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Panel on Welfare Services

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 9 January 2012**

Social enterprise development in Hong Kong

Purpose

This paper gives an account of the past discussions by the relevant committees on issues relating to 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 SEs, 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 non-governmental organizations ("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 NGOs to explore the way forward for the further development of SEs in Hong Kong, and to formulate an action plan.

5. In the 2011-2012 Budget, FS announced that \$150 million had been earmarked for the continued implementation of the ESR Programme from 2011-2012 to 2015-2016.

Deliberations by members

6. Issues relating to the development of SEs were discussed at a number of meetings of the Subcommittee to Study the Subject of Combating Poverty, the Panel on Welfare Services ("the Panel") and its Subcommittee on Poverty Alleviation. The major deliberations of Members are summarized below.

Problems hindering the further development of SEs

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

8. 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.

9. 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.

Strengthening support for SEs

10. At its meeting on 7 July 2009, the Subcommittee on Poverty Alleviation was updated on the Administration's work in promoting the development of SEs. 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 organizations which had yet to be recognized as non-profit making organizations 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.

11. 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.

12. At the Panel meeting on 14 February 2011, the Administration briefed members on the improvement measures for the ESR Programme. The Panel further discussed the Government's on-going efforts in and new measures for promoting the development of SEs at its meeting on 11 April 2011. 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. 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 in respect of the ESR Programme –

- (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.

13. Members welcomed the introduction of the improvement measures. They considered that it would be useful if the Administration would provide the prospective applicants with the operational experience of SEs under the ESR Programme, particularly those making a profit and a loss. Members were advised that SE projects under the ESR Programme should aim to develop "social capital" (i.e. they should not aim at profit maximization, but to reinvest principally the profit in the business) on the one hand and to operate on a self-financing basis on the other. About one-third of the SE projects under the ESR Programme were able to achieve or exceed the original targets, and another one-third were unable to be sustainable and decided to terminate their business.

14. The Administration advised members that apart from the ESR Programme, the Government had been carrying out a number of measures to foster the development of SEs, including advertising and promoting 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.

Priority bidding for government service contracts

15. According to the Administration, to foster the further development of SEs, 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.

16. 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.

17. 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. Under the second phase of the scheme, 52 government service contracts from 22 government departments valued at \$20 million with some 400 job opportunities were made available for priority bidding by SEs. Nonetheless, this did not necessarily mean that all the contracts had been awarded to SEs as the latter would need to meet the service requirements as stipulated in the respective tenders.

18. 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.

Promoting cross-sector collaboration

19. Members 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.

20. The Administration 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. Hence, the active participation and support of the business sector, for example, placing procurement orders and providing practical advice and skills on operation, was crucial to the success of SEs. The Administration would continue to promote cross-sectoral collaboration to enhance SE development. Specifically, 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 SE 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 Administration had been supporting the annual SE Summit which had become one of the major platform for participants from various sectors (e.g. business, NGOs and academics) to share their views on the development of SEs.

21. The Administration advised members that the improvement measures were drawn up having regard to the views of Social Enterprise Advisory Committee ("SEAC"), the ESR Advisory Committee, the SE operators and other relevant stakeholders. Notably, SEAC had offered valuable advice on the formulation of new initiatives for the sustainable growth of SEs, such as the SE Training Programme and the SE Award Scheme. 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.

Relevant papers

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

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

Committee	Date of meeting	Paper
Legislative Council	14 June 2006	Official Record of Proceedings Pages 188 - 256 (Motion)
Subcommittee to Study the Subject of Combating Poverty	10 July 2007 (Item I)	Agenda Minutes
Panel on Welfare Services	15 October 2007 (Item I)	Agenda Minutes
Legislative Council	5 December 2007	Official Record of Proceedings Pages 104 - 184 (Motion)
Subcommittee to Study the Subject of Combating Poverty	11 December 2007 (Item II)	Agenda Minutes CB(2)2491/07-08(01)
House Committee	27 June 2008 (Item V(h))	Report on Development of Social Enterprise
Subcommittee on Poverty Alleviation	7 July 2009 (Item I)	Agenda Minutes CB(2)2636/08-09(01)
Legislative Council	16 July 2010	Official Record of Proceedings Pages 623 - 658 (Motion)
Panel on Welfare Services	14 February 2011 (Item V)	Agenda Minutes
Panel on Welfare Services	11 April 2011 (Item V)	Agenda Minutes