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(Urgent Fax : 2509 9055)

4 February 2016

Ms Joanne MAK  
Clerk to Panel on Home Affairs  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong

Dear Ms MAK,

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

Thank you for your letter dated 22 January 2016 to the Secretary for Home Affairs, conveying Dr Hon Fernando CHEUNG's letter dated 18 December 2015 to the Chairman of the Legislative Council Panel on Home Affairs about his opinions on the enhancement measures of the Enhancing Self-Reliance Through District Partnership Programme (hereinafter referred to as "ESRP") under the new phase. I am authorised to reply.

In response to the query raised by Members at the meeting of the Panel on Home Affairs on 13 November 2015, we explained that in the past, the provisions for the implementation of ESRP were approved by the Legislative Council in the context of the Draft Estimates and that we would liaise with the Financial Services and the Treasury Bureau for an appropriate funding arrangement for the new provision of ESRP.

At the above meeting, Members generally supported the enhancement measures. Regarding the concerns raised by Dr Hon Fernando CHEUNG in the aforementioned letter about extending eligibility criteria to commercial companies and allowing social enterprises (hereinafter referred to as “SEs”) to share a limited degree of profits under certain conditions, we had written to the Chairman of the Panel on Home Affairs on 16 December 2015 to clarify and explain in details the rationale behind the enhancement measures, the vision to encourage people from diverse sectors to join the SE movement, and the tightened monitoring on SEs which intend to share profits. Our considerations are repeated below :

**(a) Vision to Encourage People from Diverse Sectors to Join SE Movement**

SEs are required to observe the double bottom-line principle, that is, pursuing not only social missions but also sustainable business operation. Participation of persons with experience in running SEs and business background in the establishment of SEs has emerged as global trends. So far, the public have a general impression that development of SEs is the sole responsibility of non-profit-making and social welfare organizations, and solely for purpose of poverty alleviation. Some of the SEs without sustainable business model have failed to stay on after the lapse of Government funding support.

The social mission of the funded SEs under the new phase of ESRP, same as previous phases, will target at the socially disadvantaged helping them to enhance self-reliance and effectively integrate into the community. At the same time, we hope that the relaxation of some of the requirements of ESRP will encourage people from diverse sectors to join the SE movement. In doing so, we may together elevate the development of SEs in Hong Kong to a new stage and give the SE sector a broader and sustainable platform. We also hope that when more people with social capital and passion join the SE movement and the management of SEs is further enhanced, additional benefits will be brought to the socially disadvantaged. This will bring impetus to poverty alleviation as well.

**(b) Extension of Eligibility Criteria to a Limited Extent**

We would like to reiterate that the eligibility requirement of ESRP will be extended mainly to companies formed by those with experience in running SEs, and not all types of commercial companies. Possible eligible applicants will include (i) existing SEs; (ii) companies set up by entrepreneurs with previous successful experience in operating SEs (e.g. retired entrepreneurs or experienced

executives); and (iii) companies set up by passionate persons who have been participants of SE competitions or similar events organised by the Government or the community and have successfully run the SE prototypes for a period of time. They aspire to help solve social issues through SEs but may be in lack of sufficient funding to establish or expand SEs.

**(c) Profit Sharing to Encourage Social Capital and Cross-party Collaboration**

Having regard to the past experience of ESRP, it is envisaged that although SEs are not targeting at maximizing profits, their provision of some financial rewards could encourage retired entrepreneurs or executives or youngsters who intend to start up their own business to dedicate themselves to the development of SEs. It will also help attract investment of private equity fund into SEs and hence propel the growth of the SE sector for the benefits of more socially disadvantaged. Individual SEs can also flexibly make use of shares and profit sharing on top of salaries in order to motivate the management team to strive for even better performance. The ESRP thus sets out measures of conditional profit sharing.

**(d) Tightening Monitoring on Profit-sharing SEs**

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

We consider the above measures will serve to achieve the dual objectives of poverty alleviation and encouraging innovation in SEs. We as well reiterate that the above-mentioned new measures will be carried out in the form of a pilot scheme, which will be reviewed three years after implementation.

We note that the Panel on Home Affairs had taken note of the above letter at its meeting on 22 December 2015 and had raised no further comments on the subject. The letter is attached herewith for reference.

As regards the definition and registration of SEs, the Government has already formulated licensing or registration regimes and legal framework for various types of commercial activities. We consider that any additional legal restrictions on top of the existing legal framework may cause unnecessary regulation over SEs, which focus on innovation and operation model, and hinder their development. Besides, the research study commissioned by the Home Affairs Bureau and conducted by the Chinese University of Hong Kong and Hong Kong Council of Social Service–Social Enterprise Business Centre in 2014 considered that the development of SE in Hong Kong is still at an initial stage, thus it is not recommended to enact new legislation for SE formation, nor to set up regulatory organisations by the Government. The SE sector also agrees with the recommendations in general. On the other hand, in general, profits of SEs will mainly be reinvested in the business for the social objectives that they pursue. Individual Government initiatives providing direct funding support to SEs will follow the relevant criteria in considering each application to ensure proper use of public monies and sufficient monitoring.

Dr Hon Fernando CHEUNG mentioned about the impact brought about by the relaxation of ESRP on small SEs in bidding tenders. On this, the Government currently does not have any restricted tender targeting SEs. SEs interested in bidding service contracts of the Government would need to compete equally with other commercial organisations. The Government introduced a pilot scheme in 2008 for bidding of selected Government contracts by SEs. The scheme was merely a transitional measure to familiarise Government bureaux and departments with the services of SEs and was completed in 2012. As for the “Scheme for Contracting Out of Catering Services to Organisations for People with Disabilities” co-organised by the Leisure and Cultural Services Department and the Social Welfare Department, only government subvented non-profit making organisations accepted by the Social Welfare Department are eligible to submit bids. The Scheme is not applicable to SEs in general.

Support from different sectors of the society is very important to the sustainable development of SE. The Government would maintain close contact with the SE sector to understand the practical difficulties in setting up and running of SEs, and continue to create a more favourable environment for the operation of SEs through a series of supporting measures.

Thank you for Members' views on the ESRP and the SE policy issues.

Yours sincerely,



( Miss Charmaine WONG )  
for Director of Home Affairs

c.c. Secretary for Home Affairs

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(Urgent Fax: 2509 9055)

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%<sup>1</sup> in any event). In addition, we shall **extend the assets lock period<sup>2</sup> 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.

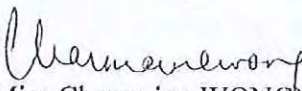
<sup>1</sup> Reference is made to the practices of overseas countries which allow SEs to share profits. For example, the permitted percentage of profit distribution is 35% or below for UK and one third or below for Korea. Meanwhile, the Social Innovation and Entrepreneurship Development Fund (SIE Fund)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

<sup>2</sup> 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