

CHAPTER 7

**Home Affairs Bureau
Home Affairs Department
Social Welfare Department**

Promoting the development of social enterprises

**Audit Commission
Hong Kong
4 April 2014**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 62 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

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PROMOTING THE DEVELOPMENT OF SOCIAL ENTERPRISES

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PROMOTING THE DEVELOPMENT OF SOCIAL ENTERPRISES

Executive Summary

1. A social enterprise (SE) is a business to achieve specific social objectives. Its profits will be principally reinvested in the business for the social objectives that it pursues, rather than distributed to its shareholders. The Government's objectives in promoting the development of SEs are to enable the socially disadvantaged to be self-reliant through employment, and to meet the needs of different community groups with entrepreneurial thinking and innovative approaches. While a number of programmes have been launched by the Home Affairs Bureau (HAB), the Home Affairs Department (HAD), the Social Welfare Department (SWD), the Labour and Welfare Bureau and the Development Bureau to encourage and support the development of SEs, the HAB, with the support of the HAD, has taken up the SE portfolio following the reorganisation of the Government in July 2007. The Audit Commission (Audit) has recently conducted a review to examine the Government's efforts in promoting the development of SEs.

Enhancing Employment of People with Disabilities through Small Enterprise Project (the 3E Project)

2. The 3E Project, launched in 2001 by the SWD, provides grants to non-governmental organisations (NGOs) to set up and run SEs for employing persons with disabilities (PWDs). The maximum funding support for an approved project is \$2 million, comprising a capital grant and an operating grant. Up to September 2013, the 3E Project had received 137 applications, and approved 81 (59%) of them with a total grant of \$62 million (paras. 2.2, 2.6 and 2.16).

3. *Processing of applications.* The SWD took a long time to process applications, with an average time of 184 days from submitting an application to signing the funding agreement. This would delay project commencement and grant payments. Besides, there was room for improvement in the determination of capital and operating grants for approved projects (paras. 2.9 to 2.11 and 2.16 to 2.22).

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4. ***Effectiveness of the 3E Project.*** The effectiveness of the 3E Project can be assessed by the sustainability of the SEs and the jobs created for PWDs. In the 12 years of operation of the 3E Project, a total of 81 projects were approved with a target number of 622 PWD jobs. On average, only 7 projects (with 52 PWD jobs) were approved each year. The average grant per PWD job for the 81 approved projects also varied widely from \$12,500 to \$368,800. As at September 2013, of the 81 approved projects, 24 had ceased operation and 57 were still in operation. According to the management information compiled by the SWD from data collected from 52 of the 57 operating projects as at September 2013, there were a total of 385 PWD jobs involving the employment of 1,882 PWDs since the commencement of these projects. For these projects, the actual number of PWD jobs created was lower than the target number by 10%. The SWD needs to step up its publicity efforts and invite more NGOs to participate in the 3E Project. It should also find out why many PWDs had joined and left the jobs, to ascertain whether additional measures are required to enhance the effectiveness of the 3E Project (paras. 2.25, 2.26, 2.28, 2.34 and 2.38 to 2.40).

5. ***Monitoring of projects.*** Audit examination of the 15 projects selected for review showed that, up to September 2013, many of the grantees had submitted their progress reports and annual audited accounts late. Although the SWD had issued reminders in some of the cases, Audit considers that late submission of progress reports is not desirable (para. 2.48).

Enhancing Self-Reliance Through District Partnership Programme (the ESR Programme)

6. The ESR Programme, established in 2006 by the HAD, provides grants for eligible organisations to set up SEs so as to promote sustainable poverty prevention and alleviation efforts at the district level that help enhance self-reliance, targeting socially disadvantaged groups. The maximum funding support for an approved project is \$3 million, comprising a capital grant and an operating grant. Up to September 2013, the ESR Programme had processed 459 applications, and approved 145 (32%) of them with a total grant of \$158 million (paras. 3.2 and 3.26).

7. ***Processing of applications.*** The HAD took a long time to process applications, with an average time of 239 days from submitting an application to signing the funding agreement. The long time taken would dampen applicants'

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enthusiasm and undermines their capability to seize opportunities. Besides, there was room for improvement in the determination of capital and operating grants for approved projects (paras. 3.22, 3.23 and 3.26 to 3.32).

8. ***Effectiveness of the ESR Programme.*** The effectiveness of the ESR Programme can be assessed by the sustainability of the SEs and the jobs created for the socially disadvantaged. In the 7 years of operation of the ESR Programme, a total of 145 projects were approved with a target number of 2,287 jobs. On average, 21 projects (with 327 jobs) were approved each year. The average grant per job for the 145 approved projects also varied widely from \$9,000 to \$360,000. As at September 2013, of the 145 approved projects, 25 had ceased operation and 120 were still in operation. For the operating projects, the actual number of jobs created was below the target number by 39% for full-time jobs and 22% for part-time jobs (paras. 3.35, 3.41 and 3.44).

9. ***Monitoring of projects.*** Audit examined a sample of 90 progress reports and noted that 55 (61%) reports were submitted late. The HAD also took a long time (267 days on average) to finalise its processing of progress reports before payment of operating grants. Delays in the submission and finalisation of progress reports resulted in late payment of operating grants (paras. 3.54 and 3.55).

Publicity and promotional work

10. The HAB and the HAD implement various initiatives to promote the development of SEs. For example, the HAD operates the Partnership Programme to enhance cross-sector collaboration to promote the development of SEs. The Programme comprises the Mentorship Scheme and the Matching Forum. The Mentorship Scheme aims at forming mentorships between SEs and voluntary mentors. Since March 2012, as a temporary measure, the HAD has confined the recruitment of mentees to projects under the ESR Programme. This will deprive other SEs of the opportunities. Regarding the Matching Forum, it aims at forming partnerships so that business organisations will procure services and products from and provide assistance to SEs. Activities of the Matching Forum have been low since its set up in 2008. The HAD needs to review the effectiveness of the Matching Forum and to identify improvement measures (paras. 4.2, 4.26, 4.27, 4.32 to 4.34 and 4.39).

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Way Forward

11. In January 2010, the HAB set up the Social Enterprise Advisory Committee to advise the Government on the formulation of policies and strategies for supporting the sustainable development of SEs and on programmes/activities that promote the development of SEs in Hong Kong (para. 5.2).

12. *Funding schemes of different bureaux and departments (B/Ds).* The social objectives of SEs are wide-ranging and may span across programme areas of different B/Ds, with a number of funding schemes providing start-up funds for establishing SEs. In formulating policies and strategies for promoting the development of SEs, the HAB and the HAD need to take stock of the progress and outcome of the efforts made by different B/Ds, with a view to promoting best practices, identifying service gaps, and creating synergies. In particular, there is a need to identify any synergistic effects between the 3E Project and the ESR Programme to improve their future operations (paras. 5.17, 5.18 and 5.26).

13. *Developing a more refined definition for SEs.* The Government's intention was not to unilaterally set a strict definition and a definitive list of SEs which would limit the development of the SE sector at its early stage. With the rapid development of SEs locally and overseas, there have been concerns about providing a clear definition of SEs from the SE sector and the Legislative Council. Audit considers that, for the long-term sustainable development of SEs, there is merit for the Government to adopt a more refined definition of SEs for formulating support strategies and programmes, and for providing a clear identity to SEs to enhance public understanding and acceptance (paras. 5.34 to 5.36).

Audit recommendations

14. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Director of Social Welfare should:**

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3E Project

- (a) expedite the processing of applications for the 3E Project, state clearly the basis for determining capital and operating grants, and take measures to ensure consistency in applying the basis to all applications (paras. 2.14(a) and 2.23(c));
 - (b) encourage more NGOs to participate in the 3E Project, and step up the SWD's publicity efforts in promoting the 3E Project (para. 2.42(b) and (c));
 - (c) strengthen the monitoring of the creation of PWD jobs by funded SEs and provide necessary advice and assistance to help them achieve the job creation target (para. 2.42(f)); and
 - (d) take measures to ensure that progress reports are submitted timely by grantees (para. 2.53(a)).
15. Audit has *recommended* that the Director of Home Affairs should:

ESR Programme

- (a) take measures to expedite the processing of applications, and state clearly the basis and the justifications for determining the operating grant for each approved project (paras. 3.24(b) and 3.33(c));
- (b) strengthen the monitoring of the creation of jobs by funded SEs and provide necessary advice and assistance to help them achieve the job creation target (para. 3.51(b));
- (c) take measures to ensure that progress reports are submitted timely by grantees and are finalised within a reasonable timeframe (para. 3.62(a));

Publicity and promotional work

- (d) keep in view the need to have the Mentorship Scheme open to SEs other than projects under the ESR Programme (para. 4.40(c));

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- (e) review the effectiveness of the Matching Forum and identify measures to promote the formation of partnerships between SEs and the business sector (para. 4.40(f)); and

Way forward

- (f) in collaboration with the Director of Social Welfare, jointly review the ESR Programme and the 3E Project, with a view to identifying any synergistic effects between the two funding schemes to improve their future operations (para. 5.28).

16. On the way forward, Audit has *recommended* that the Secretary for Home Affairs should:

- (a) periodically take stock of the progress and outcome of the efforts made by different B/Ds that may contribute to the development of SEs, with a view to promoting best practices, identifying service gaps, and creating synergies (para. 5.27); and
- (b) keep in view the need to formulate a more refined definition and an official list of SEs for promoting the long-term sustainable development of SEs (para. 5.38).

Response from the Administration

17. The Administration agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

Government policy on social enterprise

1.2 According to the Government's website on social enterprises (SEs), there is no universal definition of SE. In general, an SE is a business to achieve specific social objectives, such as providing services or products needed by the community, creating employment and training opportunities for the socially disadvantaged, and protecting the environment. Its profits will be principally reinvested in the business for the social objectives that it pursues, rather than distributed to its shareholders.

1.3 The Government's objectives in promoting the development of SEs are to enable the socially disadvantaged to be self-reliant through employment, and to meet the needs of different community groups with entrepreneurial thinking and innovative approaches, with a view to cultivating a caring culture as well as promoting social cohesion and mutual help.

Government's efforts in promoting the development of SEs

1.4 ***Enhancing Employment of People with Disabilities through Small Enterprise Project.*** In Hong Kong, there is a relatively longer history for the Government to promote the development of SEs in the provision of employment and training opportunities for the disabled. In September 2001, the Social Welfare Department (SWD) launched the Enhancing Employment of People with Disabilities through Small Enterprise Project (the 3E Project). The Project aims at providing grants for non-governmental organisations (NGOs) to set up small enterprises to provide employment opportunities for the disabled.

Introduction

1.5 ***Commission on Poverty's recommendation.*** In February 2005, the Government set up the Commission on Poverty (CoP — Note 1) to study, from a macro perspective, how to help the poor and alleviate poverty. The CoP recognised the benefits of the development of SEs in assisting the socially disadvantaged in moving from welfare to self-reliance. In September 2005 and in its report of June 2007, the CoP recommended further encouraging the development of SEs as an innovative approach to promoting self-reliance and providing community employment opportunities for the unemployed to integrate into the job market.

1.6 ***Enhancing Self-Reliance Through District Partnership Programme.*** In 2006-07, the Financial Secretary earmarked a sum of \$150 million over the following five years to provide grants for non-profit-making organisations to set up SEs for the socially disadvantaged. The Home Affairs Department (HAD) subsequently launched the Enhancing Self-Reliance Through District Partnership Programme (the ESR Programme). The Programme aims at providing grants for non-profit-making organisations to set up SEs to provide employment opportunities for the socially disadvantaged.

1.7 ***Four-pronged approach to promoting the development of SEs.*** Following the re-organisation of the Government in July 2007, the Home Affairs Bureau (HAB) has taken up the SE portfolio with the support of the HAD. In December 2007, the HAB organised a summit on SEs. Taking into account the views expressed at the summit, the Government has adopted a four-pronged approach to promoting the development of SEs:

- (a) ***Enhancing public understanding of SEs.*** This will facilitate SEs to recruit staff, find commercial partners and sponsorship, and to market their services and products;
- (b) ***Promoting cross-sector collaboration.*** This will encourage more private enterprises and professionals to participate in the development of SEs;
- (c) ***Nurturing social entrepreneurs.*** There is a general consensus that social entrepreneurship is key to the development of SEs; and

Note 1: *The CoP was dissolved in June 2007, but was re-established in December 2012.*

- (d) ***Strengthening support for SEs.*** The Government will continue to provide seed money to eligible SEs to help finance their initial operation.

1.8 ***Social Enterprises Support Unit.*** In 2008, the HAD set up the Social Enterprises Support Unit to implement initiatives to promote the development of SEs, including:

- (a) ***Enhancing public understanding of SEs.*** An SE directory by service category and SE booklets (on stories of successful SEs and on SE business strategies) have been compiled. Announcements in the public interest to promote public understanding of SEs have been launched. The HAD has set up a dedicated website for SEs (the SE website) and has organised activities (e.g. district market fairs) to promote services and products of SEs; and
- (b) ***Promoting cross-sector collaboration.*** The HAD has set up the Partnership Programme comprising the Mentorship Scheme and the Matching Forum. The Mentorship Scheme aims at forming mentorships through which mentors recruited from business and professional sectors will provide advice and guidance to SEs. The Matching Forum aims at forming partnerships through which business organisations will procure services and products of SEs and will provide assistance (e.g. concessionary rentals) to SEs.

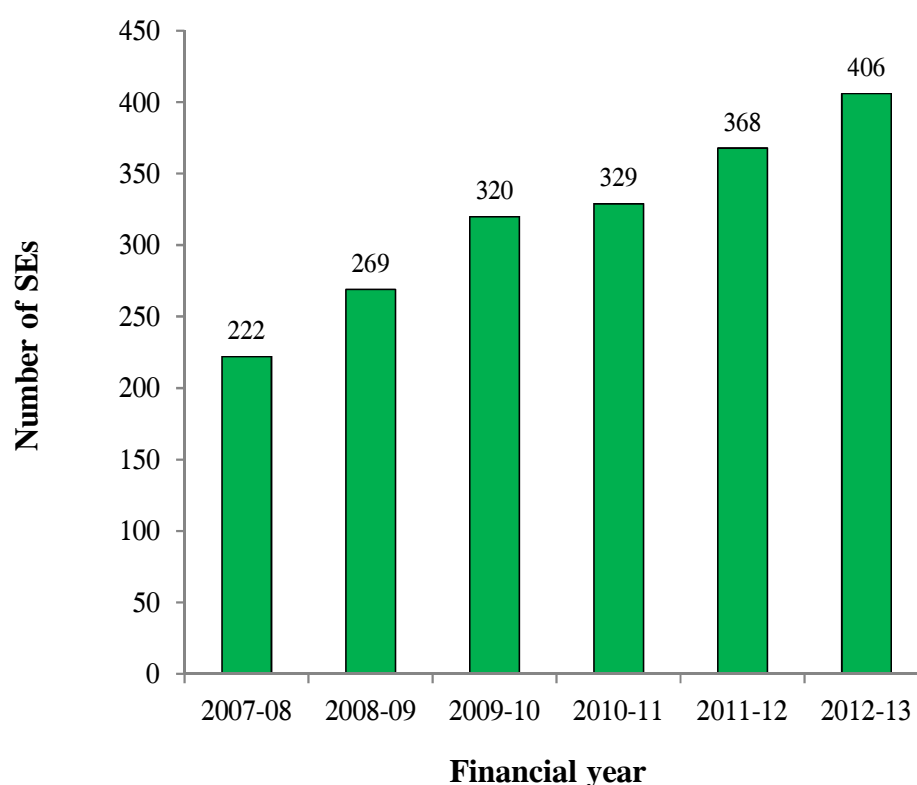
1.9 ***Social Enterprise Advisory Committee.*** In January 2010, the Government set up the Social Enterprise Advisory Committee (SEAC) to advise on the policies, strategies, programmes and activities for promoting the development of SEs. In conjunction with the SEAC, the Government has launched a number of promotional initiatives, including the SE Award Scheme and the SE Training Programme.

Landscape of SEs in Hong Kong

1.10 The Government does not publish official statistics of all the SEs in Hong Kong. Statistics on SEs in Hong Kong are however compiled by the Social Enterprise Business Centre (SEBC — Note 2) which conducts annual landscape surveys of SEs in Hong Kong. These statistics are widely used by the community. According to the results of the surveys, there has been a steady growth in the number of SEs, as shown in Figure 1. SEs in Hong Kong carry out different trades. Figure 2 shows the number of SEs engaged in different trades according to the 2012-13 landscape survey.

Figure 1

Number of SEs in Hong Kong

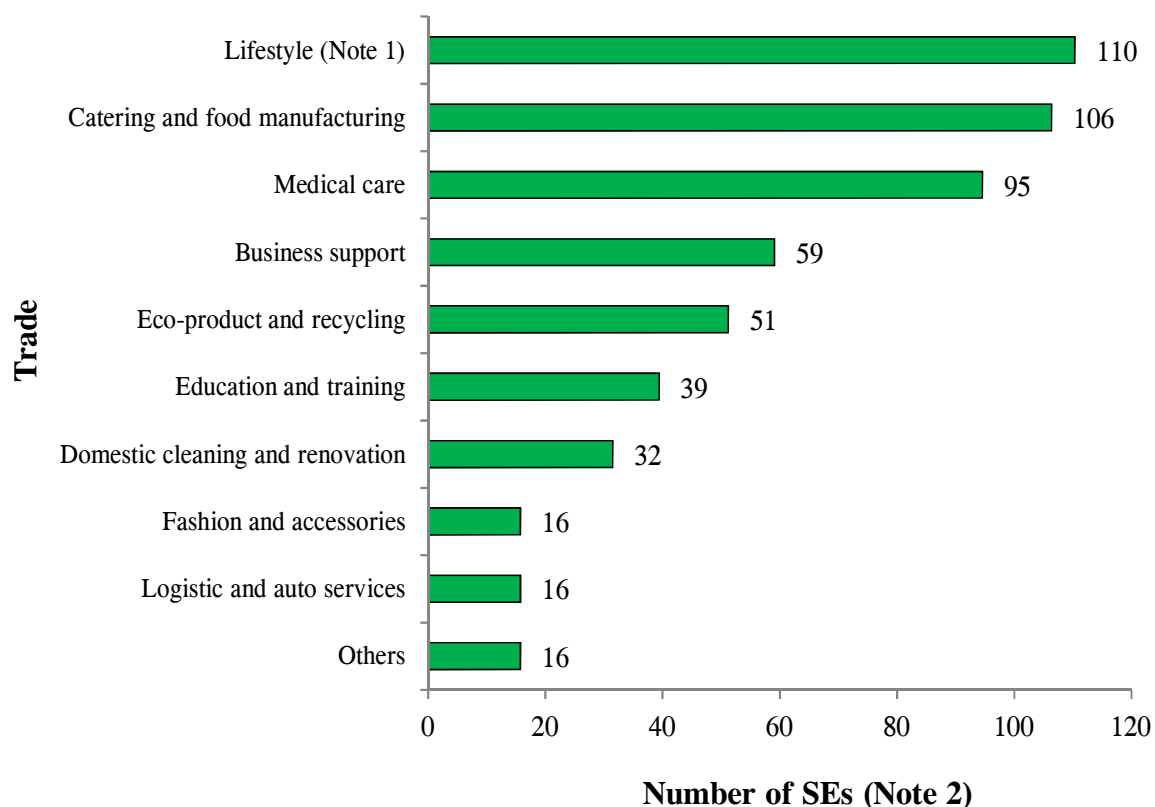


Source: The SEBC's 2012-13 landscape survey

Note 2: *The SEBC was set up by the Hong Kong Council of Social Service in 2008 with funding provided by the private sector and the Government. Its objective is to advance social entrepreneurship and mobilise social innovation.*

Figure 2

**Number of SEs engaged in different trades
(2012-13)**



Source: The SEBC's 2012-13 landscape survey

Note 1: This includes products and services such as handicrafts, massage and hair-styling.

Note 2: Since one SE could engage in more than one trade, the number of SEs added up (540) was more than the number of SEs responding to the survey (406).

Legislative Council's concerns about the development of SEs

1.11 In recent years, the Legislative Council (LegCo) has expressed concerns about the development of SEs in Hong Kong. It debated and passed three motions in June 2006, December 2007 and July 2010 respectively to urge the Administration to promote the development of SEs.

1.12 In November 2004, a Subcommittee to Study the Subject of Combating Poverty was set up under the House Committee of LegCo. The Subcommittee discussed the launch of the ESR Programme in June 2006, and discussed the development of SEs in July and December 2007. In June 2008, the Subcommittee completed a report on the development of SEs. The report set out the problems faced by the SE sector and recommended strategies and measures to promote the development of SEs for the Administration to consider.

1.13 Since 2007, the Administration has regularly briefed the LegCo Panel on Welfare Services on the Administration's initiatives to promote the development of SEs. In particular, the Panel discussed the improvement measures for the ESR Programme in February 2011, and the development of SEs in April 2011 and January 2012.

Other funding schemes involving SEs

1.14 Besides the 3E Project and the ESR Programme mentioned in paragraphs 1.4 and 1.6, the Administration has operated the following two other funding schemes that may also provide funding support for setting up SEs:

- (a) ***Capital Investment and Inclusion Fund (CIIF) operated by the Labour and Welfare Bureau.*** The key objective of this Fund is to promote community participation, mutual assistance, support and social inclusion through strengthening community networks. It provides seed money to eligible organisations for funding projects that promote the development of social capital (Note 3); and

Note 3: *The Audit Commission completed a review of the CIIF in October 2010 and the review result was reported in Chapter 11 of the Director of Audit's Report No. 55.*

- (b) *Revitalising Historic Buildings Through Partnership Scheme operated by the Development Bureau.* The key objective of this Scheme is to preserve and put government-owned historic buildings into good and innovative use. Non-profit-making organisations are invited to submit applications for using these buildings to provide services or run business in the form of SEs (Note 4).

Audit review

1.15 Against the above background, the Audit Commission (Audit) has recently conducted a review of the Government's efforts in promoting the development of SEs. The audit review focused on the following areas:

- (a) the 3E Project (PART 2);
- (b) the ESR Programme (PART 3);
- (c) publicity and promotional work (PART 4); and
- (d) way forward (PART 5).

Audit has found that there is room for improvement in the above areas and has made recommendations to address the issues.

Acknowledgement

1.16 Audit would like to acknowledge with gratitude the full cooperation of the staff of the HAB, the HAD, and the SWD during the course of the audit review.

Note 4: *The Audit Commission completed a review of the Partnership Scheme in March 2013 and the review result was reported in Chapter 1 of the Director of Audit's Report No. 60.*

PART 2: ENHANCING EMPLOYMENT OF PEOPLE WITH DISABILITIES THROUGH SMALL ENTERPRISE PROJECT

2.1 This PART examines the SWD's administration of the 3E Project. Audit has found room for improvement in the following areas:

- (a) processing of applications (paras. 2.7 to 2.15);
- (b) determination of capital and operating grants (paras. 2.16 to 2.24);
- (c) effectiveness of the 3E Project (paras. 2.25 to 2.45); and
- (d) monitoring of projects (paras. 2.46 to 2.54).

Background

2.2 In the 2001-02 Budget, the Financial Secretary announced in March 2001 a package of initiatives to provide better care for the disabled, including a one-off provision of \$50 million for NGOs to create employment opportunities for persons with disabilities (PWDs). In June 2001, the Administration briefed the LegCo Panel on Welfare Services about the implementation plan for the new initiatives to assist PWDs. With the approval of the Finance Committee (FC) of LegCo in June 2001, a new non-recurrent commitment of \$50 million was created for the SWD to launch the 3E Project in September 2001.

2.3 In October 2011, the commitment of the 3E Project was increased by \$4 million to \$54 million under delegated authority to meet imminent cashflow requirements. In order to encourage more NGOs to participate in the 3E Project to sustain the momentum in creating more job opportunities for PWDs, the commitment of the Project was further increased by \$100 million to \$154 million. For this injection of funding, the Panel on Welfare Services was consulted in December 2011 and the FC's funding approval was given in January 2012.

Enhancing Employment of People with Disabilities through Small Enterprise Project

2.4 The objective of the 3E Project is to help NGOs create and run SEs employing PWDs so that they can enjoy genuine employment in a carefully planned and sympathetic working environment. The SWD has set up the Advisory Committee on Enhancing Employment of People with Disabilities to assist it in administering the Project. The Committee comprises 16 non-official members (including the Chairman) and 2 official members. The Committee is responsible for advising the Director of Social Welfare in implementing the Project, including examining and recommending applications.

2.5 The SWD has also set up the 3E Project Secretariat, headed by an Assistant Director with an establishment of six staff (Note 5), to administer the Project. To enhance the sustainability of the businesses funded by the 3E Project, the Secretariat provides advisory services to the funded SEs and organises various activities for the development and promotion of their products and services. The Secretariat is also tasked to monitor the position of individual funded SEs against the milestones pledged by the NGOs concerned and provide advice where necessary.

2.6 For administering the 3E Project, the SWD has issued a Guide to the 3E Project (the 3E Guide), which is available at the SWD's website. It sets out the Project's funding objectives, application eligibilities, application procedures, assessment criteria, monitoring requirements, etc. A grant to support the operation of an SE from the date of commencement should be confined to the funding period (currently three years — Note 6). The funded SE is expected to become self-sustaining after the funding period. Progress reports are required to be submitted during the contract period (Note 7). Up to September 2013, the 3E Project had received a total of 137 applications, and approved 81 (59%) of them with a total grant of \$62 million (Note 8).

Note 5: *The six staff also perform some other duties. According to the SWD, the duties relating to the 3E Project constitute about 15% to 50% of their work.*

Note 6: *The funding period was set at one year when the Project was launched in September 2001. It was revised to two years in November 2006, and further revised to three years in April 2012.*

Note 7: *The contract period was set at three years when the Project was launched in September 2001. It was revised to four years in April 2012.*

Note 8: *Of the 137 applications received, 55 were withdrawn or rejected (mainly on grounds of business viability) and 1 was being processed.*

Processing of applications

2.7 The 3E Guide lays down the conditions for application under the Project, including the following:

- (a) the applicant should be a bona fide charitable NGO which possesses the tax exemption status under section 88 of the Inland Revenue Ordinance (Cap. 112);
- (b) the applicant may submit application at any time throughout the year and will be notified of the assessment result within two months after the submission of all relevant information of an application;
- (c) only an application for setting up a new business is eligible for a grant under the Project. The application should contain details of a viable business proposal. The proposed business is expected to commence not later than six months after approval of the grant; and
- (d) the funded SE will be required to employ PWDs of at least 50% (Note 9) of the total workforce in the business. This is to ensure that the objective of the Project in improving the employment opportunities of PWDs is safeguarded while recognising that in some cases, the employment of able-bodied persons is necessary to ensure the smooth operation of the business.

2.8 An application is initially vetted by the Project Secretariat. It is then assessed in accordance with laid-down guidelines by an assessment panel comprising two members selected from the Advisory Committee (see para. 2.4) and the Assistant Director of the Project Secretariat. The criteria for assessing applications include:

- (a) viability of the business plan;

Note 9: *When the 3E Project was launched in September 2001, the requirement on the proportion of PWDs employed was set at 60%. It was revised to 50% in November 2006.*

Enhancing Employment of People with Disabilities through Small Enterprise Project

- (b) management capability of the applicant; and
- (c) extent of benefit to PWDs (e.g. number of PWDs to be employed, salaries payable, etc.).

The assessment panel makes recommendations to the Director of Social Welfare who is responsible for approving applications. After approval of an application, a service agreement will be signed between the SWD and the applicant.

Time taken in processing applications

2.9 Audit conducted an analysis of the processing time of applications for a sample of 15 projects selected for review (Note 10). Table 1 shows the details.

Table 1

Processing time of applications for 15 projects selected for audit review

	Processing stage	Average time (No. of days)
(a)	From submission of application to submission of all relevant information requested by the SWD	63
(b)	From submission of all relevant information to notification of assessment result	86
(c)	From notification of assessment result to signing of agreement	35
	Total	184

Source: Audit analysis of SWD records

Note 10: *Out of the 81 approved projects (see para. 2.6), an audit sample of 15 projects was selected from projects operated by the top 8 NGOs that had the highest number of projects under the 3E Project. Of the 15 selected projects, 8 had ceased business and 7 were still in operation as at September 2013.*

Enhancing Employment of People with Disabilities through Small Enterprise Project

2.10 Audit's analysis showed that the processing of applications often took a long time to complete. The average time taken from submission of application to signing of agreement was 184 days, ranging from 69 to 438 days. Audit noted that:

- (a) for processing stage (b) in Table 1, the SWD had set a target time of two months (see para. 2.7(b)). However, of the 15 projects selected for review, the target time was not met in 9 (60%) cases with an average time of 4 months; and
- (b) for processing stage (c) in Table 1, it took 35 days on average from notification of assessment result to signing of agreement. According to the SWD's practice, the agreement would be signed when the business commencement date was confirmed by the applicant.

2.11 The long time taken in processing applications would delay the commencement of business and thus the creation of jobs for PWDs. It would also delay the payment of grants to applicants, which could be made only after the agreements were signed. In this connection, Audit scrutiny of cases other than the 15 cases selected for review (see para. 2.9) showed that, in one case (Case 1), it took 127 days from notification of assessment result to signing of agreement, due to delay on the part of the SWD. The delay in signing the agreement resulted in late payment of capital and operating grants. There is a need for the SWD to take measures to shorten the processing time as far as possible.

Case 1

Long delay in arranging for the signing of agreement

1. On 24 August 2012, the SWD received an application under the 3E project. At a meeting held on 12 September 2012, the applicant informed the assessment panel that the SE would commence business on 17 September 2012. The application was approved on 26 September 2012.

2. On 3 October 2012, the SWD notified the result to the applicant. On 29 November 2012, the SWD requested the applicant to provide the actual business commencement date of the SE. On 3 December 2012, the applicant replied that the SE had commenced business on 17 September 2012.

3. From records available, Audit noted that the SWD had not taken prompt action to arrange for signing of the agreement after being informed. In the event, the agreement was not signed until 7 February 2013.

Audit comments

4. In this case, it took 127 days from notification of assessment result to the applicant (3 October 2012) to signing of agreement (7 February 2013). Grant payments totalling \$0.58 million were also delayed.

Source: Audit analysis of SWD records

Commencement of business before funding approval

2.12 The 3E Guide requires that the SEs under the 3E Project should commence business not later than six months after approval, and only new businesses will be supported (see para. 2.7(c)). However, the Guide does not state clearly the meaning of new business. Audit examination of the 15 projects selected for review (see para. 2.9) found that the business operations of 8 projects actually commenced before the approval of funding was given. On average, businesses commenced 3.9 months earlier than the funding approval dates. Six of them commenced business when the applications were being processed by the SWD. The remaining two had already commenced business one month before the applications were submitted. Upon enquiry, the SWD informed Audit in February 2014 that the

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two projects with business commenced before submission of application were processed a few years ago. According to the staff concerned, initial applications might have been submitted by the applicants before commencement of business. However, there was no documentary evidence available.

2.13 An applicant who commences business before funding approval is taking his own risks as the SWD may or may not approve his application for funding under the 3E Project. While the SWD approved all the 8 projects (see para. 2.12) which had already commenced business, Audit noted that in another application (not one of the projects selected for review — see para. 2.9) submitted in November 2012, the SWD rejected it on the grounds that the proposed business had already commenced operation in October 2012. It appears that the SWD has not adopted a consistent approach in handling applications with commencement of business before funding approval. The SWD needs to lay down clear guidelines in this regard, including whether or not an SE which has just commenced business is eligible for assistance under the 3E Project.

Audit recommendations

2.14 **Audit has *recommended* that the Director of Social Welfare should, in respect of the 3E Project:**

- (a) take measures to expedite the processing of applications as far as possible. In particular, the SWD should:**
 - (i) render necessary assistance to applicants to timely submit all relevant information (e.g. providing a checklist in the 3E Guide for the required information);**
 - (ii) ensure that the target time of two months (between applicants' submission of all relevant information and notification of assessment results) is met; and**
 - (iii) ensure that the service agreements are promptly signed; and**

- (b) **lay down clear guidelines on handling applications with business already commenced before funding approval is given so as to ensure consistent treatment to all applications.**

Response from the Administration

2.15 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD:

- (a) put in place in April 2012 an effective monitoring mechanism to ensure timely processing of applications. Since then, for all the approved projects, the two-month timeframe from receipt of applicants' relevant information to notification of assessment results and timely signing of service agreements has been strictly adhered to; and
- (b) will provide detailed guidelines in the 3E Guide by mid-2014:
 - (i) by including a checklist to remind applicants of the information required and the points to note in preparing their applications; and
 - (ii) to elaborate on the handling of applications with business commencement before funding approval.

Determination of capital and operating grants

2.16 Funding support under the 3E Project is given in the form of a non-recurrent grant, consisting of two portions, namely the capital grant and the operating grant. The capital grant is disbursed on a reimbursement basis to pay for the necessary set-up cost in respect of equipment, fitting-out works, etc. The operating grant is used to meet the operating loss during the funding period (currently three years). The maximum funding support of an approved project is \$2 million. The 3E Guide does not provide detailed information on how the capital grant and the operating grant are determined.

Refundable deposits funded by capital grants

2.17 The capital grant is approved on an item-by-item basis, but the 3E Guide does not specify what items are eligible. Deposits, such as rental and utility deposits, are a common type of cash outlay in starting a business, and are usually refundable. According to the 3E Guide, refundable deposit will not be eligible for claiming operating grant. Of the 81 approved projects, 29 were in retail business. Audit examined these 29 approved projects and noted that the capital grants for 8 projects included items of refundable deposits with a total amount of \$0.53 million. For two projects, the service agreements had provisions for the Government to recover the deposit amounts on project termination. There were however no such provisions for the other six projects.

2.18 Deposit is not an expense and is usually refundable. The SWD needs to examine whether refundable deposits are to be funded by the capital grant. When capital funding is provided for a refundable deposit, the SWD may need to establish a mechanism to recover the amount when the deposit is refunded to the grantee.

Trading stock funded by capital grants

2.19 Out of the 81 approved projects, 29 were in retail business with trading stock. Audit noted that the capital grants provided to 11 approved projects in retail business included items for acquiring trading stock. The total amount involved was \$0.75 million. Cost of trading stock is an operating expenditure for calculating the operating loss which is funded by the operating grant (see para. 2.16). If this item is also funded by the capital grant, it will result in double counting and thus double funding for the same expenditure. The SWD needs to lay down guidelines to ensure that the cost of trading stock is not counted twice and does not receive double funding from both the capital grant and the operating grant.

2.20 Upon enquiry, the SWD informed Audit in October 2013 that, since August 2010, it had not approved any cost of trading stock for funding under the capital grant. However, Audit noted that this practice has not yet been stated in the 3E Guide for reference by both applicants and SWD staff.

Inconsistencies in determining operating grants

2.21 According to the 3E Guide, the operating grant is provided to meet the operating loss during the funding period. In other words, operating grants should be provided on a deficit basis. However, the 3E Guide does not provide detailed information on the basis for determining operating grants. Audit reviewed the 81 approved projects and noted that there were inconsistencies in determining operating grants:

- (a) the deficit basis only applied to 68 (84%) projects. For the remaining 13 (16%) projects, the operating grant was determined on the expenditure basis, with reference to the operating expenses (e.g. salary expenses for the first quarter). Audit estimated that if the deficit basis had been adopted for these 13 projects (3 of which had forecast surplus of \$2,600, \$0.28 million and \$0.29 million respectively), the total operating grants involved would have been reduced by \$2.6 million; and
- (b) of the 68 projects mentioned in (a) above, 57 had budgeted operating loss in each year of the funding period. For the remaining 11 projects, they had budgeted operating surplus or loss in different years of the funding period. For these 11 cases, the gross deficit basis (without netting off of surplus from deficit) was applied in 8 (73%) cases, while the net deficit basis (with netting off of surplus from deficit) was applied in 3 (27%) cases. If the net deficit basis had been adopted in all these cases, Audit estimated that the total operating grants involved would have been reduced by \$0.34 million.

2.22 While the SWD had generally adopted the deficit basis for determining the operating grant (see para. 2.21), in practice, it was not applied on a consistent basis. To reduce ambiguity and to ensure fair treatment to all applicants, the SWD needs to state clearly in the 3E Guide its basis adopted for determining operating grants.

Audit recommendations

2.23 **Audit has *recommended* that the Director of Social Welfare should, in respect of the 3E Project:**

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- (a) **examine whether refundable deposits are to be funded by the capital grant and, if so, whether a mechanism should be established to recover the amount when the deposit is refunded to the grantee;**
- (b) **take measures (e.g. revising the 3E Guide) to ensure that the cost of trading stock would not be counted twice for computing funding from the capital grant and the operating grant; and**
- (c) **state clearly in the 3E Guide the basis for determining capital and operating grants, and take measures to ensure consistency in applying the basis to all project applications.**

Response from the Administration

2.24 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD will provide detailed guidelines in the 3E Guide by mid-2014 regarding the issues raised.

Effectiveness of the 3E Project

2.25 The 3E Project was launched in September 2001. Its effectiveness can be assessed by the sustainability of the SEs created and the jobs created for PWDs. Up to September 2013, the 3E Project had been implemented for 12 years. Table 2 shows a summary of approved projects since the inception of the 3E Project. As at September 2013, of the 81 approved projects, 24 had ceased operation (terminated projects) and 57 were still in operation (operating projects). Appendix A shows the years in operation of the 57 operating projects and the 24 terminated projects. It can be seen that 26 (32%) projects had operated for seven years or more.

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Table 2

**Summary of approved projects since the inception of the 3E Project
(September 2001 to September 2013)**

Financial year	No. of approved projects	Target no. of PWD jobs	Total approved grant	Average grant per project (Note)	Average grant per PWD job
	(a)	(b)	(c)	(d) = (c)/(a)	(e) = (c)/(b)
			(\$ million)	(\$ million)	(\$)
2002-03	10	114	6.20	0.62	54,386
2003-04	10	102	3.76	0.38	36,863
2004-05	7	49	4.12	0.59	84,082
2005-06	8	77	4.19	0.52	54,416
2006-07	7	29	3.45	0.49	118,966
2007-08	3	19	3.04	1.01	160,000
2008-09	7	49	5.59	0.80	114,082
2009-10	8	50	4.13	0.52	82,600
2010-11	6	38	6.62	1.10	174,211
2011-12	4	28	4.72	1.18	168,571
2012-13	6	35	8.42	1.40	240,571
2013-14 (up to September 2013)	5	32	7.53	1.51	235,313
Overall	81	622	61.77	0.76	99,309
Annual average	7	52	5.15	—	—

Source: SWD records

Note: The approved grants for individual projects ranged from \$0.1 million to \$2 million. The overall split between capital grant and operating grant was 59 : 41.

Progress of implementing the 3E Project

2.26 Table 2 shows that, in the 12 years (from September 2001 to September 2013) of operation of the 3E Project, a total of 81 projects had been approved with a target number of 622 PWD jobs. On average, 7 projects were approved a year with a target number of 52 PWD jobs. Compared with the first two years of implementation of the 3E Project (i.e. 2002-03 and 2003-04), in recent years both the number of projects and the target number of PWD jobs had decreased. In particular, there has been a clear decreasing trend for the target number of PWD jobs created. The Government has provided a total funding of \$154 million for the 3E Project. As at September 2013, the total approved grant amounted to \$62 million (40%), with a remaining fund balance of \$92 million (60%). In this connection, Audit noted that LegCo Members had expressed concerns in June 2008 and December 2011 about the slow progress in implementing the 3E Project.

2.27 The 3E Project is open to application by all charitable NGOs possessing tax-exemption status under section 88 of the Inland Revenue Ordinance. Theoretically, there are a large number of potential applicants. In practice, however, so far only 40 NGOs have submitted applications (137 in total) under the 3E Project. The vast majority of these applicants were NGOs specialised in providing vocational rehabilitation services for PWDs (rehab-NGOs). Regarding the 81 approved projects, 80 (99%) projects were operated by 23 rehab-NGOs. PWDs employed under these approved projects were mainly recruited by referrals from these rehab-NGOs.

2.28 According to the SWD records, publicity efforts of promoting the 3E Project were targeted at rehab-NGOs (35 in total). It is evident that the 3E Project has been relying very much on rehab-NGOs for applications. However, there is a risk that some rehab-NGOs might have reached their capacities in operating SEs. For example, 9 rehab-NGOs were operating 61 SEs under the 3E Project. In order to encourage the setting up of more SEs which focus on employing PWDs, the SWD needs to step up its publicity efforts and invite more rehab-NGOs or other NGOs to participate in the Project.

2.29 It also appears that the progress of the 3E Project had been affected by the introduction of the ESR Programme by the HAD since 2006. Audit noted that some rehab-NGOs had switched to the ESR Programme for funding to operate their SEs. Details will be further discussed in paragraphs 5.22 to 5.31.

Sustainability of funded SEs

2.30 According to the 3E Guide, funded projects are expected to be self-sustainable after the funding period. Funding support available under the 3E Project has to be justified mainly on the basis of commercial viability of the business proposal as the business and jobs created have to be sustained on a self-financing basis after the funding period. As at September 2013, among the 81 approved projects, the funding period had expired for 69 of them. Out of the 69 SEs which had completed the funding period, 24 (35%) ceased business, involving 160 jobs for PWDs and \$12.6 million of approved grant. These 24 projects had operated for an average of 4.4 years (including the funding period) before they ceased business, ranging from 2 to 11 years. According to the SWD, the main reasons for cessation of business were expiry of venue contracts and operational difficulties. Since April 2012, the SWD has strengthened its monitoring of funded SEs through:

- (a) provision of advice and support to the SEs on business matters through scheduled/surprise visits or progress review meetings;
- (b) early intervention for under-performing businesses and provision of prompt assistance/guidance without jeopardy to the employment of PWDs; and
- (c) putting in place a review panel mechanism for monitoring and supporting the businesses regarding the jobs created for PWDs, financial condition and submission of progress reports.

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2.31 *Sustainability of SEs beyond the funding period.* Normally, the approved projects operate at a deficit initially and attain breakeven towards the end of the funding period. They are expected to operate at a surplus in order to sustain a self-financing status thereafter. As at 30 September 2013, 45 SEs were operating beyond the funding period (excluding 24 terminated projects and 12 projects which were still within the funding period). For these 45 SEs, Audit noted from their last progress reports submitted to the SWD that 16 (36%) were still operating at a deficit. This indicated that many funded SEs operating beyond the funding period had not yet achieved a self-financing status and were receiving subsidies from their sponsoring bodies. There is a need for the SWD to continue monitoring the financial performance of SEs after the funding period to see whether they need further support and assistance. In this connection, Audit noted that, under the 3E Project, the period for monitoring the performance of SEs after the funding period (monitoring period) was currently only one year, whereas that under the ESR Programme was set at three years (see para. 3.5). Audit considers that a longer monitoring period may allow for the provision of continued support and assistance to the SEs concerned in order to help them become self-sustainable.

2.32 *Repeated seed funding to different NGOs for setting up SEs in the same venue.* According to the SWD, the expiry of venue contracts was a major reason for cessation of SE business under the 3E Project (see para. 2.30). Many SEs under the 3E Project operated retail/catering businesses at venues of government departments or public organisations, e.g. the Hospital Authority (HA). Such venues were usually let out by open tender with a fixed term subject to re-tendering on expiry. As there was competition among NGOs for these venues, the SEs under the 3E Project might not be able to win the venue contracts on re-tendering. Audit noted that there were cases in which government-funded SEs competed among themselves for venue contracts, resulting in replacements of SEs operating the same business at the same venues with repeated government seed funding (under the 3E Project and the ESR Programme). Case 2 shows the details.

Case 2

**Repeated seed funding to different NGOs
for setting up SEs in the same venue**

1. The HA let out venues in hospitals for retail/catering businesses by open tender with assessment criteria giving weight to businesses employing PWDs. In 2005 and 2006, the SWD approved funding under the 3E Project for NGO-A to operate two SEs (\$0.22 million and \$0.4 million respectively) in two HA venues (designated as retail shops for selling rehabilitation products). In 2009, the contracts for the two HA venues expired and were re-tendered. NGO-A failed to win the new venue contracts and terminated the two SEs. The two venues were let to NGO-B at higher bidding prices. NGO-B submitted applications for operating the same type of business in the two venues under the 3E Project. The applications were approved by the SWD in 2009 with grants of \$0.33 million and \$0.42 million respectively.

2. The two SEs operated by NGO-A were making profits before cessation of business. Their terminations were due to the loss of the venue contracts to NGO-B. In each of these two venues, the 3E Project provided seed money to two different NGOs to set up SEs operating the same type of business. In the event, the SWD considered such cases not satisfactory and revised the conditions of the 3E Project. With effect from April 2012, an application would be considered ineligible if it would replace a funded SE under the 3E Project conducted by another grantee of the same business nature in the same venue.

3. However, the two SEs operated by NGO-B ceased business in December 2012 and January 2013 when NGO-B failed to win the new venue contracts on re-tendering. The venue contracts were won back by NGO-A by a higher bidding price. This time, NGO-A made an application under the ESR Programme to operate the two shops by one SE to provide jobs for the socially disadvantaged. In March 2013, the HAD approved funding of \$1.2 million to NGO-A under the ESR Programme. As a result, repeated seed funding was provided to set up SEs three times in each of the two venues.

Audit comments

4. The measure implemented by the SWD in April 2012 (see para. 2 above) was not entirely effective to prevent the provision of repeated seed funding to different NGOs for setting up an SE in the same venue (see para. 3 above). There is a need for the SWD and the HAD to work out an effective arrangement to prevent such repeated seed funding by the 3E Project and the ESR Programme.

Source: Audit analysis of SWD and HAD records

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Jobs created for PWDs

2.33 The main objective of the 3E Project is to create job opportunities for PWDs, thereby facilitating their self-reliance and integration into the community (Note 11). The 81 approved projects proposed to create 870 jobs comprising 622 for PWDs and 248 for able-bodied persons. So far, 24 SEs ceased business, involving 160 proposed PWD jobs. According to the SWD's survey on operating projects as at September 2013 (see para. 2.47), the target and actual numbers of PWD jobs were 427 and 385 respectively (see Table 3 for details).

Table 3
PWD jobs created for operating projects (Note 1)
(30 September 2013)

Job type (Note 2)	Target (Note 3) (a) (No.)	Actual (b) (No.)	Variance	
			(c) = (b)-(a) (No.)	(d) = (c)/(a) (%)
Full-time	—	115 (30%)	—	—
Part-time	—	270 (70%)	—	—
Overall	427	385 (100%)	-42	-10%

Source: Audit analysis of SWD records

Note 1: There were 57 operating projects as at 30 September 2013 (see para. 2.25). The SWD survey covered only 52 projects because five projects were recently approved and had not yet commenced business.

Note 2: The SWD conducts quarterly surveys on operating projects to collect information on PWD employment, with breakdown between full-time jobs and part-time jobs.

Note 3: The project applicants were not required to provide breakdown in their applications between full-time and part-time jobs to be created for PWDs.

Note 11: *According to a report compiled by the Census and Statistics Department in 2008, there were about 361,300 PWDs (excluding persons with intellectual disability) in Hong Kong, including 41,000 employed ones.*

2.34 ***Number of PWD jobs created.*** Table 3 shows that as at September 2013, the actual number of PWD jobs for 52 operating projects was lower than the target by 42 (10%). The variance was the net result of an additional 97 jobs (above target) from 17 projects and a shortfall of 139 jobs (below target) from 30 projects. For the 30 projects with shortfall in PWD jobs, 12 of them (beyond the monitoring period) employed less than 50% of the target number of PWD employees, including 2 projects which did not employ any PWDs at all. It appears that some of the jobs created for PWDs could not be sustained for these SEs. There is a need for the SWD to strengthen its monitoring of PWD jobs created by SEs under the 3E Project and to provide necessary advice and assistance to them.

2.35 ***Full-time and part-time jobs.*** Table 3 shows that among the 385 PWD jobs created, only 115 (30%) were full-time jobs, while 270 (70%) were part-time jobs. The SWD's survey results indicated that the monthly salaries of part-time jobs varied widely from less than \$1,000 to more than \$8,000. In submitting an application, the applicant is only required to provide the target number of PWD jobs in total, without specifying whether they are full-time or part-time jobs. The assessment was conducted on the basis of the total number of PWD jobs to be created. In the progress reports, the grantees were also not required to provide employment information with breakdowns into full-time and part-time jobs. Audit considers that there is a need for the applicants to provide more detailed information about the PWD jobs proposed (e.g. breakdowns into full-time and part-time jobs, and breakdowns of part-time jobs into different bands according to the number of working hours of a job) in the applications to facilitate the SWD's assessment. The same information should also be provided in the progress reports to the SWD for monitoring purposes.

2.36 ***Cost-effectiveness of grant for PWD job creation.*** Most of the SEs funded under the 3E Project were small business undertakings. The average target number of PWD jobs to be created by the 81 approved projects was 7.7, ranging from 2 to 29. For 38 (47%) projects, the target number of PWD jobs to be created was not more than 5, including 13 (16%) for creating 2 or 3 PWD jobs. Table 4 shows the details.

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Table 4

**Target number of PWD jobs to be created
(September 2001 to September 2013)**

Number of PWD jobs for the project	Number of projects	Total number of PWD jobs
2 — 3	13 (16%)	36 (6%)
4 — 5	25 (31%)	113 (18%)
6 — 10	26 (32%)	203 (33%)
11 — 20	15 (19%)	214 (34%)
21 — 29	2 (2%)	56 (9%)
Overall	81 (100%)	622 (100%)

Source: Audit analysis of SWD records

2.37 As can be seen from Table 2 in paragraph 2.25, for all the 81 approved projects, the average grant per project was \$0.76 million and the average grant per PWD job was \$99,309. For individual years, the average grant per project increased by 144%, from \$0.62 million in 2002-03 to \$1.51 million in 2013-14. This was mainly due to the extension of funding period from 1 year to 2 years in 2006 and further to 3 years in 2012. Besides, the average grant per PWD job increased substantially from \$54,386 in 2002-03 to \$235,313 in 2013-14, by 333%. The increasing trend is a cause for concern regarding the cost effectiveness of the grant for PWD job creation, even after taking into consideration the inflation factor.

2.38 Audit analysis also shows that, for all the 81 projects, the grant per PWD job varied widely from \$12,500 to \$368,800. The SWD has not issued any guidelines for taking into account the average grant per PWD job in assessing applications under the 3E Project. The SWD may explore setting a selection criterion for assessing applications based on the average grant per PWD job to be created.

Enhancing self-reliance

2.39 The 3E Project aims to create employment opportunities to enhance the self-reliance of PWDs. The SWD conducts quarterly surveys to collect statistics from all operating projects about the employment of PWDs, including the number of PWDs employed, their salaries, source of recruitment, etc. According to management information compiled by the SWD from data collected from 52 of the 57 operating projects as at September 2013 (see Note 1 to Table 3 in para. 2.33), there were a total of 385 PWD jobs involving the employment of 1,882 PWDs since the commencement of these projects. Among the PWD employees, 49 of them ceased receiving the Comprehensive Social Security Allowance after they were employed by the funded SEs. This is a good indication that the PWDs had become self-reliant because of the jobs created by funded SEs.

2.40 On the other hand, 1,882 PWDs had worked in the PWD jobs created, indicating that many had joined and left the jobs. However, the SWD did not collect information or feedback about why PWDs had left the funded SEs. If such information was also collected from grantees, the SWD could have better information about whether the PWDs had moved on to open employment (i.e. achieving self-reliance) or reverted to supported employment or other rehabilitation services. Such information can provide valuable information about the effectiveness of the 3E Project.

Performance information provided to LegCo

2.41 From time to time, the SWD provides information to LegCo about the progress of implementing the 3E Project. In reporting the results on creation of jobs for PWDs, the SWD only provided the target number of jobs to be created, without providing the actual number of jobs created and a breakdown between full-time and part-time jobs. Audit considers that the SWD needs to consider providing LegCo with more comprehensive information on the number and details of jobs created for PWDs under the 3E Project in future.

Audit recommendations

2.42 **Audit has recommended that the Director of Social Welfare should:**

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Progress of implementing the 3E Project

- (a) **examine the reasons for the slow progress of the 3E Project in creating job opportunities for PWDs through development of SEs, with a view to identifying improvement measures;**
- (b) **take measures to encourage more NGOs (including those not currently engaged in vocational rehabilitation services for PWDs) to participate in the 3E Project;**
- (c) **step up the SWD's publicity efforts in promoting the 3E Project;**

Sustainability of funded SEs

- (d) **continue to monitor closely the financial performance of SEs after the funding period of the 3E Project for evaluating their sustainability, and provide necessary advice and support to help them achieve a self-financing status;**
- (e) **consider extending the length of the contract period so as to allow more time for monitoring the financial performance of SEs after the funding period of the 3E Project;**

Jobs created for PWDs

- (f) **strengthen the monitoring of the creation of PWD jobs by funded SEs, and provide necessary advice and assistance to help them achieve the job creation target;**
- (g) **require the applicants to provide more detailed information about the PWD jobs to be created (e.g. breakdowns into full-time and part-time jobs, and breakdowns of part-time jobs into different bands according to the number of working hours of a job) in the applications and progress reports for the SWD's assessment and monitoring;**
- (h) **consider setting a selection criterion for assessing applications based on the average grant per PWD job to be created;**

Enhancing self-reliance

- (i) **consider requiring grantees to provide information about why PWDs left their jobs in the funded SEs for evaluating the effectiveness of the 3E Project in enhancing self-reliance of PWDs; and**

Performance information provided to LegCo

- (j) **provide more comprehensive information to LegCo on the number and details of PWD jobs created under the 3E Project in future.**

2.43 **Audit has also *recommended* that the Director of Social Welfare and the Director of Home Affairs should jointly work out an effective arrangement to prevent the provision of repeated seed funding under the 3E Project or the ESR Programme to different NGOs for setting up an SE in the same venue.**

Response from the Administration

2.44 The Director of Social Welfare agrees with the audit recommendations in paragraphs 2.42 and 2.43. She has said that the SWD:

- (a) has taken the following measures in the past years to encourage more NGOs to make applications under the 3E Project:
 - (i) for non-SWD-subsented organisations, lowering the length of time required to participate in welfare and charitable activities from five to two years; and
 - (ii) extending the maximum funding period from two to three years to allow funded SEs more time to gain operating experience and become self-sustainable;
- (b) will continue to extend the publicity in promoting the 3E Project to NGOs not providing vocational rehabilitation services for PWDs;

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- (c) will explore the possibility of further extending the length of the contract period so as to strengthen the monitoring of and support for the businesses;
- (d) will continue to strengthen the assistance and support provided for the funded SEs to help them achieve the job creation target;
- (e) will collect more information about the jobs created for PWDs in different stages of the businesses with effect from mid-2014 and take on board the average grant per job for PWDs in assessing individual applications under the 3E Project;
- (f) will collect, with effect from mid-2014, information as to why PWDs left their jobs in the funded SEs;
- (g) will provide more details on PWD jobs created under the 3E Project to LegCo as required; and
- (h) will continue to collaborate with the HAD to work out an effective arrangement to prevent provision of repeated grants under different funding schemes for setting up similar businesses in the same venue.

2.45 The Director of Home Affairs agrees with the audit recommendation in paragraph 2.43. She has said that under the current arrangement, the SWD is a member of the ESR Advisory Committee (see para. 3.3) and the SWD's comments are sought on all applications under the ESR Programme to, among others, avoid overlapping of resource provision to the same SE. In the light of Case 2 (see para. 2.32), the HAD would work with the SWD to review the existing arrangement for cases of this nature and see if any change is necessary for the HAD to consider similar applications in future.

Monitoring of projects

2.46 The SWD requires grantees of the 3E Project to submit progress reports with details of the jobs created, the people employed and the financial performance of the project. Progress reports are required to be submitted quarterly during the funding period, and thereafter annually during the remainder of the contract period

(i.e. the monitoring period). Annual audited accounts of the SE are also required to be submitted throughout the contract period. The Finance Branch of the SWD examines the submitted reports and forwards its findings to the Project Secretariat to take follow-up actions. The relevant reports are required to be submitted within two months (for progress reports) or six months (for audited accounts) from the end of the reporting period. The SWD introduced a system in April 2012 to issue a first reminder one week after the deadline and a final reminder another week later for chasing up overdue reports. For business with persistent non-compliance with submission of progress reports, review panel meetings will be convened for advice on the course of action.

2.47 The SWD conducts visits or progress review meetings to give advice and support on matters relating to business operations. For grantees with unsatisfactory business performance, a review panel comprising members of assessment panels will be formed to review improvement plans submitted by the grantees. On a quarterly basis, the SWD conducts surveys to collect statistics from all operating projects about the employment of PWDs, including the number of PWDs employed, their salaries, source of recruitment, etc.

Submission of reports

2.48 Audit examination of the 15 projects selected for review (see para. 2.9) showed that, up to September 2013, many of the grantees had submitted their progress reports and annual audited accounts late. Although the SWD had issued reminders in some of the cases, Audit considers that late submission of progress reports is not desirable. There is a need to remind grantees to submit their progress reports on a timely basis.

Review of progress reports

2.49 The progress reports provide useful information to monitor the performance of the project. In examining progress reports and audited accounts submitted by grantees, the SWD's Finance Branch often identified findings for the Project Secretariat to follow up, including:

- (a) discrepancies between audited accounts and progress reports; and

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- (b) non-compliance with requirements of the 3E Guide (e.g. no separate bank account for the SE, internal control weaknesses on cash transactions, etc.).

2.50 From the 15 projects examined, Audit found that the SWD's Finance Branch had identified findings for the Project Secretariat to follow up. However, for 8 projects, the Project Secretariat had not adequately followed up all the Finance Branch's findings.

Recovery of unspent operating grants

2.51 According to the 3E Guide, the grantee was required to return the unspent amount of operating grant to the SWD. The SWD's Finance Branch would calculate the amount of unspent grant on the net deficit basis (i.e. the excess of operating grant over the actual deficit incurred) and informed the Project Secretariat to take follow-up action. The grantee could put up proposals with justifications for retaining the unspent grant for financing the business for the SWD's approval.

2.52 Audit examination of the 15 projects under review found that:

- (a) 9 projects were determined by the Finance Branch to have unspent operating grants, totalling \$2 million (ranging from \$50,000 to \$398,000). The Finance Branch informed the Project Secretariat of the results. However, the Project Secretariat had not taken adequate follow-up actions to recover the unspent grants from the grantees. Upon Audit enquiry in October 2013, the Project Secretariat undertook to take follow-up action; and
- (b) in one case, there was an error in calculating the unspent operating grant in that a sum of withheld operating grant (\$292,000) subsequently released had not been included in the calculation. As a result, the unspent operating grant to be recovered had been understated by the same amount.

Audit recommendations

2.53 **Audit has *recommended* that the Director of Social Welfare should:**

- (a) **take improvement measures to ensure that:**
 - (i) **progress reports are submitted timely by grantees; and**
 - (ii) **reminders are issued promptly for chasing up overdue progress reports;**
- (b) **ensure that the Project Secretariat takes necessary follow-up actions on the findings identified by the SWD's Finance Branch from the review of progress reports, and documents the actions taken;**
- (c) **for those cases in which the grantees are allowed to retain their unspent operating grants, ensure that sufficient justifications are provided by them and are documented on file for review by the SWD management;**
- (d) **for those cases in which sufficient justifications are not provided, take timely follow-up actions to recover the unspent grants from the grantees; and**
- (e) **follow up on the case mentioned in paragraph 2.52(b) in which the unspent operating grant to be recovered had been understated.**

Response from the Administration

2.54 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD:

- (a) has established a bring-up system to ensure timely and proper handling of the unspent grants, and will continue to implement the measures for ensuring timely submission of reports, follow-up actions and proper handling of unspent grants; and
- (b) is taking rectification action to recover the actual unspent grants from the NGOs concerned.

PART 3: ENHANCING SELF-RELIANCE THROUGH DISTRICT PARTNERSHIP PROGRAMME

3.1 This PART examines the HAD's administration of the ESR Programme. Audit has found room for improvement in the following areas:

- (a) funding arrangements (paras. 3.6 to 3.17);
- (b) processing of applications (paras. 3.18 to 3.25);
- (c) determination of capital and operating grants (paras. 3.26 to 3.34);
- (d) effectiveness of the ESR Programme (paras. 3.35 to 3.52); and
- (e) monitoring of projects (paras. 3.53 to 3.63).

Background

3.2 The ESR Programme was established in 2006 under the HAD in response to an initiative of the CoP (see paras. 1.5 and 1.6). The Programme provides seed grants for eligible organisations to set up SEs so as to promote sustainable poverty prevention and alleviation efforts at the district level that help enhance self-reliance, targeting socially disadvantaged groups. Instead of providing welfare or short-term relief, the Programme aims at job creation, increasing the skills and capacities of the employable, and providing opportunities for the disadvantaged to upgrade themselves and to be effectively integrated with the community. Up to September 2013, the ESR Programme had received and processed a total of 459 applications, and approved 145 (32%) of them with a total grant of \$158 million (Note 12).

Note 12: *Of the 459 applications received, 314 (68%) applications were withdrawn or rejected, mainly on grounds of business viability.*

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3.3 The HAD administers the Programme through its ESR Programme Secretariat (with 8 contract staff under the supervision of 2 Executive Officers). The HAD has also set up the ESR Advisory Committee, comprising a Chairman, 21 non-official members (from different sectors of the community), and 3 official members (from the HAD, the Labour Department and the SWD). The Committee is responsible for examining and recommending applications, monitoring and evaluating approved projects, and advising the Government on the administration of the Programme.

3.4 The HAD has prepared the Guide to ESR Programme (the ESR Guide) which provides essential information of the Programme and assists eligible organisations in applying for funding support. Applicants should be bona fide non-profit-making organisations which possess the tax exemption status under section 88 of the Inland Revenue Ordinance. Applications can be submitted all year round, but deadlines are set roughly on a half-yearly basis (in phases — Note 13) to enable the processing of applications in batches.

3.5 A grantee is required to sign a funding agreement with the Government. The project proposal (including the employment of socially disadvantaged people) and the particulars of the funding support (including the items covered by the capital grant and the release schedule of the operating grant) form part of the agreement. The project should commence active operation/service within six months from signing the agreement, and should aim at continuation after the funding period (Note 14), either on a self-financing basis or through other form of resources support to be generated. A grantee has to submit to the HAD progress reports during the funding period and the monitoring period (Note 15).

Note 13: *As at September 2013, the ESR Programme had operated for 14 phases, with Phase 14 still in the processing stage. Phase 13 was completed within 2012-13.*

Note 14: *For Phases 1 to 9, the funding period is two years counting from the date of funding agreement. From Phase 10 onwards, the funding period is three years.*

Note 15: *For Phases 10 to 12, the monitoring period is two years following the funding period. For other Phases (i.e. Phases 1 to 9, and Phase 13 onwards), the monitoring period is three years.*

Funding arrangements

3.6 Community building has long been one of the major programme areas of the HAD. To enhance the HAD's work in this area, the Financial Secretary announced in the 2006-07 Budget Speech of February 2006 that an additional amount of \$150 million would be earmarked for strengthening district-based poverty alleviation work, including support for social enterprises, from 2006-07 to 2010-11. The initiative was subsequently implemented through the ESR Programme (see para. 1.6). In June 2006, the HAD submitted an information paper to brief the LegCo Subcommittee to Study the Subject of Combating Poverty (see para. 1.12) on the launching of the Programme. In November 2006, the HAD submitted another information paper to brief the CoP on the progress of implementation of the Programme.

3.7 In the 2009-10 Policy Address, the Government indicated its commitment to encouraging further development of SEs and reinforcing the district-based approach in alleviating poverty through implementing the ESR Programme. The HAD submitted a request in May 2010 to the Financial Services and the Treasury Bureau (FSTB) for additional funding of \$150 million for continued implementation of the ESR Programme for another five years from 2011-12 to 2015-16. A time-limited funding of \$150 million was approved by the Administration in September 2010 for extending the ESR Programme. In the 2011-12 Budget Speech, the Financial Secretary announced in February 2011 that \$150 million had been earmarked for the continued implementation of the ESR Programme from 2011-12 to 2015-16. In April 2011, the LegCo Panel on Welfare Services was informed of the extension of the ESR Programme and the increase in funding.

3.8 The ESR Programme was planned to operate for five years (see para. 3.6) to provide one-off grants to eligible organisations as seed money for setting up SEs. Audit noted that the expenditure of the ESR Programme was charged as recurrent expenditure in the HAD's expenditure vote. No non-recurrent commitment was created to account for and control the funding position of the Programme. As such, the FC's approval for the creation of a new commitment or the increase in a commitment was not required.

3.9 In this connection, Audit noted that for similar funding schemes providing seed moneys for setting up SEs, other bureaux/departments (B/Ds) had, in each case, created a non-recurrent commitment item in the Estimates to account for the

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expenditure. As the amount involved was more than \$10 million, approval of the FC was sought in each case (see Table 5 for details). Apparently, the practice adopted by the HAD is not consistent with the common practice adopted by other B/Ds (e.g. the SWD for the 3E Project — see paras. 2.2 and 2.3).

Table 5

Creation of commitments for funding schemes similar to the ESR Programme

Responsible B/D	Funding schemes involving non-recurrent funding for setting up SEs	New/Additional commitment (\$ million)	FC approval obtained
SWD	3E Project	50 4 (Note) <u>100</u> 154	June 2001 Not applicable January 2012
Labour and Welfare Bureau	CIIF	100 <u>200</u> 300	February 2002 January 2013
Development Bureau	Revitalising Historic Buildings Through Partnership Scheme	100	February 2008

Source: Government websites

Note: Additional commitment was approved in October 2011 by the FSTB under delegated authority.

3.10 In September and October 2013, the HAD informed Audit that:

- (a) community building had long been one of the HAD's major programme areas. The \$150 million funding provided for the five-year period from 2006-07 to 2010-11 to strengthen district-based poverty alleviation work was to enhance the HAD's work in this area. The time-limited funding for the ESR Programme, as part and parcel of the HAD's on-going

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district-based community building work, was put under recurrent expenditure;

- (b) the existing funding arrangement for the ESR Programme was agreed by the FSTB in 2005-06. As clarified by the FSTB, it was not uncommon that recurrent resources were provided to B/Ds on a time-limited basis for implementing various initiatives within an on-going programme area;
- (c) the HAD had no intention to avoid seeking the FC's approval for the creation of a new non-recurrent commitment; and
- (d) it agreed to revisit the existing accounting arrangement of the ESR Programme in consultation with the FSTB.

3.11 Audit noted that the HAD had, in consultation with the FSTB, decided not to create a commitment for the non-recurrent expenditure of the ESR Programme. On this basis, the FC's approval for the creation of a new non-recurrent commitment was not required. The expenditure of the ESR Programme was subsumed in the recurrent expenditure of the HAD. While the relevant Subcommittee and Panel of LegCo were consulted about the launching and extension of the Programme and the funding provision, they were not informed of the details of the funding arrangement adopted and the fact that the FC's approval for the total non-recurrent commitment would not be sought.

3.12 Upon enquiry, the FSTB informed Audit in March 2014 that expenditure items under the General Revenue Account could be charged to three categories of subheads: Recurrent subheads, Non-recurrent subheads and Capital Account subheads, as briefly described below:

- (a) Recurrent subheads — mainly cover expenditure items which are recurrent in nature, such as remuneration for public servants and recurrent subventions for organisations;
- (b) Non-recurrent subheads — mainly cover expenditure items which are one-off in nature and cost more than \$150,000 each but do not involve acquisition or construction of a physical asset, such as injection of funds and launching of major one-off projects/programmes; and

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- (c) Capital Account subheads — cover capital expenditure items such as minor capital works, acquisition of motor vehicles, dinghies and launches.

Expenditures charged to all three categories of subheads under the General Revenue Account are approved by LegCo on an annual basis in the context of the Appropriation Bill. In-year variations to all subhead ceilings exceeding \$10 million and the creation of non-recurrent subhead items (with project “commitments”) exceeding \$10 million require separate approval from the FC of LegCo unless otherwise authorised by the FC.

3.13 According to the FSTB, expenditure items which seek to cover time-limited programmes or projects within the core policy areas of B/Ds may either be charged to a recurrent subhead or a non-recurrent subhead. Controlling Officers are responsible and accountable for the charging of different expenditure items to the appropriate subheads having regard to the nature of the items. From the FSTB’s perspective, the overriding consideration is whether the charge to public funds for any time-limited programme is justified from value-for-money considerations and is properly authorised following internal due process and statutory requirements. Regardless of the accounting arrangement adopted, Controlling Officers should take measures to ensure accountability and transparency in the use of public funds.

3.14 Audit is of the view that there is merit for the HAD to create a commitment for the non-recurrent expenditure of the ESR Programme and seek the FC’s approval. In this case, the relevant LegCo Panel had been consulted about the launching and extension of the Programme and the funding provision (see para. 3.11), but not the FC.

3.15 Currently, because the funding of the ESR Programme is subsumed in a recurrent expenditure item, little information is provided about its financial position (e.g. total commitment, accumulated expenditure to date, and outstanding fund balance) in the HAD’s Controlling Officer’s Report (COR). In this connection, Audit notes that the HAD has provided more information in its COR for 2014-15 about the expenditure of the ESR Programme.

Audit recommendations

3.16 Audit has *recommended* that the Director of Home Affairs should, for implementing projects similar to the ESR Programme in future:

- (a) consider creating a non-recurrent commitment as far as possible and seek the FC's approval as appropriate; and
- (b) in the event that a non-recurrent commitment is not to be created, inform the relevant LegCo Panel of the details of the funding/accounting arrangement adopted.

Response from the Administration

3.17 The Director of Home Affairs agrees with the audit recommendations. She has said that the HAD:

- (a) had consulted and sought the FSTB's agreement before deciding not to create a non-recurrent commitment for the expenditure of the ESR Programme; and
- (b) for future non-recurrent commitment for similar projects, will revisit the arrangement in consultation with the FSTB.

Processing of applications

3.18 In processing applications, the Programme Secretariat conducts screening and preliminary assessment. It then distributes valid applications to a number of assessment panels (each comprising three or four non-official members of the ESR Advisory Committee) for detailed assessment. The criteria used for assessing applications include business viability, social objective, partnership, number of socially disadvantaged to be employed, and technical and management capability.

3.19 After vetting by assessment panels, applications are submitted to the ESR Advisory Committee for discussion. Subsequently, applications supported by the

ESR Advisory Committee are submitted to the Permanent Secretary for Home Affairs for approval. Finally, funding agreements are signed.

Conflict of interest of Advisory Committee members

3.20 To manage conflict of interest in assessing and endorsing applications, the HAD has put in place the following measures:

- (a) ***A two-tier system of declaring interests.*** Members of the ESR Advisory Committee are required to declare interests at the start of their two years' term of service and annually thereafter. Members are also required to declare possible conflict of interest prior to discussing applications in an Advisory Committee meeting. In September 2008, the HAD reminded members of the requirements that members with possible conflict of interest regarding an application were required to withdraw from the meeting, or the Chairman would decide whether they needed to withdraw from the meeting when the application was discussed; and
- (b) ***Assigning applications to members without conflict of interest.*** In assigning applications to assessment panels, the Programme Secretariat makes reference to the declared interests of members to avoid assigning an application to any member with possible conflict of interest regarding the application.

3.21 Audit noted that at four Advisory Committee meetings held after September 2008, some members declared possible conflict of interest regarding five applications but none of the members concerned withdrew from the meetings. There was, however, no explicit documentation in the meeting minutes of the Chairman's rulings as to whether the members concerned needed to withdraw from the meetings when the applications were discussed.

Time taken in processing applications and signing funding agreement

3.22 Audit analysed the time taken in processing applications for the 145 approved projects of Phases 1 to 13. Table 6 shows the analysis results.

Table 6**Time taken in processing applications and signing funding agreements
(145 approved projects of Phases 1 to 13)**

Processing stage (Note 1)	Average time (No. of days)
From application submission to endorsement by the Advisory Committee	102
From endorsement to approval by the Permanent Secretary for Home Affairs	24
First two stages	126
From approval to signing the funding agreement (Note 2)	113
Overall	239

Source: Audit analysis of HAD records

Note 1: Under the batch processing mode (see para. 3.4), all applications received in the same phase will be processed together for the first two stages. Signing of the funding agreement will take place separately for individual projects.

Note 2: According to the HAD, some time-consuming preparatory work needs to be done before starting a business (e.g. identifying a suitable business venue and applying for the requisite licences). The HAD will try to work with a successful applicant an appropriate time for signing the funding agreement so that the funding period (which starts from the date of signing the agreement) can closely tie in with the start of the business.

3.23 Long time taken for processing applications and signing funding agreements is not desirable as it dampens applicants' enthusiasm and undermines their capability to seize opportunities in a fast changing economic environment.

Audit recommendations

- 3.24 **Audit has *recommended* that the Director of Home Affairs should:**
- (a) **take measure to ensure that when the ESR Advisory Committee members declare possible conflict of interest regarding an application, the Chairman's ruling as to whether they need to withdraw from the meeting is explicitly made and documented in the minutes; and**
 - (b) **take measures to expedite the processing of applications as far as possible.**

Response from the Administration

3.25 The Director of Home Affairs agrees with the audit recommendations. She has said that the HAD:

- (a) would ensure that the declarations of the ESR Advisory Committee members and the rulings of the Chairman would be properly documented in the minutes of meetings; and
- (b) will make further efforts to expedite the processing of applications.

Determination of capital and operating grants

3.26 In endorsing a project, the Advisory Committee also endorses the amount of funding support to the project, subject to a maximum of \$3 million, which comprises a capital grant and an operating grant. The capital grant (paid by reimbursement) is used to pay for the initial capital expenditure (e.g. equipment cost and fitting-out works) of a project. The operating grant (paid in advance by half-yearly instalments) is used to pay for the operating expenses (e.g. cost of goods sold and staff salaries) during the funding period. Apart from such general descriptions, the ESR Guide does not provide detailed information on how the capital grant and the operating grant are determined.

Refundable deposits funded by capital grants

3.27 Similar to the case for the 3E Project (see para. 2.17), the ESR Guide does not specify what items are eligible for capital grant. In particular, the ESR Guide does not have clear guidelines on whether refundable deposits are eligible for claiming capital grant. Audit noted that for 20 (14%) of the 145 approved projects, the approved capital grants included 28 items of refundable deposits, ranging from \$5,000 to \$200,000, with a total amount of \$1.7 million. The funding agreements contained no provision for the Government to recover the amounts when the deposits were refunded.

3.28 Refundable deposits (such as rental and utility deposits) are a common type of cash outlay in starting a business. Audit considers that the HAD needs to examine whether refundable deposits are to be funded by the capital grant. When capital funding is provided for a refundable deposit, the HAD needs to establish a mechanism for the Government to recover the amount when the deposit is refunded to the grantee.

Trading stock funded by capital grants

3.29 Out of the 145 approved projects, 39 were in retail business with trading stock. Audit noted that the capital grants provided to 5 approved projects in retail business included items for acquiring trading stock. The total amount involved was \$0.63 million. Similar to the case for the 3E Project (see para. 2.19), Audit considers that the HAD needs to lay down guidelines to ensure that the cost of trading stock does not receive double funding from both the capital grant and the operating grant.

Inconsistencies in determining operating grants

3.30 The ESR Guide does not stipulate the basis for determining operating grant. Upon enquiry, the HAD informed Audit in July 2013 that, in general, the operating grant of an approved project was determined as follows:

- (a) **Deficit basis.** When the budget of a project proposal showed deficits in one or more years during the funding period, the operating grant would be determined based on the sum of the deficits;

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- (b) ***Expenditure basis.*** When the budget showed surpluses for all years of the funding period, the operating grant would be determined based on the total of recognised expenses of the initial period (e.g. the first two quarters); and
- (c) other factors would also be taken into account (e.g. the reasonableness of the budget and the amount applied for).

3.31 Audit examined a sample of 30 approved projects (Note 16) to ascertain how the operating grants were determined and found that:

- (a) for 28 projects, some or all years of the funding period showed forecast deficits. In the circumstances, the deficit basis should be used. However, the deficit basis was used in 19 (68%) cases only. For 4 (14%) projects, the expenditure basis was used. For the remaining 5 (18%) projects, the bases used were not documented;
- (b) in applying the deficit basis, when there were surpluses in one year or more, such surpluses might be deducted (the net deficit basis) or might not be deducted (the gross deficit basis) from the deficits; and
- (c) for the other 2 projects, while all years of the funding period showed forecast surpluses, the expenditure basis was used. The grant was based on the expenditure of the first one or two quarters.

3.32 It appears that there were inconsistencies in determining operating grants of approved projects under the ESR Programme. Audit considers that there is a need for the HAD to state clearly, for each approved project, the basis and the justifications for determining the operating grant.

Audit recommendations

3.33 **Audit has *recommended* that the Director of Home Affairs should:**

Note 16: *The audit sample of 30 projects consisted of projects at different stages (i.e. within the funding period, within the monitoring period, and beyond the monitoring period). Of the 30 selected projects, 7 were terminated projects.*

- (a) **examine whether refundable deposits are to be funded by the capital grant and, if so, whether a mechanism should be established to recover the amount when the deposit is refunded to the grantee;**
- (b) **take measures to ensure that the cost of trading stock does not receive double funding from both the capital grant and the operating grant; and**
- (c) **for each approved project, state clearly the basis and the justifications for determining the operating grant.**

Response from the Administration

3.34 The Director of Home Affairs agrees with the audit recommendations. She has said that:

- (a) the HAD will draw up suitable arrangements for refundable deposits and costs of trading stock; and
- (b) since November 2013, the ESR Programme Secretariat has stated clearly the basis of the operating grant recommended when submitting an application to the assessment panel for support.

Effectiveness of the ESR Programme

3.35 The ESR Programme has been in operation for over 7 years since its launch in 2006. The effectiveness of the ESR Programme can be assessed by the sustainability of the SEs created and the jobs created for the socially disadvantaged. Table 7 shows a summary of approved projects as at 30 September 2013. As at September 2013, of the 145 approved projects, 25 had ceased operation (terminated projects), and 120 were still in operation (operating projects). Appendix B shows the years of operation of the 120 operating projects and the 25 terminated projects. It can be seen that 49 (34%) projects had operated for five years or more.

Table 7

**Summary of approved projects
(30 September 2013)**

Financial year (Note 1)	No. of approved projects	Target no. of jobs	Total approved grant	Average grant per approved project (Note 2)	Average grant per job
	(a)	(b)	(c)	(d) = (c)/(a)	(e) = (c)/(b)
			(\$ million)	(\$ million)	(\$)
2006-07	39	665	41.31	1.06	62,120
2007-08	15	266	15.52	1.03	58,346
2008-09	25	445	25.01	1.00	56,202
2009-10	14	163	13.29	0.95	81,534
2010-11	13	183	14.29	1.10	78,087
2011-12	18	291	22.06	1.23	75,808
2012-13	21	274	26.86	1.28	98,029
Overall	145	2,287	158.34	1.09	69,235
Annual average	21	327	22.62	—	—

Source: Audit analysis of HAD records

Note 1: Applications are processed in batches (see para. 3.4). For 2013-14, the applications received were still being processed and no projects had been approved up to 30 September.

Note 2: The approved grants for individual projects ranged from \$0.3 million to \$3 million. The overall split between capital grant and operating grant was 45 : 55.

Sustainability of funded SEs

3.36 The ESR Programme's objective is to create jobs for socially disadvantaged people to enhance their self-reliance. It is necessary to sustain projects under the Programme in order to sustain jobs created by them. Table 7 shows that, as at 30 September 2013, 145 projects had been approved with a total approved grant of \$158 million, and a target of creating 2,287 jobs. HAD records showed that, among the 145 approved projects, 25 (17%) had been terminated (all after the funding period — Note 17), involving \$24 million of grant payment and 308 proposed jobs.

3.37 If a grantee has ceased or intended to cease the project, the HAD will conduct an exit interview. The grantee will also be required to complete an exit questionnaire for the HAD to gain insight into the reasons of cessation so as to draw up improvement measures for the ESR Programme. In February 2012, the HAD reported to the Advisory Committee a summary of the reasons of termination of 11 projects. These projects were terminated within one year after the funding period. According to the summary, the common reasons for not being able to sustain business included increase in shop rent, unfavourable shop location and employee problems.

3.38 Normally, the approved projects operate at a deficit initially and attain breakeven towards the end of the funding period. They are expected to operate at a surplus to sustain a self-financing status during the monitoring period and beyond. As at 30 September 2013, there were 120 operating projects (excluding 25 terminated projects — see para. 3.36). Of these operating projects, 41 were still within the funding period and 79 were beyond. Audit analysis of the 79 projects operating beyond the funding period showed that about half of them were operating at a surplus (see Table 8).

Note 17: *Of the 25 terminated projects, 6 (24%) were terminated at the end of the funding period, 17 (68%) during the monitoring period, and 2 (8%) after the monitoring period.*

Table 8

**Operating results of projects operating beyond funding period
(based on last progress reports submitted up to September 2013)**

	No. of projects		
	Operating with a surplus	Operating with a deficit	Total
Within monitoring period	11 (34%)	21 (66%)	32
Beyond monitoring period	29 (62%)	18 (38%)	47
Overall	40 (51%)	39 (49%)	79

Source: Audit analysis of HAD records

3.39 Funding support from the ESR Programme is in the form of non-recurrent grant over the funding period. Beyond the funding period, the grantee has to rely on its own sources of financial support (e.g. funding from parent organisation to cover the deficit). Audit considers that in monitoring the financial performance of projects after the funding period for evaluating their sustainability, the HAD needs to provide necessary support and advice to improve their financial performance (e.g. arranging Task Force meetings with grantees — see para. 3.53).

Jobs created by funded SEs

3.40 For the 145 approved projects as at 30 September 2013, according to the funding agreements, the target was to create 2,287 jobs, including 862 full-time jobs and 1,425 part-time jobs. Out of the 120 operating projects (see para. 3.38), 99 had submitted progress reports as at 30 September 2013. Based on the latest available reports, Audit compared the target and actual number of jobs created. Table 9 shows the comparison results.

Table 9

**Number of jobs created for 99 operating projects (Note 1)
(as at 30 September 2013)**

Job type	Target (a) (No.)	Actual (b) (No.)	Variance	
			(c) = (b)-(a) (No.)	(d) = (c)/(a) (%)
Full-time	548	335	-213	-39%
Part-time	1,115	874	-241	-22%
Overall	1,663	1,209 (Note 2)	-454	-27%

Source: Audit analysis of HAD records

Note 1: Of the 99 operating projects which had submitted progress reports, 47 were beyond the monitoring period without further funding support from the Government.

Note 2: According to the HAD, the number of people who benefited from the projects was greater than the number of jobs created as some people had joined and left the jobs.

3.41 **Monitoring of the actual number of jobs created.** Table 9 shows that the actual number of jobs created had fallen short of the target (by 39% for full-time jobs, and 22% for part-time jobs). The shortfall in the number of jobs created would call to question the effectiveness of the ESR Programme in creating employment opportunities for the socially disadvantaged. Audit noted that, in monitoring project progress, the HAD mainly focused on their financial performance (as evidenced by the basis of arranging Task Force meetings — see para. 3.53). Audit considers that the HAD needs to strengthen its monitoring on job creation and encourage grantees to meet the target number of job creation.

3.42 **Full-time and part-time jobs.** The HAD has not laid down guidelines on the minimum working hours for part-time jobs. In project proposals and progress reports, the total number of jobs to be or actually created was simply the sum of full-time and part-time jobs. Audit noted from project proposals and progress

reports that there was little information about the number of working hours for part-time jobs. Audit considers that there is a need for the applicants/grantees to provide additional information on the part-time jobs to be or actually created (e.g. breakdowns of part-time jobs into different bands according to the number of working hours of a job). This can provide better information for detailed assessment and monitoring.

3.43 *Cost-effectiveness of grant for job creation.* Most of the funded SEs were small business undertakings. The average target number of jobs to be created for the 145 approved projects was about 16, ranging from 3 to 83 jobs. Some 60 (41%) funded SEs targeted to create only 10 jobs or less. In particular, there were 6 funded projects each targeting to create only 3 jobs.

3.44 Table 7 in paragraph 3.35 shows that the average grant per project was \$1.09 million and the average grant per job to be created was some \$69,000. Audit analysis shows that the average grant per job for individual projects varied widely from \$9,000 to \$360,000 per job. For 3 projects, each creating 3 jobs, the average grant per job was over \$300,000. Audit noted that the number of jobs to be created was adopted by the HAD in 2009 as one of the assessment criteria for vetting applications. Nevertheless, there is merit for the HAD to consider setting a selection criterion for assessing applications based on the average grant per job to be created.

Jobs created for the socially disadvantaged

3.45 According to the ESR Guide, jobs created by projects under the ESR programme should target low-skilled and socially disadvantaged persons. In making an application under the ESR Programme, the applicant is required to provide the target number of jobs to be created and the target groups of socially disadvantaged persons. The applicant is also required to state its understanding of the target groups and its strategies of reaching them for recruitment. Usually, applicants state that the socially disadvantaged persons can be recruited by referrals from the parent organisations, other NGOs, the Employees Retraining Board or relevant departments (e.g. the SWD and the Labour Department). In the progress reports, the grantees have to report the number of jobs created and state whether the employees belong to the target socially disadvantaged groups. For the 99 projects (see para. 3.40), Audit analysis of the latest progress reports found that 83% of the employees belonged to the target socially disadvantaged groups intended for

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recruitment under the projects. About 17% of the employees did not belong to the target socially disadvantaged groups.

3.46 In the ESR Guide, there is no definition provided for socially disadvantaged persons and no detailed information on relevant target groups. In the progress report template, the HAD has provided a list of target groups of socially disadvantaged persons for reference by the grantees in reporting employment information (Note 18).

3.47 Audit notes that some target groups in the list may not clearly demonstrate that they are socially disadvantaged. There is a need to refine the list of target socially disadvantaged groups for support under the ESR Programme. Moreover, the HAD relied on the information provided by grantees as to whether employees belonged to the target socially disadvantaged groups. Although the HAD conducted surprise visits to the funded projects and checked employment records, the checking did not specifically verify whether employees belonged to the target socially disadvantaged groups. There is a need to further strengthen the monitoring of the funded projects in employing the socially disadvantaged.

Enhancing self-reliance

3.48 The ESR Programme aims to create employment opportunities to enhance the self-reliance of socially disadvantaged persons. To assess the extent to which this objective is achieved, the HAD has developed a questionnaire for the employees to conduct a self-assessment. The questionnaire comprises 15 questions asking employees about their ratings of their work and life situations (Note 19), with two questions directly relating to their self-reliance. The survey results are included in progress reports for submission by grantees to the HAD. However, Audit could not ascertain from the HAD records that follow-up action had been taken to evaluate the survey results. Based on the survey results available for examination, Audit found that 78% of employees strongly agreed or agreed that their jobs let them learn more working skills, and 82% of employees strongly agreed or agreed that they

Note 18: *The list comprises 14 target groups, e.g. PWDs, ethnic minority, unemployed, women and middle-aged.*

Note 19: *There are five ratings from “Strongly agree” to “Strongly disagree”.*

were confident with their future employment. The results indicated that the projects were reasonably effective in enhancing employees' self-reliance. There is a need for the HAD to analyse periodically the survey results.

3.49 According to the ESR Guide, in order to help as many people as possible, the project should have a mechanism to help participants move into the open labour market, instead of staying in the project for a prolonged period. Currently, the HAD does not track the number of employees who have moved on to open market employment after joining the funded SE. Audit considers that such information is also an indicator of participants achieving self-reliance. The HAD may consider asking the grantees to provide this information in the progress reports.

Performance information provided to LegCo

3.50 From time to time, the HAD provides information to LegCo about the progress of implementing the ESR Programme. In reporting the results on creation of employment opportunities under the Programme, the HAD only provided the target number of jobs to be created, without providing the actual number of jobs created and a breakdown between full-time and part-time jobs, or specifying those created for the socially disadvantaged. Audit considers that the HAD needs to consider providing LegCo with more comprehensive information on the number and details of jobs created under the ESR Programme in future.

Audit recommendations

3.51 **Audit has *recommended* that the Director of Home Affairs should:**

Sustainability of funded SEs

- (a) **continue to monitor the financial performance of SEs after the funding period for evaluating their sustainability, and provide necessary advice and support to help them achieve a self-financing status, where appropriate;**

Jobs created by funded SEs

- (b) **strengthen the monitoring of the creation of jobs by funded SEs, and provide necessary advice and assistance to help them achieve the job creation target;**
- (c) **require the applicants/grantees to provide more detailed information about the jobs to be or actually created (e.g. breakdowns into full-time and part-time jobs, and breakdowns of part-time jobs into different bands according to the number of working hours of a job) in the applications and progress reports for the HAD's assessment and monitoring;**
- (d) **consider setting a selection criterion for assessing applications based on the average grant per job to be created;**

Jobs created for the socially disadvantaged

- (e) **specify and define clearly the socially disadvantaged groups targeted for support under the ESR Programme;**
- (f) **strengthen the monitoring of the funded SEs in employing the socially disadvantaged;**

Enhancing self-reliance

- (g) **analyse periodically the survey results of questionnaires completed by employees to evaluate the effectiveness of funded projects in enhancing employees' self-reliance;**
- (h) **consider requiring grantees to provide information about the number of employees who have moved on to open labour market after joining the funded SEs; and**

Performance information provided to LegCo

- (i) **provide more comprehensive information to LegCo on the number and details of jobs created under the ESR Programme in future.**

Response from the Administration

3.52 The Director of Home Affairs agrees with the audit recommendations. She has said that the HAD will:

- (a) provide advice to funded SEs after the funding period, if necessary, subject to availability of resources. However, given the resource constraint, priority will be given to newly formed SEs;
- (b) step up its monitoring on the employment situation of funded SEs;
- (c) request funded SEs to provide more comprehensive information on the working hours of their part-time employees;
- (d) try to define more clearly the socially disadvantaged groups under the ESR Programme; and
- (e) issue questionnaires to funded SEs to collect information on the number of employees in the socially disadvantaged groups moving into the open labour market.

Monitoring of projects

3.53 To monitor the progress of projects, the HAD requires grantees to submit progress reports with details of the jobs created, the people employed and the financial performance of the projects. The reporting interval is half-yearly during the funding period and yearly during the monitoring period. During the funding period, the yearly report is required to be accompanied by an audited statement of accounts. A progress report is required to be submitted within two months from the end of the reporting period. The operating grant instalment will be released only

Enhancing Self-Reliance Through District Partnership Programme

when the progress report of the previous period is submitted by the grantee, vetted by the Programme Secretariat and accepted by the ESR Advisory Committee. If the financial performance of the project is not satisfactory, the ESR Advisory Committee may form a Task Force (comprising several committee members) to meet with the grantee to offer improvement advice. The HAD also conducts visits to approved projects to ensure that the approved grants have been fully and properly applied to the project and the grantee has complied with the terms and conditions of the funding agreement.

Submission of progress reports

3.54 In October 2009, the HAD noted that there were significant delays in submission of progress reports. Progress reports of 16 projects had been overdue for more than 3 months. As a remedial measure, the HAD set up a computerised bring-up system to issue reminders to chase up late progress reports. Despite the bring-up system, Audit noted that most progress reports were still not submitted timely. Audit selected for review a sample of 30 approved projects (see para. 3.31) with 90 reports submitted after the setting up of the bring-up system. Audit analysis found that 55 (61%) of the 90 reports were submitted late, with an average delay of 104 days. As at September 2013, 4 progress reports were found to have been overdue for more than 3 months. Audit also noted that HAD reminders were generally issued late.

Finalisation of progress reports

3.55 Audit analysed the time taken by the HAD to finalise its processing of the 90 progress reports of the audit sample of 30 approved projects. Regarding the progress reports for the funding period, the average time taken was 267 days. The delay in submission of progress reports and long time taken to finalise them had resulted in late payment of operating grant instalments to grantees, with an average delay of 288 days. Prolonged delay of payment of operating grant was not conducive to providing funding support to approved projects and might adversely affect their cashflow position. The HAD needs to enhance the monitoring system to ensure timely submission of progress reports and prompt release of operating grants.

Monitoring of fund movement

3.56 According to the funding agreement, the grantee of a project shall use the grant exclusively for the project objective and in accordance with the approved budget only. The grantee shall also use all profit solely and exclusively for the purpose of the project during the funding period and the monitoring period.

3.57 Audit examined the audited accounts of the approved projects and noted that, in 14 cases, there were balances owed by the grantees to the projects. The total amount was \$1.75 million, with individual amounts ranging from \$100 to \$395,000. As requested by Audit, in September and December 2013, the HAD enquired with the grantees and found that:

- (a) for 13 of the 14 cases, the amounts involved were related to normal business operations (e.g. trading transactions between projects and grantees); and
- (b) for the remaining case, the amount of some \$304,000 involved was related to a payment by the project on behalf of the grantee (which was described in a note to the audited accounts for the period ended May 2012 as “unsecured, interest-free and has no fixed term of repayment”). This was not in compliance with the requirement that all profit should be used solely and exclusively for the project (but the non-compliance was not highlighted in the auditor report). The grantee informed the HAD that the sum had been settled in November 2012. The HAD would follow up the case by examining the project’s audited accounts for 2012-13 upon submission.

3.58 In view of the case in paragraph 3.57(b), in October 2013, the HAD revised the “Notes to Auditors of Grantees” to require the auditor of a project to clearly confirm in the auditor report the grantee’s compliance with the requirement that all profit should be used solely and exclusively for the project. In February 2014, the HAD informed Audit that it would continue to remind auditors to examine grantees’ compliance with the terms of the funding agreements in carrying out the audits of projects. Nevertheless, Audit considers that the HAD needs to scrutinise the progress reports and audited accounts submitted by grantees on a timely basis to ensure grantees’ compliance with the terms of the funding agreements.

Recovery of unspent operating grants

3.59 According to the ESR Guide, upon expiry of the funding period of a project, any unspent operating grant over the recognised total expense will be clawed back and returned to the Government. Starting from early 2013, the HAD has ascertained if there is any unspent grant (using the expenditure basis) before releasing the final instalment of the operating grant. If there is unspent grant, it will be deducted from the final instalment.

3.60 Audit considers that in principle, the unspent grant should be the amount over the deficit of the funding period (i.e. the deficit basis). The deficit basis can ensure that the funding support provided to a project for the funding period will not be more than the actual deficit incurred by the grantee. For the audit sample of 30 projects (see para. 3.31), 22 projects were operating beyond the funding period. Applying the deficit basis, Audit found that 12 (55%) of the 22 projects would have unspent operating grants, ranging from \$1,000 to \$750,000, totalling \$3.57 million.

3.61 The HAD needs to ascertain and recover unspent operating grants using the net deficit basis. Similar to the approach adopted by the 3E Project (see para. 2.51), grantees of the ESR Programme are also allowed to put up proposals with justifications for utilising the unspent grant for sustaining or expanding the business. The HAD needs to remind grantees of this arrangement, and exercise discretion for them to retain the unspent grant having regard to the merits of individual cases.

Audit recommendations

3.62 **Audit has *recommended* that the Director of Home Affairs should, in respect of the ESR Programme:**

- (a) **take measures to enhance the project monitoring system to ensure that:**
 - (i) **progress reports are submitted timely by grantees;**
 - (ii) **reminders are issued promptly under the bring-up system;**

- (iii) **progress reports received are finalised within a reasonable timeframe; and**
- (iv) **operating grant instalments can be released promptly to meet grantees' cashflow requirements;**
- (b) **scrutinise the progress reports and audited accounts submitted by grantees to ensure compliance with the terms of the funding agreements;**
- (c) **use the net deficit basis for determining the unspent grants to be recovered and lay down such basis in the ESR Guide; and**
- (d) **remind grantees of the arrangement for them to put up proposals with justifications for utilising the unspent grants for sustaining or expanding the business.**

Response from the Administration

3.63 The Director of Home Affairs agrees with the audit recommendations. She has said that the HAD:

- (a) has been striving hard to encourage grantees to submit progress reports in a timely manner and will further step up its efforts; and
- (b) will use the net deficit basis for determining the unspent grants to be recovered. However, the HAD would consider exercising discretion for justified cases to retain the unspent grants to sustain or expand the operation of the SEs concerned.

PART 4: PUBLICITY AND PROMOTIONAL WORK

4.1 This PART examines the publicity and promotional work of the HAB and the HAD for the development of SEs, focusing on the following areas:

- (a) publicity initiatives (paras. 4.2 to 4.25); and
- (b) the Partnership Programme (paras. 4.26 to 4.41).

Publicity initiatives

4.2 Both the HAB and the HAD implement publicity initiatives to promote the development of SEs. These publicity initiatives target at enhancing public understanding of SEs, promoting caring consumption by purchasing products and services from SEs, and creating an enabling environment for SEs to flourish.

SE Summit

4.3 The first SE Summit was organised by the HAB in 2007. Since 2008, the Summit has been organised by the SE sector as an annual event with the HAB's funding support. The Summit has been well supported by the SE, academic and business sectors. During the Summit, world-renowned experts, leading local social entrepreneurs, frontline SE practitioners, academics, business leaders and government representatives have gathered to exchange ideas and experiences.

4.4 The latest SE Summit was held in November 2013. There were a total of 1,400 participants, including representatives from 14 countries. The Summit has attracted increasing local and overseas attention. It has also become a flagship event of the SE sector.

SE Award Scheme

4.5 In 2011, the SEAC and the HAB jointly organised the first SE Award Scheme to give recognition to successful SEs, and to promote the sharing of best practices among SEs. In the SE Award Scheme 2011, eight SEs were granted the Outstanding SEs Award. In March 2012, in assessing the results of the SE Award Scheme, the SEAC and the HAB decided that the Scheme would be held once every two years to allow time for “young” SEs to learn from successful cases, and gain confidence and capability to compete in the Scheme.

4.6 In 2013, the SEAC and the HAB organised the second SE Award Scheme. There were eight categories of awards. In the SE Award Scheme 2013, 14 SEs were granted 21 awards. Of the 14 awardees, 9 have operated SEs funded by either the ESR Programme or the 3E Project. Audit considers that showcasing successful SEs through the SE Award Scheme is an effective initiative to promote the development of SEs. The HAB needs to continue exploring ways to capitalise on the Scheme to publicise the success stories of SEs, especially those with government funding.

Friends of SE Award Scheme

4.7 In 2011, the SEAC and the HAB jointly organised the “Be a Friend to SE” Campaign to give recognition to those organisations or individuals providing support to SEs. In March 2012, in assessing the results of the Campaign, the SEAC and the HAB decided that the Campaign would be organised by the HAD to achieve synergy with its Mentorship Scheme, and would be held once every two years.

4.8 In 2013, the HAD organised the Friends of SE Award Scheme to replace the Campaign. Among the 38 nominating SEs, 16 were funded by the ESR Programme, and 5 were funded by the 3E Project. A total of 39 nominees were granted awards.

4.9 In assessing the results of the “Be a Friend to SE” Campaign of 2011, it was proposed that the HAD could recruit mentors for its Mentorship Scheme from the awardees of the 2011 Campaign. In 2012, the HAD approached 20 organisations which were awardees of the Campaign. Eventually, only one

Publicity and promotional work

mentor was recruited. Audit also noted that, of the awardees of the Friends of SE Award Scheme of 2013, only two were mentors of the Mentorship Scheme. There is room for improving the synergy between the Friends of SE Award Scheme and the Mentorship Scheme. The HAD needs to make efforts to encourage awardees of the Award Scheme to become mentors of the Mentorship Scheme.

Social Enterprises Support Unit

4.10 In 2008, the HAD set up the Social Enterprises Support Unit to implement initiatives to promote the development of SEs, including the following:

- (a) arranging SEs to showcase their services and products at market fairs;
- (b) producing announcements in the public interest, television programmes and radio programmes about SEs;
- (c) publishing advertorials on SEs in newspapers and magazines; and
- (d) maintaining the SE website and the SE directory.

Market fairs

4.11 The HAD arranges SEs to participate in market fairs to showcase their services and products. Generally, there are three types of market fairs:

- (a) ***District fairs organised by the HAD.*** These include the North District Market Fair for SEs and the Shatin Market Fair for SEs;
- (b) ***District SE carnivals organised by the HAD.*** Following the SEAC/HAB's proposal in March 2012, the HAD organises annual district SE carnivals alternating between New Territories and urban districts. So far, two carnivals have been held (i.e. the Ma On Shan Festival — SE Winter Fete in November 2012, and the Sham Shui Po SE District Carnival in November 2013 — see Photograph 1); and

Photograph 1

Sham Shui Po SE District Carnival
(November 2013)



Source: HAD records

- (c) ***Territory-wide fairs organised by other parties.*** These include the Hong Kong Brands and Products Expo (see Photograph 2) and the Food Carnival organised by the Chinese Manufacturers' Association, and the Food Expo organised by the Trade Development Council.

Photograph 2

Hong Kong Brands and Products Expo (December 2013 to January 2014)



Source: HAD records

4.12 During the three financial years 2011-12 to 2013-14, through invitations, the HAD arranged 41 SEs to participate in 15 market fairs. Audit noted that the HAD only invited SEs under the ESR Programme to participate in these fairs. Arranging SEs to participate in market fairs give them valuable opportunities to publicise their services and products. The HAD should consider expanding the invitation lists to cover SEs not funded under the ESR Programme (e.g. SEs funded under the SWD's 3E Project and other SEs operated by NGOs without government funding).

Advertorials on SEs

4.13 The HAD periodically publishes advertorials on SEs (see Figure 3 for an example). These advertorials enhance public understanding of SEs, and promote caring consumption of services and products of SEs. Publishing advertorials is a common publicity means. However, the HAD's advertorials on SEs were only published in newspapers and magazines, but not on the HAD's SE website. To

reach a wider audience, the HAD needs to consider uploading these advertorials onto its SE website.

Figure 3

An advertorial on SEs



Source: HAD records

Publications on SEs

4.14 The HAB has produced two booklets on SEs which are placed on the HAD's SE website:

- (a) one booklet (produced in 2007) is on the success stories of a number of local and overseas SEs. It provides accounts of the experience in setting up and running SEs; and
- (b) the other booklet (produced in 2010) is on the business strategies for SEs. It provides reference to the success factors for setting up and running SEs.

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4.15 As the two booklets were produced some years ago, the materials contained therein may not be up-to-date. For example, two SEs quoted in the 2007 booklet as successful SEs had already ceased business. The HAB needs to periodically update the booklets to take into account new developments.

SE website

4.16 In June 2008, the HAD launched the SE website. The SE website provides a repository of materials relating to SEs, such as information of supporting measures and promotional activities, publications, and the HAD's SE directory. It is expected that these materials will enhance public understanding of SEs, and will assist the setting up and running of SEs.

4.17 The SE website is the place for the Government to disseminate updated information of promotional activities of SEs. Audit however noted that the public might not obtain updated information from the SE website because the pop-up of "Upcoming events" was not always used and no "What's new" webpage was provided. Besides, press releases of some promotional activities were only placed in the HAD's homepage, but not on the SE website. The HAD needs to make better use of the SE website to promote the activities of SEs. The HAD may also consider the use of social media for promoting the development of SEs.

SE directory

4.18 The HAD does not compile official statistics of all the SEs in Hong Kong. It only maintains a directory of selected SEs. SEs contained therein are categorised according to the services and products they provided. The directory facilitates the public to search for SEs and their services and products, and helps promote caring consumption. As at December 2013, the directory contained about 170 SEs from two sources, namely SEs set up under government funding schemes and SEs set up by major charitable organisations.

4.19 The SEBC (see para. 1.10) conducts annual surveys and maintains another SE directory with more detailed information. SEs contained in the directory are categorised according to the services and products they provided, their locations, and their social objectives. As at December 2013, the directory contained about 440 SEs. Apparently, the SEBC's directory has a wider coverage than the HAD's

directory. Besides, the SEBC, with the HAD's funding support, also provides a mobile version of its directory.

4.20 On the SE website, the webpage containing the HAD's SE directory also provides a hyperlink to the SEBC's directory. In view of the wider coverage and the availability of a mobile version of the SEBC's directory, the HAD needs to review whether its own directory is still required. If the HAD sees the need to maintain its own SE directory, it needs to enhance and expands its contents.

Display of publicity materials by District Offices

4.21 The HAD provides SE publicity materials (on easy-mount frames) to District Offices. They are required to display these materials during district activities (such as job fairs, carnivals and seminars) and at district venues (such as community centres and community halls). Based on returns submitted by District Offices, for the period 2011-12 to 2013-14, there was no display of SE publicity materials during district activities for 8 of the 18 District Offices. The HAD needs to remind District Offices to display SE publicity materials during district activities, whenever appropriate.

Audit recommendations

4.22 **Audit has *recommended* that the Secretary for Home Affairs should:**

- (a) **continue to showcase successful SEs by organising the SE Award Scheme, and to explore ways to further publicise the success stories of SEs, especially those with government funding;**
- (b) **update the HAD's booklets about SEs to take into account new developments; and**
- (c) **continue to make use of the SE website for more effective sharing of information useful to the SE sector.**

4.23 **Audit has *recommended* that the Director of Home Affairs should:**

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- (a) **improve the synergy between the Friends of SE Award Scheme and the Mentorship Scheme by encouraging awardees of the Award Scheme to become mentors of the Mentorship Scheme;**
- (b) **in arranging SEs to participate in market fairs, consider expanding the invitation lists to cover other SEs not funded under the ESR Programme, where appropriate and practicable;**
- (c) **in publishing advertorials on SEs in newspapers and magazines, consider also uploading them onto the SE website;**
- (d) **make better use of the SE website to disseminate updated information of promotional activities of SEs;**
- (e) **given the availability of a more comprehensive SE directory maintained by the SEBC, review whether the HAD's SE directory is still required and, if so, what enhancements can be made; and**
- (f) **remind District Offices to display, whenever appropriate, SE publicity materials during district activities.**

Response from the Administration

4.24 The Secretary for Home Affairs agrees with the audit recommendations in paragraph 4.22. He has said that:

- (a) the HAB will continue with its promotional efforts to showcase successful SEs by the SE Award Scheme. By working with partners to best utilise resources, it has already implemented various new initiatives to enhance promotion;
- (b) since the last publication of the booklets (see para. 4.14), the HAB has been working with various SE support organisations (e.g. through sponsoring the SE Summit) to encourage and support their initiatives to provide useful and up-to-date information to the SE sector. Very often, such information from practitioners or support organisations better

reflects the needs of the sector. Such an approach could facilitate the development of more support organisations and programmes in the community for SEs. The HAB will continue updating the SE website to give these efforts a highlight; and

- (c) the HAB will continue to make good use of various means (online platforms and publications) to disseminate useful information on SEs for public consumption.

4.25 The Director of Home Affairs agrees with the audit recommendations in paragraph 4.23. She has said that the HAD will:

- (a) adopt the recommended means for the existing publicity work; and
- (b) consider expanding the invitation list to other suitable SEs not funded under the ESR Programme as appropriate. However, given the limited number of booths made available to the HAD by the organisers of market fairs, priority should be given to SEs under the ESR Programme.

Partnership Programme

4.26 In 2008, the HAD set up the Partnership Programme to enhance cross-sector collaboration to promote the development of SEs. The Partnership Programme comprises the Mentorship Scheme and the Matching Forum. The HAD's Social Enterprises Support Unit is responsible for implementing the Partnership Programme.

Mentorship Scheme

4.27 The Mentorship Scheme aims at forming mentorships between SEs and voluntary mentors recruited from business and professional sectors. Through such mentorships, mentors will provide advice and guidance to SEs to enhance their competitiveness and to assist them in dealing with problems and difficulties.

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4.28 In processing the request of an SE for becoming a mentee of the Mentorship Scheme, the Social Enterprises Support Unit carries out a matching, taking into account a number of factors such as the trade and the requested expertise areas of the SE. The matching proposal will be submitted to the HAD senior management for approval. The Unit will then arrange the first meeting of the mentorship. The SE and the mentor will arrange subsequent meetings themselves. The mentorship lasts for nine months, and it is expected that at least three meetings will be held. Both the SE and the mentor are each required to complete a questionnaire at the end of the mentorship. As at 30 November 2013, 53 mentees (50 of which were projects under the ESR Programme) had been registered under the Scheme and mentorships had been arranged for 41 of them.

4.29 *Long time taken in arranging mentorships.* Audit analysed the time taken in arranging mentorships (from the date of receiving the application to the date of notifying the SE of the assignment of a mentor) for a sample of 10 SEs. For 7 SEs, the time taken ranged from 15 to 67 days. However, for 3 SEs with applications received in June 2012, the time taken ranged from 301 to 319 days. According to the HAD, the long time taken was partly due to the time spent waiting for necessary information from mentees, and partly due to posting of staff responsible for arranging mentorships. Audit considers that the long time taken in arranging mentorship might undermine the provision of timely assistance to SEs.

4.30 *Feedback and comments of participants.* At the end of a mentorship, the SE and the mentor are each required to complete a questionnaire to provide feedback and comments to the HAD. As at 30 November 2013, 34 mentorships had been completed, and 59 questionnaires had been received from 32 completed mentorships. Audit scrutinised relevant HAD records but could not find documentation on any review of the questionnaires received. Audit reviewed the 59 questionnaires received and noted that:

- (a) for 13 mentorships, the SE or the mentor commented that the mentorship period of 9 months was not long enough;
- (b) for 11 mentorships, less than three meetings (the expected number of meetings) were held;

- (c) for 7 mentorships, the mentor commented that the mentorship was not effective for reasons including the mentorship period was not long enough, or the SE was not devoted; and
- (d) for 2 mentorships, the SE commented that the mentorship was not effective for the reason the mentor did not possess the requested expertise.

4.31 Audit considers that feedback and comments of SEs and mentors can provide useful information to evaluate the effectiveness of the Mentorship Scheme and to identify improvement measures. The HAD needs to review questionnaires completed by SEs and mentors of the Mentorship Scheme to examine their feedback and comments for compiling management information, with a view to identifying areas for improvement.

4.32 *Recruitment of mentors and mentees.* When the Mentorship Scheme was launched in 2008, recruitment of mentors and mentees was open to all eligible parties. An application form for participating in the Scheme as a mentor or a mentee was placed on the HAD's SE website. Since March 2012, as a temporary measure, the HAD has confined the recruitment of mentees to projects under the ESR Programme. The HAD has also confined the recruitment of mentors to certain groups of professionals and supporters of SEs. The aforesaid application form has also been removed from the SE website.

4.33 Regarding the current recruitment arrangement, Audit noted the following issues that call for the HAD's attention:

- (a) the Mentorship Scheme is supposed to serve all SEs of Hong Kong. The current arrangement of confining recruitment of mentees to projects under the ESR Programme would deprive other SEs of the opportunities;
- (b) the HAD's intention is to make the participation in the Mentorship Scheme a requirement for projects under the ESR Programme starting from Phase 11. However, as at 30 November 2013, of the 27 projects of Phases 11 to 13, 9 (33%) had turned down invitations to participate in the Scheme; and

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- (c) the HAD maintained two lists of mentors, namely one list with about 80 mentors recruited before March 2012, and another with about 50 mentors recruited after March 2012. Audit noted that the HAD did not regularly update the particulars of mentors and ascertain whether they were still interested in serving as mentors. Audit also noted that some of the recruited mentors (particularly those on the old list) had been inactive and without assignments for some time.

Matching Forum

4.34 The Matching Forum aims at forming partnerships between SEs and business organisations. Through such partnerships, business organisations will pair up with non-profit-making organisations to form SEs, procure services (e.g. cleaning and catering services) and products of SEs, or provide assistance (e.g. concessionary rentals and access to clients) to SEs.

4.35 According to the HAD, senior government officials and the HAD's District Officers will appeal to business corporations and relevant district organisations to promote cross-sector collaboration to form SEs. The HAD has periodically reported to the LegCo Panel on Welfare Services on the number of SE projects involving cross-sector collaboration launched through the Matching Forum. For example, in January 2012, the HAD informed the Panel that about 30 SE projects had been launched through the Matching Forum.

4.36 To facilitate procurement of services and products of SEs and provision of assistance to SEs, before March 2012, a standard form of the Matching Forum was placed on the SE website for interested organisations to make proposals. In March 2012, considering that interested organisations could use telephone and e-mails to make proposals, the HAD removed the standard form from the SE website.

4.37 ***Proposals of procuring services and products of SEs.*** Audit reviewed HAD records of the Matching Forum and noted nine documented cases in which interested organisations made proposals (using the standard form) of procuring services and products of SEs. In each case, the HAD sent to the interested organisation lists of SEs (in the HAD's directory of SEs) providing the requested services and products, and advised the interested organisation to contact the SEs

directly. The HAD did not follow up the outcome of these proposals. According to the HAD, since the removal of the standard form in March 2012, only one proposal of procuring services and products had been received.

4.38 ***Proposals of providing assistance to SEs.*** Audit also noted six cases in which interested organisations made proposals of providing assistance to SEs. Five proposals were made by using the standard form. The last proposal was made by using an e-mail in September 2012. In each case, the HAD circulated the proposal to relevant SEs (in the HAD's directory of SEs). There were two successful cases of forming partnerships in which service contracts were awarded to two NGOs. For the other four cases, the results were unknown or not successful. According to the HAD, since the receipt of the last proposal in September 2012, proposals of providing assistance to SEs have not been received.

4.39 ***Room for improvement.*** Activities of the Matching Forum have been low since its set up in 2008. Only a few proposals of forming partnerships with SEs have been received from the business sector. On receiving proposals, the HAD only made referrals but did not actively follow up the outcome. There is a need to review the effectiveness of the Matching Forum and to identify improvement measures. In addition, the publicity of the Matching Forum needs to be enhanced. Since the removal of the standard form, the SE website provides only a brief description of the Matching Forum but not a ready channel for putting up proposals.

Audit recommendations

4.40 **Audit has recommended that the Director of Home Affairs should:**

- (a) **take measures to ensure that mentorships are arranged in a timely manner for registered mentees;**
- (b) **put in place a system to review questionnaires completed by participants of the Mentorship Scheme to examine their feedback and comments for compiling management information;**
- (c) **keep in view the need to have the Mentorship Scheme open to SEs other than projects under the ESR Programme;**

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- (d) **take measures to encourage more projects under the ESR Programme to participate in the Mentorship Scheme as intended;**
- (e) **regularly update the particulars of recruited mentors;**
- (f) **review the effectiveness of the Matching Forum and identify measures to further promote the formation of partnerships between SEs and the business sector; and**
- (g) **enhance the publicity of the Matching Forum and provide a ready channel for putting up proposals on the SE website.**

Response from the Administration

4.41 The Director of Home Affairs agrees with the audit recommendations. She has said that the HAD will, among others, review the operation of the Mentorship Scheme and the Matching Forum.

PART 5: WAY FORWARD

5.1 This PART explores the way forward for the development of SEs in Hong Kong. The following issues are discussed:

- (a) problems encountered in the development of SEs (paras. 5.2 to 5.4);
- (b) role of the SEAC (paras. 5.5 to 5.10);
- (c) priority bidding for government service contracts (paras. 5.11 to 5.16);
- (d) funding schemes of different B/Ds (paras. 5.17 to 5.31);
- (e) developing a definition and regulatory framework for SEs (paras. 5.32 to 5.39); and
- (f) accountability and performance management (paras. 5.40 to 5.43).

Problems encountered in the development of SEs

5.2 SEs have been developed in many advanced countries, notably the United Kingdom and the United States, to achieve social objectives through commercial operations. In Hong Kong, the SWD launched the 3E Project in 2001 to provide start-up capital for NGOs to establish SEs to create employment opportunities for PWDs. In 2006, the HAD launched the ESR Programme to provide start-up capital for SEs to create jobs for the socially disadvantaged. Following the re-organisation of the Government in July 2007, the HAB has taken up the SE portfolio with the support from the HAD. In January 2010, the SEAC was set up to advise the Government on the formulation of policies and strategies for supporting the sustainable development of SEs and on programmes/activities that promote the development of SEs in Hong Kong.

5.3 In recent years, LegCo has expressed concerns about the development of SEs in Hong Kong (see para. 1.11). In 2008, the LegCo Subcommittee to Study the Subject of Combating Poverty (see para. 1.12) conducted a study and reported that the development of SEs faced the following major problems:

Way forward

- (a) lack of policy support;
- (b) lack of public understanding and a clear definition of SEs;
- (c) lack of the relevant business entrepreneurship and professional knowledge;
- (d) lack of an appropriate legal and regulatory framework; and
- (e) difficulties in gaining access to finance.

The study report was forwarded to the Administration for consideration.

5.4 Since 2008, the HAB and the HAD have made progress in various areas in addressing these problems in promoting the development of SEs. In this review, Audit has taken stock of the Government's initiatives in addressing the aforesaid LegCo's concerns and identified the following issues which call for attention:

- (a) regarding paragraph 5.3(a), there is a need to further strengthen the policy advice and support, and to take stock of the work of SE support platforms and different B/Ds in promoting the development of SEs. Details are discussed in paragraphs 5.5 to 5.31;
- (b) regarding paragraph 5.3(b) to (d), Audit's examination of the Government's publicity and promotional work relating to the development of SEs has highlighted areas for improvement as discussed in PART 4. As far as the development of a clear definition and an appropriate legal and regulatory framework for SEs is concerned, there is a need to study the degree of public awareness of SEs and the development needs of SEs to keep the matter under regular review (see paras. 5.32 to 5.39); and
- (c) regarding paragraph 5.3(e), Audit has identified areas for improvement in the 3E Project administered by the SWD (PART 2) and the ESR Programme administered by the HAD (PART 3). Audit also notes that there are a number of other funding schemes that help eligible SEs to gain access to finance. The challenge is how to create more synergy and value for money from these funding schemes operated by different B/Ds for different social/policy objectives. In this regard, accountability and

performance measurement and reporting are issues of concern (see paras. 5.40 to 5.43).

Role of the Social Enterprise Advisory Committee

5.5 In January 2010, the HAB set up the SEAC to advise the Government on the development of SEs, with the following terms of reference:

- (a) advising the Government on the formulation of policies and strategies for supporting the sustainable development of SEs in Hong Kong;
- (b) advising the Government on programmes/activities that promote the development of SEs and monitor their implementation;
- (c) fostering better understanding and encourage closer cooperation among relevant stakeholders in the development of SEs; and
- (d) undertaking research studies on matters pertaining to the development of SEs.

5.6. The SEAC is chaired by the Secretary for Home Affairs and its members comprise SE practitioners, persons from the business and the academic sectors, and government representatives (from the HAB, the HAD, the Labour and Welfare Bureau and the Commerce and Economic Development Bureau).

5.7 Audit reviewed the activities of the SEAC from its inception in January 2010 to September 2013 and found that:

- (a) up to early 2012, the SEAC was mainly involved in implementing a number of initiatives (i.e. the SE Award Scheme, the Friends of SE Campaign, the SE Bazaar and the SE Training Programme). These initiatives are important policy initiatives announced in the 2010-11 Policy Address;
- (b) in 2012, the SEAC deliberated on the establishment of the Social Enterprise Development Fund (see para. 5.19); and

Way forward

- (c) in 2013, the SEAC was mainly involved in implementing a number of initiatives, i.e. the SE Award Scheme 2013, the SE Training Programme, a research study (see para. 5.36) to capture the existing landscape of SEs in Hong Kong, and measuring social impact of SEs.

5.8 Audit considers that it is now timely for the SEAC to advise the Government on the necessary updates on the strategies, programmes and activities for promoting the development of SEs in Hong Kong. In doing this, the SEAC needs to take into account the efforts made so far by various B/Ds and SE support organisations, the results of the research study, and relevant overseas experience.

Audit recommendation

5.9 Audit has *recommended* that the Secretary for Home Affairs should consider taking measures to facilitate the SEAC to advise the Government on the necessary updates on the strategies, programmes and activities for promoting the development of SEs, taking into account the efforts made so far by the Government and SE support organisations, the results of the research study, and relevant overseas experience.

Response from the Administration

5.10 The Secretary for Home Affairs agrees with the audit recommendation. He has said that the HAB:

- (a) will continue to engage and facilitate the SEAC in advising the Government on the strategies, programmes and activities for promoting the sustainable development of SEs; and
- (b) has already commissioned a study on the latest developments of SEs (see para. 5.36). The study will help the HAB and the SEAC in formulating the strategy for further support to the fast-growing SE sector in a holistic manner.

Priority bidding for government service contracts

5.11 In 2008, as a policy support to promote the development of SEs, the Government launched a pilot scheme for priority bidding of selected government service contracts by SEs. Under the pilot scheme, eligible SEs were first invited to bid for the selected contracts. Only when no suitable SEs were identified for the contracts would non-SE service providers be invited to bid. In administering the pilot scheme, the HAB provided the policy steer, while the HAD coordinated the implementation and compiled the lists of eligible SEs.

5.12 Three phases of the pilot scheme were rolled out, respectively in 2008, 2009 and 2011. For the three phases taken together, a total of 132 service contracts (comprising 120 cleaning contracts and 12 gardening contracts) were made available for bidding by SEs. In the event, 75 contracts valued at \$30 million were awarded to SEs, involving about 570 jobs. The HAD conducted a review for each phase of the pilot scheme. According to the reviews, participating B/Ds had no problems in implementing the scheme and contracted SEs complied well with the service requirements. As contracted SEs were mainly small establishments, they might not be able to cope with labour-intensive and multiple contracts. In some cases, the prices quoted by SEs were on the high side.

Cessation of the pilot scheme

5.13 After the July 2012 review, the HAB decided to discontinue the pilot scheme, taking into account the following:

- (a) as pointed out by the FSTB, the scheme accorded preferential treatment to SEs (which should compete in the market) and was not in line with the Government's procurement principles of fairness and open competition. The scheme should be a transitional measure only for helping SEs establish themselves; and
- (b) the scheme had achieved its mission by providing business opportunities to a considerable number of SEs and raised their competitiveness in the open market. Participating B/Ds had become familiar with SEs and had confidence in SEs' general capability in fulfilling contract requirements.

Way forward

In December 2012, the HAB informed B/Ds of the cessation of the pilot scheme and encouraged them to continue their support to promote the development of SEs by including SEs in their quotation invitation lists for procurement of stores and services.

5.14 LegCo has expressed concerns about the development of SEs in Hong Kong (see paras. 1.11 and 1.12) and has advocated policy support to enable the growth of SEs. All along, the HAB had reported to the LegCo Panel on Welfare Services on the implementation of the pilot scheme (e.g. in April 2011 and January 2012 when reporting the development of SEs). Audit noted that after the HAB discontinued the pilot scheme in July 2012, the Panel had not yet been informed of the event. Audit also considers that the HAB may review the need and feasibility of other forms of support to SEs in bidding government service contracts.

Audit recommendations

5.15 **Audit has *recommended* that the Secretary for Home Affairs should:**

- (a) **consider reviewing the need and feasibility of providing other forms of support to SEs in bidding government service contracts, having regard to the Government's procurement principles of fairness and open competition; and**
- (b) **inform the LegCo Panel on Welfare Services the outcome of the review in (a) above and the cessation of the trial scheme for priority bidding of government service contracts by SEs.**

Response from the Administration

5.16 The Secretary for Home Affairs agrees with the audit recommendations. He has said that the HAB will keep in view the suitable support measures to SEs and keep the LegCo Panel on Welfare Services informed.

Funding schemes of different bureaux and departments

5.17 The social objectives of SEs are wide-ranging, e.g. providing the services or products needed by the community, creating employment and training opportunities for the socially disadvantaged, and protecting the environment, etc. These social objectives may span across different programme areas of various B/Ds. The HAD's SE website listed four government funding schemes providing start-up funds for establishing SEs. The SEs created under each scheme targeted at specific social objectives (Table 10).

Table 10

Government funding schemes for setting up SEs

Responsible B/D	Funding scheme	Social objective	Programme area
SWD	3E Project	To enhance the employment of PWDs through market-driven approach and direct creation of more work opportunities	Rehabilitation and medical social services
HAD	ESR Programme	To promote sustainable poverty prevention and alleviation efforts at the district level that help enhance self-reliance, targeting socially disadvantaged groups	Community Building
Labour and Welfare Bureau	CIIF (Note)	To implement diversified social capital development projects in the community, promote reciprocity between the public and different sectors, and build together a cross-sectoral collaborative platform and mutual help network	Social welfare
Development Bureau	Revitalising Historic Buildings Through Partnership Scheme	To preserve and put historic buildings into unique cultural landmarks for good and innovative use with active public participation, and create job opportunities in particular at the district level	Heritage conservation

Source: Government websites

Note: Funding support under the CIIF is provided for social capital development projects which are not confined to setting up of SEs or SE projects.

Need for stocktaking outcomes of funding schemes

5.18 The social objectives of the SEs under the above funding schemes fall under the programme areas of different B/Ds. In formulating an overall strategy and policy for promoting the development of SEs, there is a need for the HAB and the HAD to take stock of how far various funding schemes may have contributed to the development of SEs, with a view to promoting best practices, identifying service gaps as well as creating synergies.

Other funding schemes for the development of SEs

5.19 Apart from the four schemes mentioned in paragraph 5.17, Audit notes that there are other government funding schemes supporting the setting up of SEs. In July 2012, the Chief Executive of the Hong Kong Special Administrative Region announced a plan to establish a Social Enterprise Development Fund to support the further development of SEs by seeking a funding of \$500 million from the Lotteries Fund. Preparatory work was undertaken by the HAB for establishing this Fund. In December 2012, the Administration reconvened the CoP chaired by the Chief Secretary. The Social Enterprise Development Fund was renamed the Social Innovation and Entrepreneurship Development Fund (SIE Fund) and was subsumed under the CoP, with poverty alleviation as its key priority. Beneficiaries of the SIE Fund might cover, but not limited to, SEs. A Task Force was set up under the CoP to oversee the SIE Fund.

5.20 In February 2013, an information paper was prepared to brief the Task Force about the current landscape of the social entrepreneurship and social innovation space, as well as the existing funding schemes for supporting SEs. Regarding government funding schemes, the information paper mentioned a total of six funding schemes. Besides the four schemes listed on the SE website (see para. 5.17), the paper also mentioned two other government funding schemes, namely:

- (a) ***Partnership Fund for the Disadvantaged.*** The Fund is administered by the SWD with the objective to incentivise the welfare sector to expand their network in seeking and securing corporate participation, and to encourage the business sector to take up more social responsibility for creating a cohesive, inclusive and caring society; and

- (b) *Environmental and Conservation Fund.* The fund is administered by the Environment Bureau with the objective to fund educational, research and other projects and activities in relation to environmental and conservation matters.

5.21 Audit considers that these two funding schemes as well as the SIE Fund may also contribute to promoting the development of SEs. Again, there is a need for the HAB and the HAD to keep abreast of the progress made by these three funding schemes in formulating strategies and measuring outcome in promoting the development of SEs.

Creating synergies between the 3E Project and the ESR Programme

5.22 The 3E Project and the ESR Programme are the two major government funding schemes providing support for setting up SEs. The 3E Project was launched in 2001 for providing employment opportunities for PWDs. The ESR Programme was launched in 2006 on the CoP's recommendation. In 2005, when deliberating the proposal to set up the ESR Programme, the CoP made reference to the 3E Project which had already been in operation. To strengthen district-based poverty alleviation work and help disadvantaged groups gain self-reliance, the CoP recommended the setting up of another funding scheme for providing employment opportunities for "disadvantaged groups other than the disabled". In 2006, the HAD launched the ESR Programme on the CoP's recommendation.

5.23 Audit noted that, in implementing the ESR Programme, the HAD had not clearly defined the target groups of the socially disadvantaged for support under the Programme (see para. 3.46). Moreover, the HAD had included PWDs as one of the target groups under the ESR Programme (see Note 18 to para. 3.46). As such, NGOs interested in setting up SEs for providing employment opportunities for PWDs might choose between the 3E Project and the ESR Programme.

5.24 When the ESR Programme was launched in 2006, the terms and conditions of the Programme were modelled on those of the 3E Project. The two schemes currently still share many common features. They, however, differ in the following two key parameters that appear to make the ESR Programme more appealing to applicants:

Way forward

- (a) the maximum grant under the ESR Programme is \$3 million, which is 50% more than the maximum grant of \$2 million under the 3E Project; and
- (b) SEs funded under the 3E Project are required to employ PWDs of at least 50% of the total workforce. There is no such restriction under the ESR Programme for employing a minimum proportion of any specific target groups of socially disadvantaged people.

5.25 The SWD has all along relied on rehab-NGOs as the primary source of applications under the 3E Project (see para. 2.28). Audit noted that, since the launch of the ESR Programme, many rehab-NGOs have also submitted applications under the Programme to set up SEs for providing employment opportunities to the socially disadvantaged, including PWDs. As at September 2013, among the 35 rehab-NGOs, 15 had submitted 22 applications under the ESR Programme. A total of 13 applications (from 10 rehab-NGOs) were eventually approved. This trend of rehab-NGOs setting up SEs under the ESR Programme for creating PWD jobs has adversely affected the progress of implementing the 3E Project (see paras. 2.26 to 2.29).

5.26 Audit noted that the HAD and the SWD had not discussed, in the light of their operational experiences in recent years, the need for further delineating the ambit, target groups, and terms and conditions of the two funding schemes. There is a need for a review to address this issue. Moreover, as the two schemes share many common features, the opportunity should be taken to identify any synergistic effects between the schemes to improve their future operations.

Audit recommendations

5.27 **Audit has *recommended* that the Secretary for Home Affairs and the Director of Home Affairs should periodically take stock of the progress and outcome of the efforts made by relevant B/Ds that may contribute to the development of SEs, in particular their funding schemes for setting up SEs, with a view to promoting best practices, identifying service gaps as well as creating synergies.**

5.28 Audit has also *recommended* that the Director of Home Affairs and the Director of Social Welfare should jointly review the ESR Programme and the 3E Project, covering their ambit, target groups, and terms and conditions, with a view to identifying any synergistic effects between the two funding schemes to improve their future operations.

Response from the Administration

5.29 The Secretary for Home Affairs agrees with the audit recommendation in paragraph 5.27. He has said that the HAB has been stocktaking the various government initiatives that could benefit SEs and make available such information on the SE website and in the HAB's reports to LegCo. The HAB will continue to engage SEs, stakeholders and B/Ds with a view to creating partnership and synergies.

5.30 The Director of Home Affairs agrees with the audit recommendation in paragraph 5.28. She has said that:

- (a) the two funding schemes with their own objectives are to help their target groups in different contexts. The 3E Project is to provide employment opportunities for PWDs, while the ESR Programme aims to alleviate poverty at the district level and create employment opportunities for the underprivileged to enhance their self-reliance through the setup of SEs;
- (b) the 3E Project has a requirement of employing PWDs of at least 50% of the workforce. However, some SE proposals may only be viable with a mix of target groups and cannot meet the said 50% requirement. The inclusion of PWDs as one of the target groups of the ESR Programme would enable the Government to provide a funding source for deserving SE proposals with less than 50% of workforce for PWDs. Otherwise, such SE proposals would be deprived of the opportunity to start and provide employment opportunities for PWDs;
- (c) at present, the HAD will advise an applicant to apply for the 3E Project in case its proposal is more for the rehabilitation of PWDs; and

- (d) the HAD will work with the SWD to identify synergistic effects between the two funding schemes to improve their operations.

5.31 The Director of Social Welfare agrees with the audit recommendation in paragraph 5.28. She has said that the SWD will liaise with the HAD for a joint review on the issues raised by Audit with a view to identifying any synergistic effects between the two funding schemes to improve their future operations.

Developing a definition and regulatory framework for SEs

5.32 As the Government has been appealing for public support for SEs, members of the public might have the impression that there is a clear definition of SEs and a well-defined list of SEs for ready identification of genuine SEs.

5.33 However, the HAB and the HAD have stated that there is no universal definition of SEs and referred to an SE as a business aiming to achieve certain social objectives and its profits are principally reinvested into the business (see para. 1.2). On its SE website, the HAD provides an SE directory (see para. 4.18) in the form of a list of “Hot spots for consumption at SEs in Hong Kong”. This directory contains only those SEs supported by government funding schemes and those SEs operated by a few major NGOs, with a total number of 170. The SE website also provides a link to the SE directory compiled by the SEBC (see para. 4.19). This directory contains information about some 440 SEs that have made applications for listing as SEs in the directory.

5.34 For the provision of public funding to individual SEs, the Government has adopted a stricter definition of SEs, as reflected by the eligibility criteria of the 3E Project (see para. 2.7) and the ESR Programme (see para. 3.4). On the other hand, according to the HAB, the Government’s intention was not to unilaterally set a strict definition and a definitive list of SEs which would limit the development of the SE sector at its early stage. This was particularly important given the diversity of SEs (in respect of their trades, business scales, development stages and operation modes). Instead, the Government has encouraged and supported sector-led initiatives to enhance public understanding of SEs.

5.35 With the rapid development of SEs locally and overseas, there have been concerns about providing a clear definition of SEs from the SE sector and LegCo (see para. 5.3(b)). Members of the SEAC have also raised such concerns, and have discussed the following:

- (a) the need for a general definition (like the one mentioned in para. 5.33) for guiding the Government's sector-wide promotional support; and
- (b) the need for a refined definition for guiding the provision of public resources to individual SEs. When deliberating on the establishment of the Social Enterprise Development Fund (see para. 5.19), the SEAC has discussed a refined definition of SEs, i.e. an SE is a business targeted to achieve specific social objectives through entrepreneurial strategies and self-sustaining operations, and not less than 70% of its distributable profits are reinvested in the business for the social objectives that it pursues.

5.36 Audit considers that, for the long-term sustainable development of SEs, there is merit for the Government to adopt a more refined definition of SEs for formulating support strategies and programmes, and for providing a clear identity to SEs to enhance public understanding and acceptance. In this connection, Audit noted that, in April 2013, the HAB commissioned a research study to capture the existing landscape of SEs in Hong Kong with the objectives to:

- (a) outline the current situations of local SEs;
- (b) ascertain the public perception of SEs; and
- (c) identify the best practices and innovative approaches in running an SE.

5.37 The research study was scheduled for completion in April 2014. This study was intended to capture useful information about the current landscape of SEs in Hong Kong. The HAB may take the opportunity to capitalise on the findings of this research study to assess the need for a more refined definition of SEs. This will facilitate the community to discuss, in a more focused manner, whether an appropriate legal and regulatory framework (see para. 5.3(d)) should be developed for the long-term sustainable development of SEs in Hong Kong.

Audit recommendation

5.38 Audit has *recommended* that the Secretary for Home Affairs should, in consultation with the SEAC, keep in view the need to formulate a more refined definition and an official list of SEs for promoting the long-term sustainable development of SEs, taking into account the findings of the research study to be completed in April 2014.

Response from the Administration

5.39 The Secretary for Home Affairs agrees with the audit recommendation. He has said that:

- (a) the HAB has been adopting various approaches in developing the SE sector. For example, the HAB organises the SE Award Scheme (to promote public awareness of SEs and give due recognition to outstanding SEs) and funds various industry-led initiatives such as the Ethical Consumption Month (to support caring consumption by encouraging the public to patronise SE products and services). For these SE initiatives, the HAB does not need a strict definition to make them successful;
- (b) for the HAD's ESR Programme, SEs have to meet eligibility criteria to ensure the transparency and accountability in the use of public funds;
- (c) in formulating new initiatives involving public resources to support individual SEs, the SEAC has endorsed a working definition for SEs (see para. 5.35(b)). This has guided the HAB in further deliberations of measures that will support individual SEs, recognising the need to support for-profit SEs; and
- (d) nevertheless, the HAB agrees that there is a need to keep in view the case for adopting a more refined definition of SE. The HAB will continue to support the SEBC's efforts in publishing its directory, which is widely used as the SE directory in the industry.

Accountability and performance management

5.40 The HAB and the HAD are responsible for promoting the development of SEs under the programme areas of “Social Harmony and Civic Education” and “Community Building” respectively. According to its COR, the responsibilities of the HAB are to promote the understanding of SEs among members of the public, and foster partnership between the community, the business sector and the Government in promoting the development of SEs. In the HAD’s COR, it was stated that the Department had been administering the ESR Programme since June 2006 to promote sustainable poverty prevention and alleviation efforts that helped enhance self-reliance at the district level, targeting socially disadvantaged groups.

5.41 Audit noted that, besides these descriptions, there was little information on the performance of the HAB and the HAD in promoting the development of SEs. There were no performance targets and indicators for measuring and reporting the progress made on the development of SEs. Audit considers that there is a need for the HAB and HAD to develop more useful performance targets and indicators for publishing in their CORs in this policy area. In this connection, there is a need to consolidate relevant information from other B/Ds the activities of which are also related to the development of SEs, e.g. the SWD (the 3E Project) and the Labour and Welfare Bureau (the CIIF).

Audit recommendation

5.42 **Audit has *recommended* that the Secretary for Home Affairs and the Director of Home Affairs should develop more useful performance targets and indicators for measuring and reporting the progress made on promoting the development of SEs, and publish them in the CORs.**

Response from the Administration

5.43 The Secretary for Home Affairs and the Director of Home Affairs agrees with the audit recommendation.

**Years in operation of approved projects
under the 3E Project
(30 September 2013)**

Years in operation	Terminated projects (a) (No.)	Operating projects (b) (No.)	Total (c) = (a) + (b) (No.)
< 1	0 (0%)	9 (16%)	9 (11%)
1 to < 2	0 (0%)	3 (5%)	3 (4%)
2 to < 3	7 (29%)	7 (12%)	14 (17%)
3 to < 4	5 (21%)	4 (7%)	9 (11%)
4 to < 5	3 (13%)	4 (7%)	7 (9%)
5 to < 6	5 (21%)	2 (4%)	7 (9%)
6 to < 7	3 (13%)	3 (5%)	6 (7%)
7 to < 8	0 (0%)	4 (7%)	4 (5%)
8 to < 9	0 (0%)	5 (8%)	5 (6%)
9 to < 10	0 (0%)	8 (14%)	8 (10%)
10 to < 11	1 (3%)	2 (4%)	3 (4%)
11 to < 12	0 (0%)	6 (11%)	6 (7%)
Total	24 (100%)	57 (100%)	81 (100%)

} 26 (32%)

Source: Audit analysis of SWD records

**Years in operation of approved projects
under the ESR Programme
(30 September 2013)**

Years in operation	Terminated projects (a) (No.)	Operating projects (b) (No.)	Total (c) = (a) + (b) (No.)
< 1	0 (0%)	21 (18%)	21 (14%)
1 to < 2	0 (0%)	19 (16%)	19 (13%)
2 to < 3	12 (48%)	9 (7%)	21 (14%)
3 to < 4	7 (28%)	11 (9%)	18 (13%)
4 to < 5	4 (16%)	13 (11%)	17 (12%)
5 to < 6	1 (4%)	19 (16%)	20 (14%)
6 to < 7	1 (4%)	28 (23%)	29 (20%)
Total	25 (100%)	120 (100%)	145 (100%)

} 49 (34%)

Source: Audit analysis of HAD records

Acronyms and abbreviations

Audit	Audit Commission
B/Ds	Bureaux/departments
CIIF	Community Investment and Inclusion Fund
CoP	Commission on Poverty
COR	Controlling Officer's Report
FC	Finance Committee
FSTB	Financial Services and the Treasury Bureau
HA	Hospital Authority
HAB	Home Affairs Bureau
HAD	Home Affairs Department
LegCo	Legislative Council
NGOs	Non-governmental organisations
PWDs	Persons with disabilities
SE	Social Enterprise
SEAC	Social Enterprise Advisory Committee
SEBC	Social Enterprise Business Centre
SIE Fund	Social Innovation and Entrepreneurship Development Fund
SWD	Social Welfare Department