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Panel on Welfare Services
Subcommittee on Poverty Alleviation

Background brief prepared by the Legislative Council Secretariat
for the meeting on 7 July 2009

Social enterprise development in Hong Kong

Purpose

This paper gives an account of the past discussions by the Panel on Welfare Services and the Subcommittee to Study the Subject of Combating Poverty on the development of social enterprise (SE).

Definition of SE

2. According to the Administration, there is no universal definition on SE and the concept of SE is still evolving. The international trend is to encourage multi-modal development. A prescribed framework imposing unnecessary restriction would hinder the development of SE and greatly reduce the benefits that SE can bring to employees and consumers. An SE generally carries the following elements –

- (a) a business, i.e. a sustainable and self-financing venture through revenue generated mainly from the provision of services or products. Like other commercial enterprises, an SE should be business-minded to sustain its operation and be able to adapt to market changes;
- (b) achieving social objectives such as providing the needed services (e.g. supporting services for the elderly) or products; creating employment/training opportunities for the socially disadvantaged; protecting the environment; and funding its other social services organizations through profits earned by the SE; and
- (c) profit principally reinvested in the business or in the community for the social objectives pursued by the SE.

3. According to the information provided by the Administration, there are over 200 SEs in a wide range of industries with the objectives of helping the disabled and other disadvantaged groups, and most of them are operated by non-governmental organizations (NGOs).

Policy initiatives to promote SE development

4. The Financial Secretary (FS) stated in his 2006-2007 Budget speech that the Administration would assist further in the development of SE, such as by setting up seed funds to assist the formation of SEs and facilitating participation by SEs in tenders of Government contracts.

5. In the Report of Commission on Poverty (CoP) released in June 2007, CoP has taken the view that SE development in Hong Kong should be further encouraged as an innovative approach to promote self-reliance and provide community employment opportunities for the unemployed to integrate into the job market. Upon the re-organization of policy bureaux of the Government Secretariat with effect from 1 July 2007, the policy on SE is put under the Secretary for Home Affairs (SHA) for the adoption of a district-approach to promote SE.

6. In the Policy Address 2007, the Chief Executive (CE) had stated the Government's ongoing initiatives in encouraging the further development of SE together with relevant stakeholders, to help enhance the employability of the able-bodied unemployed and create more job opportunities for them. CE also announced in his Policy Address 2007 that the Administration would organize a summit on SE in December 2007 to promote understanding of SE and provide a platform for the Government, the business sector and NGOs to explore the way forward for the further development of SE in Hong Kong, and to formulate an action plan.

Start-up funds for SE development

7. To provide a funding source in support of start-up of SEs, the Administration has launched the following funding schemes –

Enhancing Employment of People with Disabilities through Small Enterprise Project

8. To promote an enterprise-driven approach to create employment opportunities for persons with disabilities (PWDs) and train up disabled persons with lower work ability for open employment, a one-off provision of \$50 million was announced in the 2001-2002 Budget for the implementation of the Enhancing Employment of People with Disabilities through Small Enterprise Project administered by the Social Welfare Department. NGOs can apply for a maximum grant of \$2 million to support the initial capital expenditure and the first-year operation. The businesses should be

self-sustaining in the long run and employing PWDs to fill no less than 60% of its total number of posts.

Community Investment and Inclusion Fund (CIIF)

9. SE projects may also be funded by CIIF. The \$300 million CIIF was set up in 2002 and administered by the then Health, Welfare and Food Bureau (administered now by the Labour and Welfare Bureau). It aims to promote the development of "social capital" and encourage innovative solutions through cross-sectoral partnerships to build community capacity for mutual help.

Enhancing Self-Reliance Through District Partnership Programme

10. In the 2006-2007 Budget, FS earmarked a sum of \$150 million for the following five years to provide grants for NGOs to run SE projects for the socially disadvantaged at the district level. The Government then launched the Enhancing Self-Reliance Through District Partnership Programme, administered by the Home Affairs Department (HAD) for the purpose.

Past discussions on the development of SE

11. The Subcommittee to Study the Subject of Combating Poverty (the Subcommittee) formed under the House Committee in the Third Legislative Council (LegCo) had studied the subject of development of SE in helping the unemployed and disadvantaged, and presented its report to the House Committee in June 2007 (LC Paper No. CB(2)2390/07-08).

12. In the course of the Subcommittee's study, members had identified a number of problems which hindered the further development of SE. The major problems were –

- (a) lack of Government commitment in promoting and policy support for the SE sector's development;
- (b) lack of clear public understanding and definition of SE;
- (c) lack of the relevant business entrepreneurship and profession;
- (d) lack of an appropriate legal and regulatory framework to facilitate the sector's development; and
- (e) difficulties in gaining access to finance.

13. To further encourage the development of SE, the Subcommittee had put forth 21 recommendations in its report for the Administration's consideration. In gist, the Subcommittee took the view that the Administration should formulate an overall

strategy and policy, create an enabling market environment, enhance business facilitation and support, establish legal framework for SE and increase public awareness and acceptance of SE. An extract of the recommendations contained in the Subcommittee's report is in **Appendix I**.

14. At the meeting on 10 July 2007, the Subcommittee discussed with the Administration its initiatives to foster the development of SE, including providing start-up support for SEs, and organizing forums and a summit on SE to explore the possible way forward for the further SE development in Hong Kong. Members remained of the view that the Government should adopt concrete measures to foster the further development of SE and create an enabling environment for SEs, and made the following suggestions for the Administration's consideration –

- (a) development of SE should not be confined to small-scale pilot projects at the district level, as they were far from adequate to create job opportunities for the unemployed;
- (b) the legal framework for the establishment of SEs, including the Co-operative Societies Ordinance (Cap. 33) and the Companies Ordinance (Cap. 32), was outdated and should be reviewed;
- (c) more weights should be given to those SEs which provided job opportunities for the socially disadvantaged groups when awarding Government service contracts; and
- (d) support and assistance should be provided to help the sustainability of SEs.

15. A few members pointed out that the business sector was concerned that SEs might pose unfair competition to the small and medium enterprises, if SEs were promoted or supported by the Government. To alleviate the concern, the Administration should state clearly the social objectives and operation of SEs and, in particular, distinguish the social objectives of SEs from the concept of corporate social responsibility.

16. The Subcommittee was updated on the preparation of the Summit on SE (the Summit) at the meeting on 11 December 2007. Members were advised that representatives from different sectors such as the business sector, academics, NGOs, operators of local SEs, public bodies, district councils as well as Members of LegCo were invited to attend the Summit to be held on 20 December 2007 and participate in the breakout sessions. The Administration would formulate an action plan on the further development of SE taking into account the experience and views contributed in the Summit.

17. Members expressed disappointment that the Administration had yet to formulate concrete measures to promote the SE development. They also expressed reservations about the effectiveness of the Summit in collecting views on how to

further develop SE given that limited time was allowed for discussion during the half-day programme. Members strongly urged the Administration to draw up specific policies and concrete measures to foster the development of SE.

18. When the Panel was briefed on the welfare initiatives in the CE's Policy Address 2007-2008 and Policy Agenda at the meeting on 15 October 2007, members were advised that the Administration would facilitate the development of SE through the following measures –

- (a) *promoting understanding of SEs among members of the public* : the Home Affairs Bureau was planning to enhance publicity, including the preparation of a booklet to introduce successful SEs both in Hong Kong and overseas to the community, with a view to enhancing a better understanding on the social objectives of SEs and creating a more conducive environment for the SE development and its clientele;
- (b) *fostering partnership between the community, the business sector and Government* : as the first step, the Administration had successfully contacted a few big organizations/corporations which were interested in operating SE projects with a view to creating new job/training opportunities. It was also considering cooperation with the universities to train talents for SE; and
- (c) *providing the supporting infrastructure for the sustained development of SEs* : HAD had commissioned the University of Hong Kong to carry out a study to examine the current modes of operation of SEs in Hong Kong, their strengths and weaknesses, and the views of major stakeholders including NGOs, the business sector and public organizations, on the development of SEs in Hong Kong.

19. At the Panel meeting on 23 October 2008, members were advised that taking into account the view of various sectors solicited at the Summit, the Administration had promoted the development of SE through a four-pronged approach –

- (a) *enhancing public understanding* : it would continue to broadcast the television and radio announcements in public interest to enhance public understanding of the social objectives achieved by SEs, to update the SE website and the SE directory, to organize promotional activities in the 18 districts, and to introduce stories of successful SEs to members of the public;
- (b) *promoting cross-sector collaboration* : the Social Enterprise Partnership Programme enhanced and facilitated partnership through a matching forum and a mentorship scheme;

- (c) *nurturing more SEs* : it had commissioned the Centre for Entrepreneurship of the Chinese University of Hong Kong to organize the Social Enterprise Challenge 2008 in partnership with eight other tertiary institutions. The event was a business plan writing competition targeted at students of tertiary institutions; and
- (d) *strengthening support for SEs* : it would continue to provide seed grants for eligible SEs to subsidize their initial operations.

20. Members were also advised that HAD had approved under the first three phases of applications of the Enhancing Self-Reliance Through District Partnership Programme a total grant of about \$67 million to some 70 new SE projects creating some 1 300 jobs for the socially disadvantaged. The Administration further advised that CE had announced in the Summit the introduction of a pilot scheme to give eligible SEs priority in bidding 38 Government cleansing contracts. Under the pilot scheme, 16 contracts had been awarded to SEs. The Administration would review the effectiveness of the pilot scheme and would continue to look for suitable service contracts having regard to the need to maintain transparency and fairness.

Related information

21. On 14 June 2006, the LegCo passed a motion on "Vigorously promoting the development of SE" urging the Administration to implement measures to promote vigorously the development of SE, with the objectives of enhancing social capabilities and establishing positive social values.

22. Another motion on "Urging the Government to make effective use of the surplus and plough it back into the community" was passed on 24 January 2007. The motion urged the Administration to, among other things, accord priority to alleviating the disparity between the rich and the poor and protecting the interests of the grass-roots workers and the disadvantaged groups by making effective use of the Government's surplus and investing more resources in promoting the development of SE.

23. On 5 December 2007, LegCo passed a motion on "Promoting SEs". The Administration was urged to formulate policies to effectively promote SEs in order to alleviate the hardship of elementary workers and narrow the gap between the rich and the poor.

Relevant papers

24. A list of relevant papers and documents is in **Appendix II** for members' easy reference. The papers and documents are available on the LegCo website at <http://www.legco.gov.hk>.

Council Business Division 2
Legislative Council Secretariat
30 June 2009

Chapter 5 – Recommendations

5.1 The Subcommittee is of the view that it is the Government's responsibility to take proactive steps to foster the development of social enterprise. The Subcommittee recommends that the Government should –

Formulation of an overall strategy and policy

- (a) formulate an overall and long-term policy to support the development of social enterprise;
- (b) establish a high-level cross-bureau task force to formulate overall strategies for developing social enterprise, and designate a bureau/department to be responsible for overseeing and promoting the development of and providing assistance for the social enterprise sector;
- (c) encourage large business corporations to take the lead in running social enterprise business, so as to alleviate the worry about unfair competition between social enterprises and SMEs;
- (d) introduce more social enterprises in districts where the poverty problem is more serious so as to increase the employment opportunities in these districts;

Creating an enabling market environment

- (e) provide a definition of social enterprise and specify the target groups;
- (f) review the procurement policies, in particular the criteria for awarding Government service contracts for social enterprises;
- (g) specify a certain percentage of the procurement of Government goods and services for social enterprises;

Chapter 5 – Recommendations

- (h) award restricted tenders of Government services for social enterprises;

Business facilitation and support

- (i) offer advisory and mentorship service to social enterprises to run business;
- (j) provide one-stop support, training and consultancy services for social enterprises;
- (k) facilitate cross-sectoral collaboration and encourage the private sector to set up start-up funds for social enterprise projects;
- (l) provide loan guarantee and set up marketing, training and development funds for social enterprises, similar to the funding schemes for SMEs;
- (m) offer tax concession to social enterprises which employ a certain proportion of unemployed persons and PWDs;
- (n) provide a profits tax exemption period for newly established social enterprises;
- (o) offer rent concession to social enterprises;
- (p) give priority leasing vacant premises or stalls at public housing estates or public hospitals to social enterprises;
- (q) encourage private enterprises to offer rent concession for social enterprises;

Legal framework for social enterprise

- (r) expedite the review of the Co-operative Societies Ordinance and the Companies Ordinance with a view to providing more flexibility for the formation of co-operatives;

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- (s) consider establishing an appropriate regulatory framework to cater for the special needs of social enterprises;

Increasing public awareness and acceptance

- (t) step up publicity and promote the public's awareness and acceptance of social enterprises; and
- (u) establish a platform for the sector to maintain dialogue with the Government and the business sector.

5.2 The Subcommittee agrees that the report should be provided to the House Committee for information, and to the Administration for consideration and response.

Council Business Division 2
Legislative Council Secretariat
24 June 2008

Relevant Papers/Documents

Meeting	Meeting Date	Papers/Motions
Legislative Council	14.6.2006	Motion on vigorously promoting the development of social enterprise
	24.1.2007	Motion on urging the Government to make effective use of the surplus and plough it back into the community
	5.12.2007	Motion on urging the Government to promote social enterprises
Subcommittee to Study the Subject of Combating Poverty	10.7.2007	Paper provided by the Administration LC Paper No. CB(2)2386/06-07(01) Minutes of meeting LC Paper No. CB(2)2744/06-07
	11.12.2007	Paper provided by the Administration LC Paper No. CB(2)497/07-08(01) Minutes of meeting LC Paper No. CB(2)1162/07-08
House Committee	27.6.2008	Report on Development of Social Enterprise LC Paper No. CB(2)2390/07-08
Panel on Welfare Services	15.10.2007	Paper provided by the Administration LC Paper No. CB(2)3/07-08(02) Minutes of meeting LC Paper No. CB(2)358/07-08
	23.10.2008	Paper provided by the Administration LC Paper No. CB(2)15/08-09(03) Minutes of meeting LC Paper No. CB(2)321/08-09