

LCQ19: Fraud cases involving loans or grants to support enterprises

Following is a question by Dr the Hon Kennedy Wong and a written reply by the Acting Secretary for Innovation, Technology and Industry, Ms Lillian Cheong, in the Legislative Council today (October 18):

Question:

It has been reported that a number of recent fraud cases have involved the use of false instruments to fraudulently obtain loans or grants provided by the Government to support enterprises, including those under the Special 100% Loan Guarantee, the Dedicated Fund on Branding, Upgrading and Domestic Sales, the Technology Voucher Programme and the Distance Business Programme. In this connection, will the Government inform this Council:

- (1) of the number of the aforesaid fraud cases detected by the Police and the amount of money involved in each of the past three years; among such fraud cases, the number of persons being successfully convicted and the penalties imposed;
- (2) among the fraud cases mentioned in (1), of the number of those in which the Police successfully intercepted the defrauded money and the amount of money involved;
- (3) among the defrauded money mentioned in (1), of the percentage of the defrauded money involving the Special 100% Loan Guarantee in the total amount of loans approved under the scheme;
- (4) whether it will review if there are loopholes in the existing procedures and mechanisms for vetting and approving applications under the aforesaid schemes and programmes; if so, of the details; if not, the reasons for that; and
- (5) whether it knows if the Hong Kong Productivity Council has established a mechanism to conduct random checks or reviews of the applications for the relevant funding schemes and programmes; if it knows, of the details, including (i) the manpower involved in the related work and (ii) the number of cases of alleged misuse of funds, in each of the past five years?

Reply:

President,

The Government has all along been striving to support small and medium enterprises (SMEs) to revive and embrace new business opportunities, including exploring more diversified markets, through implementation of different measures. To ensure proper use of public money, stringent vetting mechanisms have been put in place under funding schemes of different government bureaux/departments to prevent abuse of funding and fraud. If the

relevant government bureau/department/unit suspects that any applications or approved projects involve illegal act in obtaining funding, such cases will be referred to law enforcement agencies for handling.

Since the question involves policy purview of the Commerce and Economic Development Bureau and Security Bureau, having coordinated information from the relevant policy bureaux, a consolidated reply to the various parts of the question is provided as follows:

(1)and(2) The Police does not have a breakdown of the statistics on fraud cases related to Government loans or funding.

(3) As at end September 2023, a total of 64 697 applications for the Special 100% Guarantee Product under the SME Financing Guarantee Scheme (SFGS) have been approved, involving a loan amount of \$135.6 billion. Among them, 1 531 applications, involving a loan amount of \$4.1 billion, were found to be suspicious cases after approval. The HKMC Insurance Limited (HKMCI), the administrator of the SFGS, has taken appropriate actions, including providing assistance to law enforcement agencies, taking legal actions and stopping borrowing enterprises from drawing down the loans. In collaboration with lending institutions and law enforcement agencies, the HKMCI has rejected or ceased to process 932 suspicious applications, involving a loan amount of \$3.14 billion. The HKMCI does not possess the statistics of the judicial proceedings involved in the aforementioned cases.

(4) To ensure proper use of public money, stringent vetting procedures have been put in place under the schemes mentioned in the question.

In respect of the Special 100% Guarantee Product under the SFGS, lending institutions are required to verify the eligibility of enterprises with their professional knowledge, judgement and due diligence, and submit the verified applications with the necessary documents to the HKMCI for final assessment and approval.

For the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund), the Technology Voucher Programme (TVP) and the Distance Business Programme (D-Biz), the Hong Kong Productivity Council (HKPC), as the Secretariat, conducts the initial vetting of applications submitted by enterprises/organisations and reviews the relevant supporting documents to confirm if the applicants could fulfil the eligibility criteria and, having regard to actual circumstances and needs, follows up and verifies the contents of the application. The HKPC will not continue to process any applications submitted if it is found to contain inaccurate declaration or statement. For applications under the BUD Fund, the HKPC will submit applications to the Government's inter-departmental committee for vetting after initial screening. Subsequently, applications will be submitted to the Programme Management Committee (PMC) for consideration and approval. For applications under the TVP and the D-Biz, the HKPC will complete the initial assessment and submit them to the relevant vetting committees (the TVP Committee and the D-Biz Vetting Committee respectively) for consideration. Applications supported by the committees will be submitted to the Commissioner for Innovation and Technology for funding approval.

Upon project completion, the HKPC will review the project reports and other required documents submitted by the enterprises/organisations as well as the audited accounts as necessary. If needed, the HKPC will verify the contents with the relevant enterprises/organisations. For applications under the BUD Fund, the final payment will only be disbursed after all the project reports have been submitted to PMC for consideration. For applications under the TVP and the D-Biz Programme, all project reports must be submitted to relevant vetting committees for consideration and accepted by the Government and the HKPC before final disbursements are released. For any enterprises/organisations failing to implement the project or in breach of any provisions of the funding agreement, the HKPC may cease disbursing any part of the funding to them, and/or has the right to recoup all or part of the disbursed funding.

Overall speaking, relevant departments or secretariats will refer any suspected illegal cases identified to relevant law enforcement agencies for follow up, and will actively cooperate with the related investigation work. The Government will continue to closely monitor the application process and operation of various funding schemes in order to timely review the effectiveness.

(5) The HKPC has put in place vigorous mechanisms to ensure that funding would only be disbursed if the projects comply with relevant requirements under the schemes. Please refer to our response to part (4) of the question for details.

The HKPC conducts on-site inspections of selected applications under the BUD Fund to guard against misuse of funds. Since the launch of the scheme (i.e. from June 2012) to end-September 2023, the HKPC has conducted on-site inspections of a total of 745 approved projects, among which 25 were terminated afterwards but the disbursed funding has yet to be returned by the enterprises. The Government and the HKPC will demand the return of disbursed funding from the enterprises that have received funding according to the established mechanism.

For the D-Biz Programme, the application was closed in October 2020. The HKPC reviewed all suspected cases and conducted random on-site inspections based on the risk-based principle. When processing the final reports submitted by applicants, the HKPC conducted random on-site inspections for more than 2 700 projects and referred 173 suspected cases to the law enforcement agencies for follow up.

Regarding the TVP, the HKPC has been appointed as the Secretariat of the TVP since June 2021. As part of the final report vetting process (i.e. completed projects), the HKPC will arrange on-site visits to premises of selected applicants before approval of final reports and fund disbursements. As at end-September 2023, the HKPC has already conducted random on-site visits for 509 projects. In the past, when reports of bid-rigging or fraud cases involving the TVP applications were received, the HKPC would review the related projects to identify whether there was any breach of provisions or conditions set out in the "TVP Guidance Notes for Applications" or the funding agreement, and whether there was preliminary evidence showing that

the applicant had committed illegal act that would require referral to law enforcement agencies. Since June 2021, the HKPC has received 19 such reports, of which seven were referred to law enforcement agencies for follow up after reviewing the cases.

Regarding the manpower involved in the related work, the aforementioned monitoring work is part of the HKPC's regular work, such breakdown of figures on manpower deployment is not available.