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**Panel on Welfare Services**

**Background brief prepared by the Legislative Council Secretariat  
for the meeting on 11 April 2011**

**Social enterprise development in Hong Kong**

**Purpose**

This paper gives an account of the past discussions by the Subcommittee to Study the Subject of Combating Poverty, the Panel on Welfare Services ("the Panel") and its Subcommittee on Poverty Alleviation on the development of social enterprises ("SEs").

**Background**

2. 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. 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 ("ESR Programme"), administered by the Home Affairs Department ("HAD") for the purpose.

3. In the Report of Commission on Poverty ("CoP") released in June 2007, CoP took 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.

4. In the 2007 Policy Address, the Chief Executive ("CE") stated the Government's ongoing initiatives in encouraging the further development of

SEs together with relevant stakeholders, to help enhance the employability of the able-bodied unemployed and create more job opportunities for them. 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 non-governmental organizations ("NGOs") to explore the way forward for the further development of SEs in Hong Kong, and to formulate an action plan.

5. As at the end of 2010, there were over 300 SE projects in a wide range of industries with the objectives of helping the disabled and other disadvantaged groups, with most of them operated by NGOs.

### **Deliberations by members**

6. The Subcommittee to Study the Subject of Combating Poverty formed under the House Committee in the Third Legislative Council had studied the subject of development of SEs in helping the unemployed and disadvantaged, and presented its report to the House Committee in June 2007.

7. In the course of the Subcommittee's study, members had identified a number of problems which had hindered the further development of SEs including -

- (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.

8. To further encourage the development of SEs, 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 SEs and increase public awareness and acceptance of SEs. An extract of the recommendations contained in the Subcommittee's report is in **Appendix I**.

9. The Subcommittee on Poverty Alleviation under the Panel was updated on the Administration's work in promoting the development of SEs at its meeting on 7 July 2009. Members took the view that the Administration should create an enabling environment for the development of SEs. In this connection, members made some suggestions for the Administration's consideration. These included offering tax concession to SEs and accepting applications for the ESR Programme from organisations which had yet to be recognised as non-profit making organisations under section 88 of the Inland Revenue Ordinance (Cap. 112). More importantly, the Administration should formulate a long-term plan to support and foster the development of SEs.

10. The Administration stressed that similar to commercial enterprises, SEs should operate like a business and be self-financing in their operation. Under the ESR Programme, seed grants were provided for eligible organisations to run SEs during their initial operations. While welcoming the private sector to participate in operating SEs, the Administration was of the view that applicants for the ESR Programme should be non-profit making organisations within the meaning of section 88 of the Inland Revenue Ordinance so as to ensure the prudent use of public money.

11. The Administration advised that apart from the ESR Programme, it would continue to organise and/or support NGOs to organise Summit on SE in order to enable participants from various sectors (e.g. business, NGOs and academics) to share their views on the development of SEs. The Administration would continue with the Social Enterprises Partnership Programme which provided a platform to enhance and facilitate partnership among different sectors of the community through a matching forum and the mentorship scheme under which entrepreneurs/professionals were linked up with SEs so that the former could offer voluntary professional and business advisory services to the latter. This apart, the Social Enterprise Advisory Committee ("SEAC"), which comprised SE operators, members of the business sector, academics and persons aspired to promote SE development, had been set up in January 2010 to provide advice on ways to further promote SE development.

12. To foster the further development of SEs, the Administration informed the Subcommittee that under a pilot scheme introduced in 2008, 38 government cleansing service contracts were reserved for priority bidding by SEs, and 16 contracts were awarded to SEs.

13. Some members pointed out that some of the service contracts identified for priority bidding by SEs were indeed beyond the capacity and capability of SEs. These members took the view that the Administration should identify and reserve government service contracts for priority bidding by specific SEs in accordance with their size and nature of business. In addition to cleansing

service contracts and gardening service contracts, the Administration should consider identifying some minor maintenance works and repairs in the Housing Department ("HD") and relax the tender requirements for priority bidding by SEs. Furthermore, the Administration should consider specifying in the contracts the need to employ a certain percentage of socially disadvantaged and local residents as well as to offer the minimum wage level.

14. The Administration stressed that concerted efforts had been made by government departments in identifying suitable government service contracts for priority bidding by SEs. In the light of the positive feedback from participating SEs and departments, the Administration would continue the scheme in 2009-2010. Of the 38 cleansing service contracts reserved for priority bidding by SEs in 2008, 33 would continue to be included in the scheme in 2009. This apart, 21 additional service contracts (including 14 cleansing service contracts and seven gardening service contracts) had been identified for priority bidding by SEs in 2009-2010. It was estimated that over 400 job opportunities would arise from the 54 service contracts. As for maintenance contracts of HD, the Administration pointed out that while the existing tender requirements were devised taking into account the need to ensure the safety and quality of the works undertaken by contractors, HD had provided for the requirement for the service providers to employ a certain percentage of local residents in some of the security and cleaning service contracts for public rental housing estates in Tin Shui Wai.

15. At the Panel meeting on 14 February 2011, the Administration briefed members on the improvement measures for the ESR Programme. According to the Administration, since its launch in 2006, the ESR Programme had approved in nine phases of applications a total grant of about \$110 million to some 110 new SE projects, creating some 1 800 job opportunities. Apart from the ESR Programme, the Government had been carrying out a number of measures to foster the development of SEs, including advertising and promotional events on SEs and socially responsible consumption, business partnership programmes and training and outreach programmes to raise the public awareness and acceptance of SE products and services. With the aim of encouraging and facilitating the establishment of more SEs and strengthening the support for grantees, HAD would introduce the following key improvement measures –

- (a) extending the funding period from a maximum of two years to three years, while the funding ceiling of \$3 million per project remained unchanged; and

- (b) relaxing the eligibility for applying for the seed grants of the ESR Programme, on a trial basis, to non-profit-making organisations which had not registered under section 88 of the Inland Revenue Ordinance.

These measures were applicable to applications received from 2011 onwards.

16. Members welcomed the introduction of the improvement measures. They pointed out that the major challenges faced by SEs in operation were the lack of relevant experience and professional knowledge in running a business, in particular a general lack of social entrepreneurs who possessed good business, financial management and marketing expertise. They held the view that collaboration between the business sector and SEs would on the one hand help provide valuable experience and knowledge to SEs to enter the market and facilitate partnership to run sustainable business on the other, thereby creating a win-win situation. In this regard, the Administration should facilitate cross-sectoral collaboration and encourage the private sector to develop SE projects.

17. To further foster the development of SEs, members suggested that consideration should also be given to offering tax concession to SEs to assist them to achieve financial viability, raising the funding ceiling per project and further extending the funding period in the light of the enormous start-up costs, and awarding certain existing government services contracts to SEs.

18. The Administration advised that the improvement measures were drawn up having regard to the views of SEAC, the ESR Advisory Committee, the SE operators and other relevant stakeholders. The Administration would fully take into account the views of members in taking measures for enhancing the sustainability of SEs. The Administration would continue with publicity and promotional efforts to encourage members of the public to use the products and services of SEs as well as promote the collaboration between the business sector and SEs to foster the development of SEs.

19. The Administration further advised that it was fully aware of the challenges faced by SEs in running sustainable business and achieving social objectives as well as the problem of high rentals. However, as SEs should run like a business, it would give rise to the concern about unfair competition with the business sector if too much Government support, say, rent concession, was provided for the SE sector to run business on a commercial basis. Notwithstanding this, the number of government cleansing services contracts reserved for priority bidding by SEs had been increased from 38 in 2008 to 52 in 2009-2010. The Administration stressed that it would strive to encourage the cross-sector collaboration to promote social entrepreneurship.

**Relevant papers**

20. A list of the relevant papers on the LegCo website is in **Appendix II**.

Council Business Division 2  
Legislative Council Secretariat  
6 April 2011

**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

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- (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;

## Chapter 5 – Recommendations

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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

## Appendix II

### Relevant papers on social enterprise development in Hong Kong

<b>Committee</b>	<b>Date of meeting</b>	<b>Paper</b>
Legislative Council	14 June 2006	<a href="#">Official Record of Proceedings Pages 188 - 256 (Motion)</a>
Subcommittee to Study the Subject of Combating Poverty	10 July 2007 (Item I)	<a href="#">Agenda</a> <a href="#">Minutes</a>
Panel on Welfare Services	15 October 2007 (Item I)	<a href="#">Agenda</a> <a href="#">Minutes</a>
Legislative Council	5 December 2007	<a href="#">Official Record of Proceedings Pages 104 - 184 (Motion)</a>
Subcommittee to Study the Subject of Combating Poverty	11 December 2007 (Item II)	<a href="#">Agenda</a> <a href="#">Minutes</a> <a href="#">CB(2)2491/07-08(01)</a>
House Committee	27 June 2008 (Item V(h))	<a href="#">Report on Development of Social Enterprise</a>
Subcommittee on Poverty Alleviation	7 July 2009 (Item I)	<a href="#">Agenda</a> <a href="#">Minutes</a> <a href="#">CB(2)2636/08-09(01)</a>
Legislative Council	14 July 2010	<a href="#">Official Record of Proceedings Pages 623 - 658 (Motion)</a>
Panel on Welfare Services	14 February 2011 (Item V)	<a href="#">Agenda</a>