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19 February 2003

Ms Pauline Ng
Clerk to the Finance Committee
Legislative Council Secretariat
3/F Citibank Tower
3 Garden Road
Hong Kong
(Fax: 2869 6794)

Dear Ms Ng,

**Follow-up to the Finance Committee's
meeting on 24 January 2003**

**Improvement measures to the SME Business Installations
and Equipment Loan Guarantee Scheme,
the SME Training Fund, and the SME Export Marketing Fund**

At the Finance Committee meeting held on 24 January 2003,
the Administration undertook to :

- (a) provide the Legislative Council (LegCo) Secretariat Legal Advisor with a copy of the Deeds to be signed between the Government and participating lending institutions (PLIs) for the proposed SME Loan Guarantee Scheme (SGS);
- (b) provide Members with information on the percentage of SMEs benefiting from the SME Business Installations and Equipment Loan Guarantee Scheme (BIG) which have placed the business installations and equipment outside Hong Kong;
- (c) consider assessing the cost-effectiveness of SGS in a more quantitative manner;
- (d) consider setting a timeframe for the release of guarantee to PLIs in default cases; and
- (e) consider reviewing the projected default rate of 15% for SGS in the light of operational experience.

I would be grateful if you could inform Members of the followings:

- (a) we will provide a copy of the Deed to the LegCo Secretariat when available;
- (b) as at end of January 2003, about 67% of the beneficiaries of BIG have placed business installations and equipment purchased under BIG outside Hong Kong;
- (c) we will carry out a study on the cost-effectiveness of SGS along the line suggested by Members. We will be consulting the Small and Medium Enterprises Committee (SMEC) on the timing, methodology, and other implementation arrangements;
- (d) in the Deed signed between the Government and PLIs for BIG, the Government undertakes to complete processing claims from PLIs and, upon satisfaction that the claims are substantiated, pay compensation to them on defaulted loans within 30 days after receiving from the PLIs all the required documentation. There will be similar provision in the Deeds for the proposed SGS. We will strive to meet the performance pledge when handling claims for compensation from PLIs under BIG and SGS; and
- (e) we consider it prudent to operate SGS on the assumption of a 15% default rate initially. However, we will, in consultation with the SMEC, closely monitor the default situation and review the projected default rate accordingly. Our aim is to strike a balance between maximising the resources available under SGS and prudent financial management.

Yours sincerely,

(Eugene Fung)
for Director-General of Trade and Industry

c.c. Secretary for Commerce, Industry and Technology
(Attn. : Ms. Anita Chan)
Secretary for Financial Services and the Treasury
(Attn. : Ms. Francoise Chow)