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16 December 2015

Hon. Starry LEE Wai-king, JP
Chairman of the Panel on Home Affairs
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Chairman,

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

At the meeting of the Panel on Home Affairs on 13 November 2015, Members generally supported the measures to enhance the Enhancing Self-Reliance Through District Partnership Programme (referred to as “ESRP”). A few members raised concern about (i) extending the eligibility of the ESRP to members of the public with commercial experience; and (ii) allowing the social enterprises (referred to as “SEs”) to share a limited degree of profits under certain conditions. Subsequent to the meeting, we, together with representatives of the SE sector, met with the Members concerned explaining the following in order to ease their concerns.

Extensive participation of persons with business background in the establishment of SEs and distribution of profits among SEs have emerged as global trends. So far, the public have a general impression that development of SEs is the sole responsibility of the non-profit-making and social welfare organisations. We therefore hope to bring the ESRP to keep pace with the latest development under its new phase. Some of the requirements of the ESRP will be extended to encourage people from diverse sectors to join the SE movement and to attract more people with social capital and passion to the cause. In doing so, we may together give impetus to the development of SEs in Hong Kong for a new page, and the SE Sector a broader and sustainable platform to bring additional benefits to the socially disadvantaged and create more job opportunities.

We appreciate the concerns of the Members and that the new measures will bring the ESRP to a new dimension. As such, we shall carry out the enhancement measures in the form of a pilot scheme which will be reviewed three years after implementation.

Extending Eligibility Criteria to Entrepreneurs with SE Experience

We would like to reiterate that the eligibility requirement of the ESRP will be extended mainly to companies formed by those with experience in running SEs, including (i) existing SEs; (ii) companies set up by entrepreneurs with previous successful experience in operating SEs

(e.g. retired entrepreneurs or experienced executives). They aspire to help solve social issues through SEs; and (iii) companies set up by those youngsters with passion who have been participants of SE competitions or similar events organized by the Government or the community and have successfully run the SE prototypes for a period of time. All applicants need to demonstrate to the Government the feasibility of their proposals including financial viability and social objectives before their applications would be considered.

Profit Sharing to Encourage Social Capital and Cross-party Collaboration

Apart from achieving social objectives, SE, by its very nature, has to run in a sustainable manner. Many overseas countries do allow SEs to distribute a limited percentage of profits. According to the past experience of the ESRP, the funded SEs normally are not highly profitable. Despite that, the retired entrepreneurs or executives will have a greater incentive to dedicate themselves to the development of SEs if they are provided with some financial rewards. Besides, a limited degree of profit sharing can help attract investment of private equity fund into SEs propelling the growth of the SE sector. In doing so, a new economic momentum will be injected for the benefits of more socially disadvantaged. Individual SEs can also flexibly make use of various management tools, on top of salaries. They can reward the SE management team with shares and profits to motivate them to keep on striving to sustain better performance of the SEs. The ESRP thus sets out the conditional profit sharing measures.

Addressing Members' Concerns by Tightening Monitoring on Profit-sharing SEs

To address Members' concerns, we will tighten the monitoring on the ESRP-funded SEs, which intend to share profits. The ESRP will require **the grantees to invest no less than the Government's grant, and restrict the percentage of dividends to be distributed to normally not exceeding 20% of the annual distributable profits of the SE** (i.e. distribution of dividends of more than 20% profits is allowed only with the prior approval of the Government, but capped at 35%¹ in any event). In addition, we shall **extend the assets lock period² from current six years to eight years** (i.e. the three-year funding period and the subsequent five-year monitoring period).

It should also be noted that the funded SE will continue to be monitored under the following existing measures: (i) the grant consists of capital expenditure and operating expenditure. The former is paid on a reimbursement basis and therefore the grantee will have a certain level of financial commitment to the SE; (ii) payment of the latter is made according to the implementation progress of the SE; (iii) if the implementation of the SE has substantially deviated from the original proposal, the Government has the right to withhold any further payment of the grant; and (iv) if the funded SE fails to observe the terms and conditions of the funding agreement, the Government has the right to request the grantee to repay to the Government all or any part of the grant.

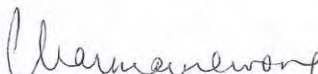
¹ Reference is made to the practices of overseas countries which allow SEs to share profits. For example, the permitted percentage of profit distribution is 35% or below for UK and one third or below for Korea. Meanwhile, the Social Innovation and Entrepreneurship Development Fund (SIE Fund) of the Government currently allows registered companies to apply and distribute profits with the ceiling set at 35% of the annual distributable profits.

² Currently the funded SEs are subject to assets lock requirements, that is, they are not allowed to transfer, sell or dispose assets purchased with the grant within the three-year funding period and the subsequent three-year monitoring period, unless with the prior approval of the Government.

It is hoped that the above tightening monitoring measures to the profit-sharing funded SEs would help address the concerns of the Members.

Thank you for Members' views towards the ESRP.

Yours sincerely,


(Miss Charmaine WONG)
for Director of Home Affairs

c.c. Secretary for Home Affairs
Under Secretary for Home Affairs