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Legislative Council Panel on Home Affairs

**Enhancement Measures of
the Enhancing Self-Reliance Through District Partnership Programme**

PURPOSE

This paper sets out the measures to enhance the Enhancing Self-Reliance Through District Partnership Programme (referred to as “ESRP”) starting from 2016-17.

BACKGROUND

2. In response to an initiative of the former Commission on Poverty (CoP) to alleviate poverty, the Home Affairs Department (HAD) has implemented the ESRP since 2006 to provide seed grants to eligible non-profit-making organisations (NPOs) for setting up social enterprises (SEs).

3. ESRP seeks to promote sustainable poverty prevention and alleviation at the district level to enhance self-reliance, targeting the socially disadvantaged. Instead of providing welfare or short-term relief, ESRP aims at enhancing the skills and capacities of the employees and providing opportunities for the disadvantaged to upgrade themselves and to be effectively integrated into the community.

4. In the 2015-16 Budget Speech, the Financial Secretary announced that \$150 million had been earmarked for a new phase of the ESRP from 2016-17 to 2019-20. The estimated provision will be included in the draft

Estimates of the relevant financial years. Under the new phase of ESRP, enhancement measures will be implemented to benefit more types of SEs and encourage greater participation of the private sector in the development of SEs. For this purpose, HAD conducted a review in 2015 to take stock of the ESRP implemented so far and draw up enhancement measures for the new phase.

EXISTING PARAMETERS OF ESRP

5. The key parameters of the current ESRP are highlighted as follows –

(i) *Social objective*

The funded SEs are required to provide job opportunities to the socially disadvantaged¹.

(ii) *Eligibility*

Eligible applicants shall be bona fide NPOs i.e. organizations are registered under the law of Hong Kong SAR, and approved charitable institutions and trust of a public character under Section 88 of the Inland Revenue Ordinance (Cap 112) (“s.88”).

Commencing in 2011, ESRP considers, on a trial basis, applications from non-s.88 NPOs (“Non-s.88 Pilot Scheme”).

(iii) *Funding ceiling and period*

Each approved application is provided with a grant of a maximum of \$3 million for a maximum period of three years.

(iv) *Assets lock requirements and monitoring mechanism*

During the funding period and the subsequent three years, it is

¹ For the purpose of ESRP, the “socially disadvantaged” generally refer to under-privileged women, unengaged youth (including the youth-at-risk), unemployed, low-skilled / low-educated, middle-aged who fail to adapt to the changes of the job market, low-income people, ex-offenders / rehabilitated drug abusers, new arrivals, single parents, ethnic minorities, elderly, and people with disabilities.

stipulated that the funded SEs must -

- (a) plough back all income earned into daily operation and reinvest all surplus into the SE business;
- (b) seek prior approval from the Government before effecting any transfer, sale or disposal of the equipment/fixed asset purchased with the grant, and to re-invest the sales proceeds, if any, into the SE; and
- (c) submit regular progress reports including annual audited accounts by independent auditors.

(v) ***Business Expansion Grant Scheme***

The Business Expansion Grant Scheme of ESRP funds business expansion for SEs which have been approved under ESRP since 2011 and have operated for at least two years. Each grant is subject to a funding ceiling at \$2 million and a maximum period of one year.

(vi) ***Central administration overhead***

The grantees are allowed to charge no more than 5% of the grant as central administration overhead to defray the indirect staff costs and other administrative expenses incurred by the parent organisation of the funded SE exclusively for the SE.

PROGRESS

6. The ESRP has contributed to the growth and sustained development of the SE sector in the past nine years as evident in the following statistics and feedback -

(i) ***Applications and approved projects***

As at 1 September 2015, out of 633 applications received, a total of

176 projects were approved, involving grants of \$207 million. Against some 530² operating SEs in Hong Kong in early 2015, ESRP has funded over one-fourth of the SEs locally. It can be said that ESRP has emerged as an important funding source for the establishment of SEs in the last decade.

(ii) *Job creation*

According to the annual progress reports submitted by a total of 146 projects under ESRP (up to July 2015), over 4,000 persons have been directly employed by the funded SEs so far. About 80% of the SE employees are from the socially disadvantaged groups.

(iii) *Self-reliance*

About 80% of employees considered that the SE jobs could enhance their work skills and confidence.

(iv) *Wide spectrum of business fields*

The SEs cover a wide spectrum of businesses including catering, retail, household services, arts, performance, horticulture and eco-tourism.

While a large percentage of the SEs are in the traditional trades such as retail and catering (occupying more than 40%), the business fields covered have become more diversified (e.g. business support services, arts, performance and training workshops, etc.) over the last few years. It is observed that increasingly, the funded SEs are providing a broader range of products and services to the community.

(v) *Variety of jobs*

The broadening of business fields is translated to a wider choice of jobs for different socially disadvantaged groups which, in turn, would help better tap their potential and develop their strengths.

² According to the SE survey results released by the Hong Kong Council of Social Service – HSBC Social Enterprise Business Centre as at early 2015.

(vi) *Sustainability of SEs*

Up to now, no funded SEs has ceased operation during the funding period. About 80% of them continue operation after the funding period and some of them are now reaching the 9th year of service. It is envisaged that the positive economic and social impacts brought about by the ESRP funded SEs would continue to multiply in the years to come.

(vii) *Business positioning and creativity*

In pursuing the SE's double bottom lines to achieve social missions and commercial sustainability as a business enterprise, some SEs have developed market niche to avoid direct competition with established business while others have developed interesting and innovative solutions to address certain social problems. Some have even entered into new business fields to allow the socially disadvantaged to fully utilize and develop their talents in workplace. As a result, some new business types or operating models have emerged (e.g. eco-tourism). In seeking development in new markets, the SEs have injected new business ideas, concepts, energy and momentum to the business world.

ENHANCEMENT MEASURES

7. In the broader context of the local SE sector at large, we have observed a rapid growth in the number of SEs locally - with an exponential increase by 140% from 220 in 2007 to 530 in 2015². About 80% of the SEs were set up by charities and 20% by non-charities.

8. Similar to overseas experience, the social objectives of SEs in Hong Kong have become increasingly diversified and addressed broader social issues beyond job creation, such as environmental protection, heritage revitalization, promotion of social cohesion, etc.

9. To keep pace with the latest development of SEs locally and worldwide and having regard to the progress of ESRP in the past nine years, it is opportune to review ESRP with a view to benefitting a wider range of SE operations and encouraging greater participation of the private sector in the development of SEs. The enhancement measures of the ESRP, as summarized in the ensuing paragraphs, have been developed in consultation with stakeholders in the SE sector and the business sector.

(i) Social objective

10. Given the primary focus of the current ESRP has been on job creation for the socially disadvantaged, applications which displayed potentials of creating good social impact on the socially disadvantaged groups other than providing job opportunities could not be favourably considered under the existing scheme. However, it is observed that increasingly, SEs are pursuing social objectives other than the creation of jobs for the socially disadvantaged.

11. To embrace the changing needs and developments of the SE sector, we consider it appropriate to extend the focus of ESRP beyond job creation to include the provision of products or services to meet the specific needs of the social disadvantaged.

(ii) Eligibility requirements

12. Amidst the local and worldwide trend of rising awareness and recognition of corporate social responsibilities, various sectors of the community are increasingly taking part in the SE movement in different ways. Notably, there is a growing trend of early retirees and experienced entrepreneurs or executives from the private sector establishing SEs to fulfill their aspirations by devoting their time, energy and savings to pursue social missions/objectives. Furthermore, some businessmen /investors /venture philanthropists have incorporated certain social objectives into their investment or business ventures for the betterment of the society.

13. Capitalising on the above trend, we see merits to attract people from different backgrounds to participate in the SE sector in order to add impetus to propel the development of the SE sector in Hong Kong. Apart from tapping talents with business experience and passion to serve the society, we can tap funding from the private sector to help create wider space for the SE sector to grow, thrive and prosper.

14. To further the aforesaid objectives, we propose to open ESRP to the following categories of applicants in the form of a pilot scheme -

- (i) Established SEs such as those funded by private investors, foundations, etc. which allow some degree of profit-sharing with the investors (see paragraph 17 below);
- (ii) Existing companies formed by members of the public with rich business and management experience (e.g. retired businessmen and executives) who aspire to pursue social missions through setting up SEs; and
- (iii) Existing companies operated by members of the public with modest business and management experience but with a track record of operating a successful prototype of SE for some time.

15. The pilot scheme will be reviewed after three years of implementation. We also propose to subsume the existing “Non-s.88 Pilot Scheme” under the new pilot scheme. In other words, under the new pilot scheme, non-s.88 organisations and companies which have capabilities in running business and pursuing social objectives may apply for ESRP.

(iii) Profits sharing

16. It should be recognized that the organisations and companies mentioned in paragraph 14(i), (ii) and (iii) above may only have modest

amount of resources (e.g. savings, pension) to start a new SE or expand the business of an existing SE and to operate them on a sustainable basis. To encourage greater participation of the private sector and the public (especially those with business background) in SE development, we see merits to provide some financial incentives by allowing a limited degree of profits sharing.

17. It is noted that many overseas countries with legal definition of SEs, such as Canada, United Kingdom and Korea, do allow SEs to distribute a limited percentage of profits to their shareholders or parent NPOs. Having regard to the overseas practices, we propose to allow ESRP-funded SE to distribute profits to the shareholders or the parent organizations, where appropriate, from the annual distributable profits on the following conditions:

- (i) the grantees need to make an upfront investment³ of not less than 50% of the required setup costs of the SE; and
- (ii) the percentage of dividend will be capped at 35% of the annual distributable profits of the SE.

18. The Dividend Cap is set at 35% of the annual distributable profits of the SE having regard to the overseas practices and local context⁴.

19. The grantee will be provided with the flexibility to accept investment from strategic partners subject to the prior approval of the Government and on the following conditions -

- (i) the grantee will remain as the major shareholder with more than 60% shares to maintain continued control of the management of the SE; and

³ The upfront investment requirement does not apply if the grantee does not intend to share profits from the SE.

⁴ According to the legal definitions of SE in overseas countries, the permitted percentage of profits distribution is 40% for Canada, 35% for UK and one-third for Korea. In Hong Kong, the HKCSS-HSBC SE Business Centre requires non-s.88 SEs not to distribute more than 35% of their profits in order to become eligible for registration under its SE Directory.

- (ii) the social objectives of the SE should remain unchanged as pledged in the approved application⁵.

Otherwise, the grantee is required to return all grants to the Government before engaging the strategic partner.

(iv) Business expansion

20. Meanwhile, some SEs including the start-up projects of ESRP are doing well and are having promising potential to expand. Some small SEs may have a “lean start-up” to test the feasibility of the business model and opt to seek additional resources to expand if found viable. With proven business model, there would be a higher chance of these SEs being successful and it may be beneficial to develop these successful cases to generate additional positive benefits to the community. We therefore see merits for ESRP to encourage more successful SEs to expand to multiply success for the added benefits of the socially disadvantaged.

21. Noting that these successful SEs may not necessarily have generated sufficient profits to enable them to open a new shop or a new business line timely without financial assistance, we also see merits for ESRP to extend its scope to cover SEs with promising expansion potential, irrespective whether they have been funded under ESRP or not, to support their expansion of business and the creation of additional economic and social benefits.

22. Experiences indicated that the funding and time needed by an SE to become established in the market for expansion in terms of opening a new geographical unit or additional business units may be comparable to those for start-up projects. On this consideration, the funding cap (i.e. a maximum of \$3 million) and funding period (i.e. not more than 3 years) of the start-up and expansion projects will be aligned.

⁵ Unless with the prior approval of the Government.

(v) *Central administration overhead*

23. Under ESRP, central administration overhead (i.e. indirect staff costs or other administration expenses incurred by the parent organization apportioned to the SE project) shall account for no more than 5% of the grant. In response to feedback from some stakeholders, we will build in greater flexibility in the scheme by approving “more than 5% of the grant” as central administration overhead for justified cases subject to the prior approval of the Government.

24. The following existing arrangements of ESRP will continue to apply in the new phase–

- (i) funding period of not more than 3 years;
- (ii) funding ceiling capped at \$3 million; and
- (iii) assets lock requirements and the monitoring mechanism of ESRP.

WAY FORWARD

25. We plan to implement the enhancement measures starting from the 2016-17 financial year. We will publicize the revamped ESRP and disseminate the details through HAD’s website, seminars and through promotion to NPOs, SE support organisations, and interested entities in the private sector.

CONSULTATION WITH STAKEHOLDERS

26. We have consulted parties from various sectors including SE support organisations, SE operators, NPOs, business sector, academics as well as the two major SE advisory bodies (i.e. the Advisory Committee of ESRP and SE Advisory Committee). All of our enhancement measures have received wide

support.

ADVICE SOUGHT

27. Members are invited to note the measures to enhance the ESRP set out in this paper.

Home Affairs Bureau

Home Affairs Department

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