

A. Introduction

The Audit Commission ("Audit") conducted a review of the Community Investment and Inclusion Fund ("CIIF") with focus on the following areas:

- governance of the CIIF;
- development of social capital;
- assessment and monitoring of projects; and
- use of funds by grantees.

2. **Hon Starry LEE Wai-king** declared that she was honorary chairman or member of some organisations which might have applied for CIIF funding.

3. **Hon Paul CHAN Mo-po** declared that he was involved in different charitable organisations which might have applied for CIIF funding.

4. **Mr Matthew CHEUNG Kin-chung, Secretary for Labour and Welfare**, made an opening statement at the public hearing on 30 November 2010. The full text of his statement is in *Appendix 28*.

B. Development of social capital

Utilisation of CIIF funding

5. The Committee noted that the CIIF was established in 2002 with a capital of \$300 million. The CIIF, in the form of seed money, encouraged mutual care and promoted community participation and cross-sectoral collaboration through collaborative projects among community and commercial organisations, with a view to building social capital, including "mutual trust", "community networks", "collaboration spirit" and "social cohesion", etc. The CIIF's objective and positioning was to serve as a catalyst to foster social capital development through promoting the concept of social capital to all sectors. The CIIF was not a general welfare fund or one that disbursed financial assistance.

6. According to paragraph 1.8 of the Director of Audit's Report ("Audit Report"), as at May 2010, the CIIF had approved a total of 213 projects and the total amount of approved funding was \$212 million.

7. Against the above background, the Committee asked:

- about the lessons learnt by the Government and the CIIF Committee over the past eight years and how they would draw on the past experience to better utilise the CIIF in the future; and
- whether any mistakes had been made in the past and what improvement measures had been taken.

8. The **Secretary for Labour and Welfare** said that:

- the concept of social capital was not easy to understand and some people were still unfamiliar with it, though the CIIF had been established for eight years;
- the CIIF was different from other funds as it was a seed fund that aimed at promoting and building social capital in Hong Kong and the CIIF would not support "one-off activity" projects and those without long-lasting effect on community development. It placed considerable emphasis on the sustainability of the projects beyond the CIIF funding period. As not many people were familiar with the CIIF's objectives, many unqualified applications were received during the early stage of the Fund, and hence the assessment of applications was slow;
- to address the above problem, the CIIF had developed a set of clearer and more concrete assessment criteria and procedures to help process applications efficiently, i.e. including weightings in the marking scheme for the 16th batch of applications. It had also assigned a CIIF Committee member to serve as a mentor of each approved project to help provide guidance and support to the project team together with the CIIF Secretariat during the project implementation period; and
- the Labour and Welfare Bureau ("LWB") and the CIIF Committee would draw on the successful experience of well-performed projects, such as the one relating to the establishment of a "House Captain/Floor

Captain System" in housing estates, and promote them to other districts in the territory.

9. **Mr YEUNG Ka-sing, Chairman of the CIIF Committee**, supplemented that:

- although mistakes had been made over the past eight years, none of them was serious. In the first year when the CIIF was established, the success rate of applications was only about 7% to 8%. The reason was that many applicants were not familiar with the CIIF objectives. As a result, almost all applications were made by welfare agencies which expected recurrent funding support from the CIIF. The work progress was slow at that time and it was not easy to promote the Fund. Up till recent years, there had been cooperation among the community, business and the Government, and increased participation from the business establishments; and
- in the past eight years following the establishment of the CIIF, mutual support and assistance among people in the community were fostered. For example, the project run by the United Christian Hospital ("the Hospital") had shortened the queue for the Hospital's services. Another project implemented by the Chamber of Hong Kong Computer Industry Company Limited was an innovative one, and it enhanced the confidence of participating youths as well as their capability to solve problems independently.

10. The Committee queried:

- why it took the Government eight years to learn how to use the Fund;
- why the \$300 million had not been fully utilised; and why there had been a drastic decrease in the number of CIIF applications from over 200 applications in the first two years to about 100 or below in the years that followed; and
- whether the objectives of the CIIF had been achieved.

11. The **Secretary for Labour and Welfare** replied that:

- the Fund was established for the purpose of promoting the social capital concept to hold the strengths of community together through practical experience. It expected a long-lasting effect on social capital development in the community. As social capital was a relatively new concept, the Government had spent time to explore and promote it through successful examples. In the recent three to four years, the CIIF had established a clear direction and had taken stock of some successful projects, some of which promoted cross-sectoral collaboration, for further development in other districts. Such cross-sectoral collaboration formed the foundation of social capital through networks in the whole community;
- the LWB and the CIIF Committee had upheld the principle of prudent use of public funds when assessing applications. Since the CIIF was a form of seed money, the CIIF Committee would attach importance to the effectiveness of the projects in terms of promotion of multi-partite collaboration and social capital development rather than focusing on the number of projects approved. An example of a quality project was the one implemented by the Salvation Army in Wong Tai Sin. The project had mobilised a group of elderly to manage an "elderly shop" and formed cleaning teams led by women. The project was not simply running a business but had enhanced the cooperation and collaboration among various groups in the district. Although the CIIF funding for the project had expired in 2007, it was still making a profit; and
- the LWB and the CIIF Committee had stepped up publicity efforts to promote the CIIF in order to encourage more eligible applicants to make applications. These included extending invitation to all interested organisations to attend briefing sessions and arranging interviews by RoadShow and TV stations. In addition to promoting successful projects, the LWB and the CIIF Committee also promoted the cooperation among organisations in implementing the projects.

12. The **Chairman of the CIIF Committee** supplemented that:

- as perceived by both the World Bank and the Asian Development Bank, without the development of social capital, people would only unceasingly ask for welfare. That was the reason for setting up the CIIF. All CIIF Committee members and he considered the CIIF very successful, as only a small amount of money (i.e. \$212 million) had

been allocated in eight years while 21 000 people had been transformed from recipients to providers of assistance;

- the effectiveness of the CIIF's strategies in developing social capital was affirmed by a study of the CIIF operation and funded projects conducted by a consortium comprising academics from local universities, which reflected that social capital was a new concept and was worthy of promotion. The CIIF conducted annual forum and invited overseas guests to join and share experiences on social capital. The guests reflected that the mode adopted by Hong Kong to build social capital was effective;
- the LWB had commissioned independent consultants in 2010 to conduct another external review on the effectiveness of the CIIF. Upon the completion of the review in early 2012, the LWB would submit a paper to the Government on the way forward of the Fund;
- to promote the CIIF, he had reported progress of the CIIF to the chairmen of the 18 District Councils through the Home Affairs Department. The District Council chairmen and members helped promote the Fund in the districts;
- 17 out of 229 applications were approved in 2002. The number of successful applications was small because the majority of applications were unqualified. In addition, the CIIF Committee had turned down some applicants who were not able to achieve financial sustainability. With the passage of time, people had become aware that the CIIF was not a recurrent fund. The number of annual applications had decreased and remained at a range between 50 to 80. Although the number of applications had decreased, the success rate had relatively increased; and
- after several years of the CIIF operation, he expected that there would not be as many innovative projects as when the Fund was set up.

Social capital concept

13. Noting that people were not familiar with the concept of social capital, the Committee asked about:

- the definition of "social capital" according to the World Bank and the Asian Development Bank; and

- the difference between the definition adopted by the CIIF and by the World Bank and the Asian Development Bank.

14. In his letter of 29 November 2010 (in *Appendix 29*), the **Secretary for Labour and Welfare** advised that:

- the definition of social capital adopted by the CIIF was based on the World Bank's definition announced on its official website. "Social capital" referred to the institutions, relationships, and norms that shaped the quality and quantity of a society's social interactions. Social capital included social norms (individual attitudes and social values), networks, and institutions. The "strategies" deployed in social capital development included "cognitive", "relational" and "structural" dimensions, incorporating psychological and sociological concepts of "role transformation", "social trust" in horizontal "bridging" across heterogeneous groups and collaboration in vertical "linking" partnerships across sectors and power hierarchy. Social capital was more than the sum of the institutions or the talents of individuals that underpinned a society. It agglomerated the people and the institutions together with a view to striving for the common good; and
- the Asian Development Bank did not elaborate much on the definition of social capital. Social capital included networks, groups, mutual trust, mutual understanding, personal attitudes, social values and systems, which were basically similar to the World Bank's definition.

15. The Committee further asked whether the Administration, when appointing members from different sectors to the CIIF Committee, had considered their knowledge in social capital and whether an introduction to the concept of social capital was given to the new members.

16. The **Secretary for Labour and Welfare** and the **Chairman of the CIIF Committee** said at the public hearing and the **Secretary for Labour and Welfare** replied in his letter of 29 November 2010 that:

- when appointing members to the CIIF Committee, the Administration would carefully consider all relevant factors, including their knowledge and experience in social capital and whether they could facilitate the

promotion and development of social capital, and determine the suitability of individuals to serve as members of the CIIF Committee;

- when issuing appointment letters to the new members, the Administration would attach a copy of the relevant Legislative Council ("LegCo") Finance Committee paper, which included an introduction to social capital, background, objectives, models and assessment criteria, etc. of the CIIF when it was set up in 2002 for their information; and
- with the establishment of the Social Capital.Net by the CIIF to consolidate local practical experience on social capital for its better development, its 100 members had a good grasp of the social capital concept. The LWB and the CIIF Committee were promoting this programme to recruit more members, in order to disseminate the social capital concept in the community through social networks.

External Review on CIIF

17. Noting that the LWB had commissioned independent consultants to conduct another external review on the effectiveness of the CIIF, the Committee asked who would conduct the review and about the review timetable.

18. The **Chairman of the CIIF Committee** replied at the public hearing, and the **Secretary for Labour and Welfare** replied in his letter of 17 December 2010 (in *Appendix 30*) that:

- the review was conducted by two universities which were recommended by the CIIF Committee and commissioned by the LWB through open tender. It was launched in October 2010 and was expected to be completed in early 2012. The consultants were required to submit interim report as well as final report; and
- the two universities would study different subjects separately. One of them was responsible for in-depth study of the 20-odd projects in Tin Shui Wai. The projects were developed in response to the tragedies happened in that district a few years ago.

Assessment of CIIF applications

19. The Committee referred to the guidelines on assessment procedures and criteria for CIIF applications in 2002 provided by the Secretary for Labour and Welfare in his letter of 29 November 2010. The guidelines stipulated that the innovative nature, merit and intent of the CIIF came with increased risk exposure. The risk areas to be addressed by the CIIF Committee included: the expected outcomes were new and might be difficult to specify, achieve, or monitor as well as measure; and the assessment criteria and process were new and untested. The Committee asked whether the CIIF Committee had a better understanding of the risks after so many years of experience.

20. In response, the **Chairman of the CIIF Committee** said that:

- it was difficult for the CIIF Committee to ascertain if the expected outcome could be achieved due to the existence of many variables, such as withdrawal of stakeholders in the process of project implementation. Yet, the CIIF Committee would try its best to perform its duty;
- the past experience of applicants would also affect the chance of project failure or delay. The CIIF Committee was able to deal with the risk of grantees not being able to continue their projects; and
- the CIIF had been reviewing the assessment criteria to ascertain their appropriateness.

21. The Committee referred to the revised assessment criteria for the 16th batch of applications. The Committee was concerned that the requirements on organisations' leadership and capability would not be conducive to small organisations' application for the Fund. The Committee asked whether there were examples of approved projects run by small organisations.

22. The **Chairman of the CIIF Committee** responded that there had not been many projects which were run by small organisations with CIIF funding. They contributed to about 20% of the total number of projects and often had to cooperate with other stakeholders. As the CIIF did not want to rely too much on welfare agencies to achieve its objectives, it had been encouraging small-to-medium-sized commercial companies to apply for the Fund. Such companies, however, were not keen on applying for CIIF funding.

23. The Committee referred to a discussion paper on "CIIF applications: assessment procedures and criteria" prepared by the CIIF Secretariat for the first meeting of the Assessment Sub-committee (currently known as the Assessment and Evaluation Sub-committee) ("the Sub-committee") of the CIIF on 20 September 2002, which was provided by the Secretary for Labour and Welfare in his letter of 29 November 2010. As stated in the assessment form attached to the discussion paper, one of the criteria for assessing CIIF applications was "other negative factors" which included the draft criterion of "political consideration". The Committee asked why such a criterion was included, and whether the CIIF Committee had ever assessed any application by this criterion.

24. The **Secretary for Labour and Welfare** responded in his letter of 17 December 2010 that:

- according to the minutes of the Sub-Committee meeting on 20 September 2002, there was no discussion on the draft criterion at the meeting;
- the CIIF Committee had discussed the assessment procedures and criteria at its meeting held on 24 September 2002. The meeting agreed that the Sub-committee would conduct a "practice run" in late October 2002, with a view to building consensus on the application of the assessment criteria and detailed working arrangements of the assessment procedures as proposed by the Sub-committee;
- the Sub-committee subsequently held its second meeting on 29 October 2002 to further discuss the assessment procedures and criteria. The assessment form attached to the discussion paper for the meeting was revised and the draft criterion of "political consideration" was deleted;
- when the first batch of applications was submitted to the CIIF Committee for vetting on 9 December 2002, the criterion of "political consideration" was no longer included in the assessment form. Therefore, since the CIIF processed its first batch of applications, "political consideration" had not been one of the criteria for vetting project applications; and
- the CIIF had subsequently further revised the assessment form and the most updated version also did not include the criterion of "political consideration".

Project sustainability

25. According to paragraph 3.13 of the Audit Report, of the 10 completed projects, the sustainability of seven of them was questionable. The Committee asked whether the CIIF Committee had conducted any review to ascertain why the seven projects could not sustain.

26. The **Secretary for Labour and Welfare** replied in his letter of 17 December 2010 that:

- the LWB and the CIIF Committee believed that Audit mainly meant that the projects could not sustain financially, e.g. other sources of subsidies were still required;
- the CIIF Committee considered that the concept of sustainability should be interpreted from a wider perspective. The projects needed not necessarily be implemented in their original modes of operation. In fact, if the operating organisations could adopt effective social capital strategies in implementing the projects, the social outcomes of the projects would become sustainable. These social outcomes included the enhancement of participants' capacity through role transformation, successful establishment of networks of mutual help in the neighbourhood, and creation of more development opportunities in society through multi-partite collaboration, etc;
- the LWB and the CIIF Committee considered that nine of the 10 projects mentioned in the Audit Report were sustainable in terms of social outcomes. The remaining project was completed in 2005 and the relevant project staff had already departed. The grantee indicated that it could not provide information for assessment purpose; and
- the CIIF Committee reviewed the overall performance of project sustainability from time to time. Five local academic institutions were commissioned to jointly conduct an evaluation study for the CIIF between 2004 and 2006. The study confirmed the effectiveness of the CIIF in fostering mutual support in the neighbourhood, tripartite collaboration among the community, business sector and the Government, as well as community participation, etc. The CIIF had commissioned independent consultants to launch the second evaluation study in October 2010. The study was expected to be completed in early 2012.

27. The Committee further asked:

- whether the CIIF Committee would set a quantifiable target, such as 70%, in respect of the number of projects which could sustain; and
- whether the CIIF would allow flexibility for those projects which could be socially sustainable but needed longer time to attain financial sustainability.

28. In response, the **Chairman of the CIIF Committee** said that:

- he could hardly guarantee that all completed projects would be sustainable as there were many variables, such as change of personnel, which would affect project sustainability. However, sustainability would be the focus of the CIIF's work. In fact, the CIIF Committee had been following up the sustainability of the completed projects launched in 2002; and
- when the CIIF was established, it targeted on projects requiring two to three years for development. As such, only large organisations were capable of carrying out the projects. The CIIF had adjusted its target and would approve projects which lasted for one year. Upon conducting reviews after project completion, capable organisations would be encouraged to submit applications for further funding their projects.

Difficulties in applying for CIIF funding or implementing CIIF projects

29. According to paragraph 3.5 of the Audit Report, some grantees had reflected that the implementation of a project involved heavy administrative workload (e.g. preparing quarterly project progress reports) and high administrative cost. The Committee was also aware that some grantees had encountered difficulties in applying for advance payment of disbursement as operating/start-up funds, and in obtaining approval for re-allocation of funds during the implementation of the projects. The Committee asked about the CIIF Committee's mechanism of reporting project progress by grantees as compared to that of similar funds in the Government.

30. The **Chairman of the CIIF Committee** replied at the public hearing and the **Secretary for Labour and Welfare** replied in his letters of 29 November 2010 and 17 December 2010 that:

- according to the Conditions of Grant of the CIIF, grantees were required to submit four quarterly reports every year during the implementation period to enable the CIIF Secretariat to conduct timely monitoring and provide advice and support to the grantees when necessary to help them complete the projects. To facilitate the reporting of project performance by the operating organisations, the CIIF Secretariat had revised the quarterly performance report form in early 2010 to set out clearly the items that needed to be reported, so as to make it easier for the operating organisations to complete the report form and understand the requirements of the CIIF. The CIIF Secretariat would also send guidelines to grantees via e-mail about half a month before each reporting deadline to remind them of the need to submit reports on time and the points to note; and
- the CIIF provided seed money to facilitate and promote the development of social capital and had a clear objective and positioning. It did not provide financial support for individuals or support various social welfare programmes. Thus, it was not appropriate to make a comparison of operation between the CIIF and other government funds.

31. The Committee referred to the quarterly progress report form, which required the grantee to report on the overall social capital outcomes and specific objectives assessment, and to provide project participants' feedback for sharing, such as positive changes, touching stories, commendations or complaints of participants. The Committee asked whether the grantees would discuss with their project mentors before completion of the progress reports.

32. In response, the **Chairman of the CIIF Committee** replied that:

- each CIIF project would be followed up by a project officer of the CIIF Secretariat. The officer would be very familiar with the project development and would vet the quarterly progress reports submitted by grantee;
- the mentor of the project, together with the project officer, would pay site visits and hold review meetings with the project team to discuss the

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team's concern and project performance where appropriate. As a general practice, when mentors came across successful projects, they would share the experience of these projects with other grantees; and

- among the 213 approved projects, the majority of them were able to meet the expected targets, 26% were well-performed flagship projects and 12% with unsatisfactory performance/rooms for improvement. The CIIF would prioritise the projects having regard to their circumstances and give appropriate assistance to them.

33. As regards the advance payment of disbursement as operating/start-up funds, the Committee asked:

- whether all applicants were eligible for applying for advance payment of disbursement;
- about the number of projects for which advance payments had been made to the grantees since the establishment of the CIIF in 2002; and for each of these projects, the percentage of the funds advanced versus the total amount of the approved budget; and
- how the CIIF Committee's mechanism of granting advance payments compared to similar funds in the Government, including the criteria for approving application for advance.

34. In his letter of 17 December 2010, the **Secretary for Labour and Welfare** replied that:

- a total of 229 projects had been approved by the CIIF since its establishment in 2002. Four of the projects were granted advance payment as part of the subsidies by the CIIF Committee. The percentage of the funds advanced versus the total amount of the approved budget ranged from 5% to 13%;
- the CIIF funds were mainly disbursed in the form of reimbursement on a regular basis. To prevent potential abuse of public funds, the CIIF Committee would consider and handle requests for advance payment of subsidies only on a case-by-case basis under exceptional circumstances. The amount of funding involved normally would not exceed the estimated costs for the first three months of the projects. For the four

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applications approved previously, the main considerations of the CIIF Committee included the track record of the applicants, their affordability for advance payment of costs, as well as the expenditure items which required advanced funds and the reasonableness of the amount of funds involved; and

- the CIIF was unique in nature and had a clear objective and positioning. It provided seed money to facilitate and promote the development of social capital. It did not provide financial support for individuals or support various social welfare programmes. Thus, it was not appropriate to make a comparison of the funding arrangements between the CIIF and other government funds.

35. The Committee further asked whether the CIIF would approve application for re-allocation of funds among different expenditure items of the budget based on the actual situation of the projects; and whether the CIIF Committee would consider relaxing some of its administrative requirements and procedures to facilitate grantees' implementation of their projects, and to encourage those organisations with lower financial capacity but had innovative ideas to apply for the Fund.

36. **The Chairman of the CIIF Committee** responded that:

- there was an established system for grantees to revise their budget with justifications. The grantees were allowed to re-allocate not exceeding 15% of the approved amount of an expenditure item. However, they were required to seek the CIIF Committee' approval for re-allocation of funds of more than 15%. The CIIF Committee would normally approve such a re-allocation request with justifications;
- since the CIIF was funded by public money, the CIIF Committee and the Administration had to uphold the principle of prudence in implementing the administrative requirements and procedures. For example, the CIIF Secretariat would ensure that there were sufficient supporting documents before granting reimbursement of expenditure by grantees;
- in the past, the CIIF Secretariat might ask the applicants to revise their project proposals so as to increase their chance of being approved by the CIIF Committee. The good intention of the Secretariat staff was, however, misunderstood by some applicants as forcing them to revise

their proposals, and hence increasing their administrative workload. In order to improve the situation, the CIIF had arranged interviews between individual applicants and the CIIF Committee members to enable them to exchange views on the ideas and content of the projects, with a view to enhancing the quality of the project proposals; and

- to reduce applicants' administrative workload, the CIIF had simplified the application form for CIIF funding in the last quarter. It was a dilemma for the CIIF Committee as it had to ensure the optimum use of the CIIF funding on one hand and to facilitate applicants or executive agencies on the other hand. The CIIF had been reviewing the application procedures from time to time. With a view to simplifying the procedures by digitalisation, the CIIF Secretariat had also employed a Computer Analyst/Programmer. He believed that with digitalisation, more manpower could be released to perform other jobs.

C. Assessment and monitoring of projects

37. The Committee referred to the funding recommendations prepared by the CIIF Secretariat for the Sub-committee meeting on 29 October 2002, as provided by the Secretary for Labour and Welfare in his letter of 29 November 2010. Noting that the cost of rental of the three projects (Application Nos. 11-1, 17-1 and 113-1) appeared to be very high when compared to the total budget, the Committee asked:

- about the reasons for the high rental costs of the three projects; and
- whether the LWB or the CIIF Committee had ever explored the feasibility of helping the grantees of these projects to make use of vacant government premises in order to reduce rental costs.

38. In his letter of 17 December 2010, the **Secretary for Labour and Welfare** replied that:

- Application No. 11-1: the project aimed to identify a regular venue in Kwai Tsing for setting up a "cyber cafe for the elderly" to provide a platform for mutual acquaintance for the elders in the district;
- Application No. 17-1: the project aimed to identify a regular venue in Fu Cheong Estate, Sham Shui Po, for provision of after-school care service; and

- Application No.113-1: the project aimed to rent a shop in the shopping centre near Po Tin Interim Housing ("IH") for office use by the project staff and for IH residents to gather.

39. Regarding the reasons for the high estimated rental costs, the **Secretary for Labour and Welfare** stated in the same letter that:

- the CIIF had been encouraging applicants to establish networks of mutual help with local stakeholders in pursuance of the development of the social capital concept. Among the three applications, Application No.11-1 was finally not accepted by the CIIF Committee;
- as for the other two applications (i.e. Application No. 17-1 and Application No. 113-1), the Sub-committee, when discussing the applications, considered that the proposals had the potential for developing social capital. However, the Sub-committee also noted that the estimated rental costs were on the high side and thus encouraged the applicants to cooperate with local stakeholders to make effective use of the existing community resources to reduce unnecessary rental costs;
- the two applicants actively discussed with local groups and successfully secured the provision of venues by local stakeholders to achieve the benefits of sharing community resources. The two applications (i.e. Application No. 17-1 and Application No. 113-1) were formally approved by the CIIF Committee after amendments had been made to the estimated costs; and
- in line with its objective of establishing social capital in the community, the CIIF would continue to encourage applicants to make active efforts to implement projects jointly with local stakeholders, including government departments.

D. Governance of the Community Investment and Inclusion Fund and use of funds by grantees

Governance of CIIF

Publication of performance information

40. According to paragraph 2.15 of the Audit Report, the CIIF Secretariat had compiled 17 items of performance information for the CIIF Committee's internal

consumption. However, it only published nine items on the CIIF's websites and/or in the periodic progress reports submitted to the LegCo Panel on Welfare Services. The Committee asked:

- what the 17 items of performance information were;
- why only nine items were published whereas the remaining eight items were left out; and
- about the follow-up actions taken by the CIIF to publish more performance information, as recommended by Audit in paragraph 2.16(g) of the Audit Report.

41. The **Secretary for Labour and Welfare** replied at the public hearing and in his letter of 29 November 2010 that:

- the 17 items of performance information of the CIIF, as at 25 November 2010, were as follows:
 - (a) 213 approved projects in the 16 batches of applications;
 - (b) over \$210 million allocated to the 16 batches of applications;
 - (c) engaged over 560 000 participants;
 - (d) transformed 21 000 people from service recipients to providers of assistance;
 - (e) helped over 5 000 people re-enter the labour market with enhanced confidence and capabilities;
 - (f) supported over 14 500 families;
 - (g) formed over 450 mutual support networks;
 - (h) founded over 20 self-support groups;
 - (i) mobilised over 5 000 collaboration partners;
 - (j) geographical distribution of the projects: CIIF-funded projects covered all the 18 districts in Hong Kong, with the majority of

projects (i.e. 28 projects) implemented in Tin Shui Wai, followed by 23 projects in Sham Shui Po;

- (k) project target groups: major target groups included "family and children network", "community capacity building", "youth development", "social integration (services for ethnic minorities and new immigrants)", "community health care network", "cross generation integration" and "elderly support and empowerment";
 - (l) classification of project performance: among the 213 approved projects, about 26% were well-performed flagship projects, 62% were able to meet the expected targets and the remaining 12% with unsatisfactory performance/rooms for improvement;
 - (m) quarterly reimbursement claims of each CIIF project;
 - (n) released over \$120 million of funding;
 - (o) submission records of performance reports;
 - (p) submission records of annual audit reports; and
 - (q) attendance records of site visits and reasons for cancellation (if applicable); and
- the CIIF Secretariat did not deliberately leave out items (j) to (q) of the performance information which were not released to the public through various channels in the same way as items (a) to (i) above. In accordance with the recommendations of Audit, the CIIF Secretariat would upload all the 17 items of performance information onto the CIIF website and would regularly update them for public information.

42. The Committee further asked whether the 12% projects with unsatisfactory performance/rooms for improvement mentioned above were mostly implemented by small organisations.

43. In response, the **Chairman of the CIIF Committee** and the **Secretary for Labour and Welfare** said that, of the 12% projects with unsatisfactory performance/rooms for improvement, some of them were run by large organisations and some by small organisations. The CIIF admitted that small organisations might

have difficulties in implementing the projects due to their limited financial capability. For example, one of the projects was run by a small organisation in Tai O. As it turned out, some project initiatives were suspended because of change of personnel and other factors. The CIIF Committee had assisted the reorganisation of the project so as to facilitate other organisations to continue implementing it.

Reporting achievements on social capital development

44. As revealed in Cases 1 to 3 in paragraph 3.19 of the Audit Report, the achievements reported by some grantees were inaccurate and not fully substantiated. For instance, in Case 1, the same volunteer was counted 13 times. In addition, some grantees had different interpretations of performance indicators such that the reported achievements were not comparable on a like-with-like basis. The Committee asked:

- apart from the three cases mentioned in the Audit Report, whether the CIIF Committee had examined if there were any other similar cases in the past and what actions the CIIF Committee would take to prevent the recurrences of such problem; and
- whether the CIIF had set a definition for "volunteers".

45. The **Chairman of the CIIF Committee**, and the **Secretary for Labour and Welfare** stated that:

- due to insufficient manpower, the CIIF had not examined whether there were similar cases. However, it would test check the accuracy of information included in the grantees' project achievement reports as recommended by Audit; and
- there had not been a definition of "volunteers" provided by the CIIF. To prevent grantees from mixing up the numbers of participants with attendances of participants again, the CIIF had provided a clear instruction on this in the revised quarterly progress report form.

Declaration of interests by committee members

46. The Committee asked whether the CIIF Committee had adopted the two-tier reporting system for declaration of interests by committee members, as

recommended by Audit in paragraph 2.16(a) of the Audit Report. The **Secretary for Labour and Welfare** replied that it had been done.

Use of funds by grantees

Expenditure on "one-off" activities

47. According to paragraph 5.16(a) of the Audit Report, one-off activities might still be approved by the CIIF Secretariat if they had long-lasting effect on social capital development. The Committee asked:

- what the long-lasting effect of the one-off activities was; and
- apart from the six projects examined by the Audit, whether the CIIF Secretariat had rejected other applications for one-off activities and what the reasons for the rejection were.

48. In his letter of 29 November 2010, the **Secretary for Labour and Welfare** replied that CIIF funding was paid quarterly to grantees on a reimbursement basis. The CIIF application form stated that "one-off large-scale events, which are not in line with the rationale of social capital building and without continuous impact, will generally not be supported (such as banquets, carnivals and tours). If the one-off event is regarded as crucial in the project, please elaborate on its cost-effectiveness and how it can help build social capital. Please also provide the budgeted expenses and income of the one-off event". In considering whether to reimburse expenditure on individual activities, the CIIF Secretariat would mainly consider whether the nature of the activities was in line with the project objectives and how the activities would facilitate social capital development. When applying for reimbursements, grantees were required to provide justifications regarding the nature of the activities, attendance records, effectiveness and expenditure of the activities.

Asset management

49. The Committee asked:

- whether the assets procured under the projects, such as computer equipment, would be returned to the CIIF upon their completion;
- how the CIIF managed the returned assets from grantees; and

- whether the current establishment of the CIIF Secretariat was sufficient for properly carrying out its asset management duties, including the implementation of Audit's recommendations in paragraph 5.23 of the Audit Report.

50. In his letter of 17 December 2010, the **Secretary for Labour and Welfare** stated that:

- the requirements on procurement and asset management for the grantees had been set out in the Conditions of Grant of the CIIF. The LWB and the CIIF Committee accepted the recommendations on asset management in paragraph 5.23 of the Audit Report and would further enhance the asset management mechanism; and
- when the CIIF was established in 2002, the relevant paper of the LegCo Finance Committee indicated that the then Health and Wealth Bureau (known as the Labour and Welfare Bureau since July 2007) would provide secretariat service for the CIIF. Having regard to the increasing number of projects and the development of the CIIF, the Administration had allocated additional resources over the past few years to strengthen the manpower of the Secretariat. The strength of the Secretariat had increased from five at the inception of the CIIF in 2002 to 11 at present. The Administration would continue to closely keep in view the manpower situation and requirements of the Secretariat in the light of the future development of the CIIF.

51. The Committee referred to paragraphs 5.18 and 5.24 of the Audit Report and asked about the latest progress made by the CIIF in developing guidelines on:

- approval of claims for expenditure on "one-off" activities not having long-lasting effects on social capital development; and
- the monetary value above which assets had to be recorded in an asset register.

52. In his letter of 7 January 2011 (in *Appendix 31*), the **Secretary for Labour and Welfare** replied that:

- the CIIF Secretariat had issued to staff a set of internal guidelines on the handling of applications for reimbursement of funds for activities in

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January 2011, so as to provide them with clearer guidelines and consistent standards for approving claims for expenditure on "one-off" activities. The internal guidelines clearly set out that the CIIF would not subsidise "one-off" activities lacking long-lasting effects on social capital development. The conditions to be met for approval of claims for expenditure on activities were also specified; and

- the CIIF Secretariat had completed the amendments to the "Notes to Grantees" and issued the amended Notes to the organisations/groups receiving subsidies under the CIIF in January 2011 to remind them of the need to conduct procurement in accordance with the approved list of furniture and equipment items included in the Conditions of Grant for the CIIF. All furniture and equipment items valued HK\$1,000 or above should be registered on the Fixed Asset Register for submission to the Secretariat quarterly. Funded organisations/groups were also required to appoint an asset manager to manage the project assets. The Secretariat would send staff to conduct inspections as and when necessary.

E. Conclusions and recommendations

53. The Committee:

- expresses concern that:
 - (a) although the Community Investment and Inclusion Fund ("CIIF") has operated for more than eight years since its establishment in 2002, the pace of fund disbursement has been slow and the number of successful applications small. As at June 2010, the CIIF had an uncommitted balance of \$88 million, which is 29% of its total funding of \$300 million;
 - (b) it is not ascertainable how successful the projects funded by the CIIF have been able to promote and build social capital as follow-up reviews have not been conducted on completed projects to assess their effectiveness, including their social and financial sustainability; and
 - (c) the operation and requirements of the CIIF, such as its funding arrangements under which funds are disbursed in the form of reimbursement while requests for advance payment of

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disbursements are discouraged, the need to submit quarterly project progress reports, and the emphasis on project sustainability beyond the CIIF funding period, may not be conducive to encouraging smaller organisations to apply for CIIF funding;

- acknowledges that:
 - (a) the Labour and Welfare Bureau ("LWB") has commissioned independent consultants to launch the second external review in October 2010 to assess the achievement of the CIIF objectives and the need for planning new funding injection to sustain the CIIF's social function, and the review is expected to be completed in early 2012; and
 - (b) the LWB will, in consultation with the CIIF Committee, consider and work out the way forward for the CIIF with reference to the outcome of the 2010 external review;
- urges that the Secretary for Labour and Welfare and the CIIF Committee should, before completion of the above external review, critically review the overall achievement of the CIIF objectives and work out the way forward for the CIIF, taking into account the availability of other sources of funding that support the development of social capital, and consult the Panel on Welfare Services;

Development of social capital

- expresses concern that:
 - (a) there have been inadequate efforts made by the Secretary for Labour and Welfare and the CIIF Committee to publicise the social capital concept and the CIIF's objectives to the community;
 - (b) from April 2002 to June 2010, the CIIF only received 943 applications which were significantly fewer than the estimated number of about 3 200 applications in eight years (i.e. 400 applications a year);
 - (c) some grantees have expressed difficulties in applying for CIIF funding and might not apply for funding again due to the heavy administrative workload and high administrative cost involved in implementing CIIF projects;

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- (d) while the CIIF has placed emphasis on the sustainability of projects beyond the funding period, project sustainability has only been given a weighting of 10% in the marking scheme used for assessing CIIF applications;
 - (e) the CIIF Secretariat has not made it a practice to conduct follow-up reviews on completed projects to ascertain whether the objectives of promoting and building social capital have been achieved and whether the projects have sustained. Neither could the CIIF Secretariat provide evidence to support some reported information on project sustainability;
 - (f) a number of completed projects cannot sustain financially after the funding period;
 - (g) there have been cases of omission or inaccuracy in reporting project achievements by some grantees. For example, some grantees adopted different definitions for "volunteers" in different projects, resulting in difficulties in making a fair comparison of project achievements; and
 - (h) the requirement on grantees themselves to provide project participants' feedback for sharing, such as positive changes, touching stories, commendations or complaints of participants, in the quarterly project progress report form may be problematic as the grantees may be self-serving in selecting the kind of feedback for sharing;
- acknowledges that:
- (a) the Secretary for Labour and Welfare and the CIIF Committee have:
 - (i) agreed with the audit recommendations in paragraphs 3.7, 3.16, 3.21 and 3.27 of the Director of Audit's Report ("Audit Report"); and
 - (ii) stepped up publicity efforts to promote the CIIF through various means; and

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- (b) "political consideration" has not been a criterion for vetting project applications ever since the CIIF processed its first batch of applications in December 2002;
- urges the Secretary for Labour and Welfare and the CIIF Committee to:
 - (a) publicise the social capital concept and the objectives of the CIIF to the community more vigorously and encourage more eligible organisations to apply for CIIF funding, especially organisations that have the capability of building social capital, such as professional groups and middle class groups;
 - (b) explore the feasibility of simplifying the administrative procedures, such as reducing the frequency of submitting progress reports, and consider grantees' requests for advance payment of disbursements more favourably, so as to encourage more applications;
 - (c) continue to make sure that "political consideration" will not be one of the criteria for vetting project applications;
 - (d) establish effective assessment tools to measure the qualitative and quantitative aspects of project outcomes and enlist the assistance of academics in developing such tools;
 - (e) make it a priority to provide clear definitions of performance indicators, such as defining the meaning of "volunteers" and following up on whether the "volunteers" have participated in other projects, so as to ensure that project achievements are reported fairly and consistently; and
 - (f) facilitate the sharing of the good practices and experiences of successful projects with other grantees and potential applicants;

Assessment and monitoring of projects

- expresses concern that:
 - (a) the CIIF Secretariat has not sought clarifications from some bureaux/departments which have provided "no comment" responses to its questionnaires for identifying resource duplication between proposed CIIF projects and other government-funded projects; and

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- (b) there were cases of late submission of audited accounts by some grantees;
- acknowledges that the Secretary for Labour and Welfare and the CIIF Committee have agreed with the audit recommendations in paragraphs 4.5, 4.10 and 4.14 of the Audit Report;
- urges the Secretary for Labour and Welfare and the CIIF Committee to proactively assist project applicants in implementing projects jointly with local stakeholders, including government departments, and where necessary, to help reduce implementation costs;

Governance of the Community Investment and Inclusion Fund and use of funds by grantees

- expresses concern that:
 - (a) the CIIF has adopted a one-tier reporting system for declaration of interests, although a two-tier reporting system is more appropriate given the CIIF Committee's high degree of autonomy in disbursing the \$300 million Fund and that its members often have affiliation with the applicant organisations;
 - (b) there were cases of inconsistent declaration of interests by some CIIF Committee members, but the CIIF Secretariat has not sought clarification from the members concerned;
 - (c) the CIIF Secretariat has not compiled performance information measuring the efficiency and effectiveness of the operation of the CIIF;
 - (d) there were cases of appointment of project staff without open recruitment or with limited publicity on job vacancies by some grantees;
 - (e) there were no laid-down guidelines for the CIIF Secretariat to follow in approving claims for expenditure on "one-off" activities not having long-lasting effects on social capital development; and
 - (f) there were cases of purchase of goods/services without obtaining quotations and there were no guidelines on the monetary value above which assets have to be recorded in an asset register;

- acknowledges that:
 - (a) the Secretary for Labour and Welfare and the CIIF Committee have agreed with the audit recommendations in paragraphs 2.16, 5.5, 5.9, 5.13 and 5.27 of the Audit Report; and
 - (b) in January 2011, the CIIF Secretariat has issued:
 - (i) a set of internal guidelines on the handling of applications for reimbursement of funds for activities; and
 - (ii) the amended "Notes to Grantees" to provide guidelines on the monetary value above which assets have to be recorded in an asset register;
- urges the Secretary for Labour and Welfare and the CIIF Committee to expeditiously implement the above audit recommendations;

Follow-up actions

- wishes to be kept informed of:
 - (a) the decision of the Secretary for Labour and Welfare and the CIIF Committee on whether to review the overall achievement of the CIIF objectives and work out the way forward for the CIIF before completion of the external review;
 - (b) the outcome of the second external review conducted by independent consultants to assess the achievement of the CIIF objectives and the need for planning new funding injection to sustain the CIIF's social function;
 - (c) the measures taken to simplify the administrative procedures to encourage more applications;
 - (d) the actions taken to publicise the social capital concept and objectives of the CIIF to the community and encourage more eligible organisations to apply for CIIF funding;
 - (e) the measures taken to establish effective assessment tools to measure the qualitative and quantitative aspects of project outcomes;

- (f) the progress made in providing clear definitions of performance indicators to ensure that project achievements are reported fairly and consistently;
- (g) the measures taken to facilitate the sharing of good practices and experiences of successful projects with other grantees and potential applicants;
- (h) the actions taken to assist project applicants in implementing projects jointly with local stakeholders to help reduce implementation costs; and
- (i) the progress made in implementing the various audit recommendations.