

立法會
Legislative Council

LC Paper No. FC125/08-09
(These minutes have been seen
by the Administration)

Ref : CB1/F/1/2

Finance Committee of the Legislative Council

**Minutes of the 7th meeting
held at the Legislative Council Chamber
on Friday, 12 December 2008, at 5:00 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
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
Hon WONG Yung-kan, SBS, JP
Hon LAU Kong-wah, JP
Hon Miriam LAU Kin-ye, GBS, JP
Hon TAM Yiu-chung, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon LI Fung-ying, BBS, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon Albert CHAN Wai-yip
Hon Audrey EU Yuet-mee, SC, JP
Hon Vincent FANG Kang, SBS, JP
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Dr Hon Joseph LEE Kok-long, JP
Hon Jeffrey LAM Kin-fung, SBS, 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 KAM Nai-wai, MH
Hon Cyd HO Sau-lan
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
Hon CHEUNG Kwok-che
Hon WONG Sing-chi
Hon WONG Kwok-kin, BBS
Hon IP Wai-ming, MH
Hon Mrs Regina IP LAU Suk-ye, GBS, JP
Hon Paul TSE Wai-chun
Dr Hon Samson TAM Wai-ho, JP

Members absent:

Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon Fred LI Wah-ming, JP
Dr Hon Margaret NG
Dr Hon Philip WONG Yu-hong, GBS
Hon LAU Wong-fat, GBM, GBS, JP
Hon Andrew CHENG Kar-foo
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Frederick FUNG Kin-kee, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon CHIM Pui-chung
Hon Starry LEE Wai-king
Dr Hon LAM Tai-fai, BBS, JP
Dr Hon LEUNG Ka-lau
Hon WONG Yuk-man
Hon IP Kwok-him, GBS, JP
Dr Hon PAN Pey-chyou

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)
Mr Joseph LAI, JP	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	Senior Council Secretary (1)5
Ms Alice CHEUNG	Senior Legislative Assistant (1)1
Mr Frankie WOO	Legislative Assistant (1)2

The Finance Committee continued the consideration of item FCR(2008-09)52 carried over from the meeting held at 11:30 am on the same day.

Item No. 5 - FCR(2008-09)52

HEAD 181 – TRADE AND INDUSTRY DEPARTMENT

• **Subhead 700 General non-recurrent**

Item 802 Special Loan Guarantee Scheme for Small and Medium Enterprises

Coverage of the enhanced scheme and implementation arrangements

2. Mr TAM Yiu-chung said that the Alliance for the Betterment and Progress of Hong Kong supported the proposal. He however expressed concern that despite the Administration's provision of a higher loan guarantee ratio at 70%, banks might still be over-cautious in assessing the loan applications from small and medium enterprises (SMEs) in need. The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PS(CIT)) said that with the Government's guarantee increased to 70% of the loan amount, she believed that the participating lending institutions (PLIs) would be more willing to offer loans to enterprises under the enhanced Special Loan Guarantee Scheme (SpGS).

3. Referring to a case mentioned by Mr TAM where a bank was taking legal actions against a SME for an outstanding loan of \$300,000, the Director-General of Trade and Industry (DG of TI) said that SMEs encountering difficulties in their applications under the SpGS could seek advice from the Trade and Industry Department through the department's hotline. He also advised that the concerned SME could negotiate with the PLI on loan repayment arrangements.

4. Mr Ronny TONG enquired whether the Administration would take into consideration the number of employees of the companies concerned in processing the applications under the enhanced SpGS, and whether small SMEs with no or only a few staff could also apply. As compared to the SpGS approved by Finance Committee (FC) on 14 November 2008, while the loan ceiling had been raised from \$1 million to \$6 million, the loan guarantee ratio (i.e. 70%) had remained unchanged. He was worried that PLIs might not have the incentive to award loans of larger amounts.

5. PS(CIT) clarified that the enhanced SpGS currently proposed would supersede the SpGS approved by FC on 14 November 2008. She advised that except for listed companies, the enhanced SpGS would be open to all companies registered and with substantive businesses in HK regardless of their size and number of employees. It was estimated that about 40 000 companies could benefit from the scheme. On PLIs' incentive in providing loans, she said that with the Government's loan guarantee ratio increased to 70%, the response from banking bodies had been positive. The increase of the loan ceiling from HK\$1 million to \$6 million was made in response to SMEs' views that they needed further support to tide over the credit crunch. It was anticipated that a majority of SMEs were seeking loans in the region of \$2 million to \$3 million.

6. Mr Vincent FANG expressed support for the enhanced SpGS. He said that due to adverse economic conditions and funding difficulties of their business partners and customers, most SMEs would require additional funds to cope with cashflow problems for a longer period of time. In this connection, he sought clarification on whether a SME would be allowed to apply for a loan under the SpGS while still holding an ongoing private loan with the same bank. He believed that it would save a lot of time for the SME to go to the same bank which knew it well to apply for a loan under the new loan scheme. DG of TI replied that the SME should still be eligible to apply for a loan under the SpGS, and he would ensure that the PLIs were aware of the said scenario. PS(CIT) added that, to help SMEs tide over the credit crunch, more flexibility, including the provision of a revolving credit line and a grace period of 30 days for debt repayment, had been provided under the enhanced scheme.

7. In response to Mr Jeffrey LAM's question, DG of TI said the Administration would cope with the additional workload arising from the new loan scheme through internal deployment and hiring of temporary staff. The Trade and Industry

Department would complete processing a loan application within three working days after receiving all the relevant documents from PLIs.

Loan interest rate

8. Mr Jeffrey LAM expressed strong support for the enhanced SpGS, and believed that the scheme would help SMEs tide over the credit crunch. He said that he had consulted the SMEs who were concerned that PLIs charged very high interest rates on SMEs. He hoped that the Administration would discuss with PLIs setting a more favourable interest rate for the SpGS. Mr WONG Ting-kwong expressed a similar view and requested the Administration to introduce a mechanism to review PLIs' alleged unfair treatment of SMEs in handling their loan applications.

9. Mr LEE Wing-tat said that the Administration would appear to be subsidizing the banks for profit making by raising the loan guarantee ratio to 70%. The Administration should therefore exert greater pressure on PLIs to lower the loan interest rate under the SpGS.

10. PS(CIT) said that the Administration had reflected the concerns about loan interest rate to PLIs. With the Government's loan guarantee ratio increased to 70%, she believed that the lowering of credit risk would be suitably reflected in the interest rates. Nevertheless, the loan interest rate was essentially a commercial decision of the PLIs.

Preservation of jobs

11. Ms LI Fung-ying said that as a huge sum of taxpayers' money was used to increase the Government's loan guarantee commitment to \$100 billion, companies benefiting from the SpGS should fulfil their social responsibility to preserve the jobs of their staff, and the Administration should make greater efforts in this regard.

12. Mr LEE Cheuk-yan criticized that in formulating the SpGS, the Administration had ignored employees' interests. He suggested that protection of employees from layoffs should be one of the conditions for the grant of loans under the scheme. The Administration should draw up relevant guidelines for PLIs and companies to follow, and monitor closely the employment situation of beneficiary companies, since this would reflect the effectiveness of the scheme. To this end, he suggested publicizing the names of those beneficiary companies which failed to retain jobs for their employees.

13. Mr Abraham SHEK said that he represented members of the Professional Forum. While he supported the enhanced SpGS, he considered that as substantial public funds were being used to assist enterprises through the scheme, the Administration should consider making use of the scheme to preserve jobs, such as pegging the amount of loan to the number of jobs offered by the enterprise concerned. He expressed concern whether the Administration had put in place sufficient measures

to ensure that the scheme would achieve the intended objective, lest the scheme would only be exploited by enterprises for profit-maximization.

14. Mr Paul TSE suggested that as a measure to protect employees, the Administration should ask PLIs and beneficiary companies to sign a letter of wishes endorsing the Administration's policy to preserve jobs.

15. Mr Tommy CHEUNG said that while the Liberal Party supported the enhanced SpGS, he disagreed that the Administration should incorporate job preservation as a condition under the scheme, since this would only slow down the vetting process and delay the release of urgently needed loans to SMEs. He urged the Administration to speed up the vetting process as far as possible.

16. Mr Vincent FANG said that according to his observation, most SMEs had a far stronger sense of social responsibility than large companies in preserving the employment of their employees. With the SpGS, these SMEs would be able to continue with their operation and able to retain jobs. In a bid to stimulate consumption, he hoped that trade unions such as the Hong Kong Federation of Trade Unions could appeal to their members not to reduce daily spending.

17. Mr WONG Ting-kwong considered that there would be technical difficulties to introduce additional terms on job retention to the enhanced scheme. He believed that most enterprises treasured human resources as their real asset and would only lay off employees as the last resort when no other alternatives were available.

18. Taking note of members' views, PS(CIT) reiterated that while the Administration would continue to appeal to employers not to lay off their staff, it would not be appropriate for the Administration to further consider adding employment-related terms to the loans granted under the SpGS. The priority of the Administration was to enable the release of loans through the scheme at the earliest possible time.

19. On Mr LEE Cheuk-yan's suggestion of publishing the names of companies that had laid off their staff after obtaining loans under SpGS, PS(CIT) said that such a measure would adversely affect the trust and working relationship between PLIs and the loan recipients. As long as companies were able to continue with their operation, they would be able to retain jobs for their employees. In assessing the applications for loans under the scheme, PLIs would have to take into consideration the viability of the companies concerned for continued operation.

Support for the travel industry

20. Mr Paul TSE referred to Enclosures 3, 4 and 5 of the Administration's paper FCR(2008-09)52 and pointed out that except for the Loan Guarantee Scheme for SARS Impacted Industries in 2003, all previous loan guarantee schemes had failed to address the financial difficulties of the travel industry, in particular those of local

travel agents. Over the past year, due to the snowstorms in the Mainland, the Sichuan Earthquake, the Beijing Olympics and the social unrests in Thailand, India and Greece, local travel agencies had been experiencing unprecedented hardship. He believed that the circumstances warranted special consideration of the Government to set aside a fixed proportion of the loans under SpGS or re-activate a scheme similar to the SARS scheme in 2003 to support the travel industry.

21. PS(CIT) clarified that on 11 January 2008, FC approved a series of enhancement measures to the SME Loan Guarantee Scheme, including the introduction of a Working Capital Loan (WCL) to meet the liquidity needs of SMEs in the service sector, including the travel industry. As for the SpGS under discussion, the Administration had introduced a number of enhancement features to facilitate applications from SMEs of different trades. For instance, the new loan scheme would provide a revolving credit line up to 50% of the loan ceiling. This should be able to address the liquidity needs of the travel industry. She further said that the Administration would continue to work closely with the travel industry in monitoring the effects of the scheme.

SMEs with default records

22. Mr Albert CHAN said that the League of Social Democrats did not support the Administration's proposal since the new loan scheme did not address difficulties faced by those SMEs who had been blacklisted by banks for failing to make a loan repayment with a lapse of more than 60 days after the due date. To him, such a practice was harsh, hard to justify and would bar the SMEs with genuine needs from the new scheme. He was worried that banks rather than needy SMEs would be the actual beneficiaries of the new scheme, as the scheme would enable banks to grant loans to the better-off SMEs for reduced risks. He urged the Administration to obtain the list of blacklisted SMEs and to render all possible assistance to them.

23. The Chairman referred Mr CHAN to Enclosures 3 and 4 of the Administration's paper FCR(2008-2009)52. Enclosure 3 showed that of the 20 781 applications received for the SME Loan Guarantee Scheme, only 118 of them had been rejected for various reasons including previous records of default. Enclosure 4 showed that for the Special Finance Scheme for SMEs in 1998, there were 9 912 successful applications and only two applications were rejected due to default records.

24. PS(CIT) said that the success rate of loan guarantee applications under the SME Loan Guarantee Scheme launched in 2001 exceeded 99%. With the provision of a revolving credit line of up to 50% of the loan ceiling and the extension of the maximum guarantee period to 36 months for each loan, she was confident that the enhanced SpGS would help SMEs in need. She disagreed with Mr Albert CHAN that the scheme was tilted towards better-off SMEs and would constitute a form of transfer of benefits between the Administration and PLIs. Instead of capturing highly sensitive information such as SMEs with default payment history, the

Administration would obtain details from PLIs of unsuccessful applications and reasons of their rejection.

Monitoring and measurement of effectiveness of the scheme

25. While welcoming the enhanced SpGS, Mr Paul TSE cautioned that PLIs might make use of the scheme to cover loans which would otherwise be processed under existing terms and thereby defeated the objective of the scheme. He opined that it was important for the Administration to monitor the effectiveness of the scheme. In this regard, he proposed to conduct a thorough review in three months' time following the implementation of the scheme. He was particularly concerned about how the travel industry would benefit from the scheme. Dr Priscilla LEUNG expressed similar views, and proposed that to prevent possible abuses, the Administration should establish an effective monitoring system to oversee the actual operation of the scheme.

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

27. The meeting was adjourned at 6:29 pm.

(Post-meeting note: Subsequent to the meeting, on the advice of the Chairman, the Legislative Council Secretariat wrote to the Administration on 22 December 2008 setting out the follow-up actions required of the Administration in relation to the SpGS. The relevant letter was issued to members for information vide LC Paper No. FC48/08-09 on 24 December 2008.)

Legislative Council Secretariat
12 June 2009