

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.