u> (No.)	<u>貸款金額</u> (Amount of facilities) (HK\$)
採礦及採石業 (Mining & Quarrying)	1	2,000,000
製造業 (Manufacturing)	726	801,808,694
建造業 (Construction)	42	79,465,453
批發及零售業 (Wholesale & Retail)	70	110,654,980
進出口貿易 (Import & Export Trades)	247	495,434,800
餐及酒店 (Restaurants & Hotels)	11	18,700,000
運輸、倉庫及通訊業 (Transport, Storage & Communication)	44	33,636,718
金融、保險及商用服務 業 (Financing, Insurance & Business Services)	26	29,976,277
社區、社會及個人服務 (Community, Social & Personal Services)	11	13,634,235
總數 (Total)	1 178	1,585,311,157