

2016 HONG KONG YOUNG LEADERS PROGRAMME FIELD PROJECT



A New Model for Rural Revitalisation: Rediscovering Hong Kong's Forgotten Treasures

Sep 2016

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Executive Summary (1/2)

The Context

Hong Kong is known primarily for its ultra-urban lifestyles and high population density. There is another side to Asia's World City which reflects its rural heritage and presents an opportunity for creative new thinking around sustainable development and social impact investments.

About three quarters of the territory is countryside, including 24 country parks and 22 special areas created for nature conservation. Located within the country parks are 77 mostly deserted villages known as **country park enclaves** which offer some of the last remaining connections to Hong Kong's traditional cultures and way of life.

Once home to active agricultural and trading communities, mass emigration from the 1950s onwards led to the cultural, economic and physical decline of these villages. Pockets of private land surrounded by protected natural landscapes, 'enclaves' were originally excluded from the Country Parks' boundaries to avoid infringing on the legal rights of the villagers who lived there or owned the land.

The remoteness, lack of amenities and freezes on development make it almost impossible for indigenous inhabitants or new settlers to reside in these villages. Up to 80% of enclaves are now in the hands of private developers.

In recent years local communities and NGOs, with support from private and corporate philanthropy, have been working to promote the conservation and traditional values of these rural areas.

Successful Prototype

The opportunities for agriculture, education, cultural activities, recreation and rural businesses are significant but so are the challenges, particularly when it comes to financial and environmental sustainability. **Lai Chi Wo** is a case in point.

Located in the northeastern New Territories, Lai Chi Wo is one of the oldest Hakka villages in Hong Kong with a history dating back to more than 300 years. Once one of the most affluent hamlets in the area, the village is flanked by a *feng shui woodland* and features a diverse variety of flora and fauna.

The **Sustainable Lai Chi Wo** programme, supported by the Hongkong and Shanghai Banking Corporation Limited, is co-organised by the Policy for Sustainability Lab of HKU, the Hong Kong Countryside Foundation, the Produce Green Foundation and the Conservancy Association with support from Lai Chi Wo villagers. The programme has seen some good success in rehabilitating farmland, restoring traditional houses and attracting visitors and even some residents to the village.

Now the question is how to learn from and strengthen efforts in Lai Chi Wo, particularly around sustainable revenue generating activities, and to propose a model which could be adapted and applied to other enclaves across Hong Kong to create **living villages and offer a viable alternative to ultra-urban life**.

Executive Summary (2/2)

The Proposal

This report, prepared by participants on the 2016 Hong Kong Young Leaders Programme (young professionals from business, government and civil society) and refined by the Global Institute For Tomorrow (GIFT), proposes a new institutional framework and village renewal model for consideration.

Currently village revitalisation efforts often require inputs from ten or more government departments across multiple bureaus, ranging from the Transport Department to the Agriculture, Fisheries and Conservation Department.

To consolidate and coordinate efforts it is proposed that a new statutory body – the **Rural Renewal Authority (RRA)** – be established. A quasi-governmental agency, the **RRA** would have a mandate to promote, coordinate and fund the revitalisation of country park enclaves as well as other rural renewal initiatives.

In terms of on-the-ground implementation, it is proposed that a **cluster-based approach** be taken whereby enclaves are grouped together into 10-15 clusters territory-wide. Each cluster would establish a new company limited-by-guarantee called a **Village Renewal Foundation (VR)** overseen by a board, the **Village Cluster Committee (VCC)**.

After submitting a comprehensive proposal to **RRA**, the **VR** would receive initial funding to kick-start revitalisation efforts and ultimately create a thriving financially and environmentally sustainable rural economy.

Public Private Partnerships

A key aspect of this will be **cluster enterprises** which are akin to business units of **VR** and run by third party operators under a service agreement. Operators would ideally be indigenous inhabitants or new residents but could also be entrepreneurs or existing businesses based outside the cluster. Operators will pay a monthly fee to **VR** as well as a 50% share of any surplus.

Using the Lai Chi Wo cluster as a pilot, financial projections show that a total investment of HK\$ 133.3 million is required over a ten year period to sign long-term leases for land and houses, rehabilitate land, restore and renovate houses, set-up a range of cluster enterprises as well as carry out minor infrastructure projects. Initial funding of HK\$80 million is required from **RRA**.

VR will be self-sustaining from the first full year of operations. By year five revenues grow to HK\$39.8 million with a surplus HK\$4.8 million. These revenue generating activities allow **VR** to cover all its operations as well as invest a cumulative HK\$53.3 million into housing restoration and renovation and HK\$8.6 million into cluster and community development over ten years.

Additionally, HK\$25 million can be returned to **RRA**. It is expected that **RRA** would eventually be in a position to cover all its operational costs so that 100% of government funding can be directly spent on rural revitalisation.



Introduction

Hong Kong Young Leaders Programme



The Global Institute For Tomorrow (GIFT) is an independent pan-Asian think tank providing content-rich and intellectually-challenging executive education from an Asian worldview.

Based on GIFT's internationally recognised experiential Global Leaders Programme, the Hong Kong Young Leaders Programme (YLP) is an annual platform to inspire a new generation of leaders and a new precedent of constructive dialogue and ideas, as well as promote cooperation and collaboration across sectors.

Project Team

In September 2016, young professionals from Hong Kong, Singapore and mainland China representing different fields spanning business, government and civil society came together to participate in the second annual YLP. During the experiential module they worked on a proposal to support the revitalisation of Lai Chi Wo villages , as well as other deserted villages located within Hong Kong's Country Parks.



Participating organisations:



Supporting Partners



The Hong Kong Countryside Foundation

The Hong Kong Countryside Foundation Ltd. is a non-profit organisation. It was established to provide a vehicle to manage Hong Kong's natural assets and according to its memorandum, 'to secure for the long term public benefit, conservation and restoration of countryside, habitats, natural landscape and biological diversity of Hong Kong'. The foundation aims to be the first foundation set up solely to resolve conflicts between property owners and the public interest in protecting private sites with high ecological or heritage value.

Other supporting partners to be thanked include: **Lai Chi Wo Villagers, Agriculture, Fisheries and Conservation Dept. of HKSAR Government, Planning Dept. of HKSAR Government, North District Office of Home Affairs Dept. of HKSAR Government, RS Group, St. James' Settlement, CLP, SvHK, The Produce Green Foundation, HakkaHome-LCW Ltd, and The Conservancy Association.**

The Sustainable Lai Chi Wo Programme

- Lai Chi Wo is a 300 year old Hakka walled village located in the Northeastern New Territories. It is one of 77 villages designated as 'country park enclaves'.
- Once home to over 1,000 people today Lai Chi Wo has only a handful of permanent residents as the majority of indigenous inhabitants emigrated overseas or moved to other parts of Hong Kong such as Shau Tai Kok, Fan Ling and Tai Po.
- The 'Sustainable Lai Chi Wo' programme was launched in 2013 with funding from the Hong Kong Bank Foundation and led by the Faculty of Social Sciences of The University of Hong Kong in collaboration with Hong Kong Countryside Foundation, Produce Green Foundation, the Conservancy Association and Lai Chi Wo villagers.
- It is a rural community development and revitalisation programme designed to: *"implement and incubate best practice of sustainable development through innovative and inclusive initiatives as well as activities in farming, training, education and research."*
- Since the programme's inception agricultural and habitat management activities are taking place on 5-6 hectares of land, much of which has been rehabilitated so that it can be farmed productively once again.



Scope of Project (1/2)

Programme Objectives:

To Establish Ground Truth:

- Gain a better understanding of Hong Kong's 'country park enclaves' and the challenges and opportunities for the revitalisation of the territory's rich rural heritage.
- Gain a realistic picture of the various stakeholder interests and aspirations vis-à-vis rural revitalisation.

To Develop:

- Develop a sustainable framework that supports and improves the physical, cultural and economic revitalisation of Lai Chi Wo village and enables the adaptation of the model across other Country Park enclaves .

To Recommend:

- Recommend a new institutional arrangement and a financially viable business model to underpin new rural renewal efforts.
- The proposed model must take into account the need for funding to kick start revitalisation but which also becomes financially sustainable in the long-run.



Scope of Project (2/2)

The YLP is a one month programme combining classroom and field based learning alongside research assignments.

Methodology

- During the programme participants were divided into teams, each with a different focus area (e.g. enterprise development, finance & investments, etc).
- After one week of classroom learning teams conducted research assignments to dig deeper into the potential for rural renewal in Hong Kong.
- During the one-week intensive field project they engaged diverse stakeholders, conducted interviews, focus groups and site visits to Lai Chi Wo and neighboring villages.

Outcomes

- With guidance from GIFT participants analysed the information gathered through research, site visits and stakeholder meetings and developed recommendations contained in this report.
- They also presented highlights of the report at a public forum to project stakeholders and representatives from business, government and civil society.

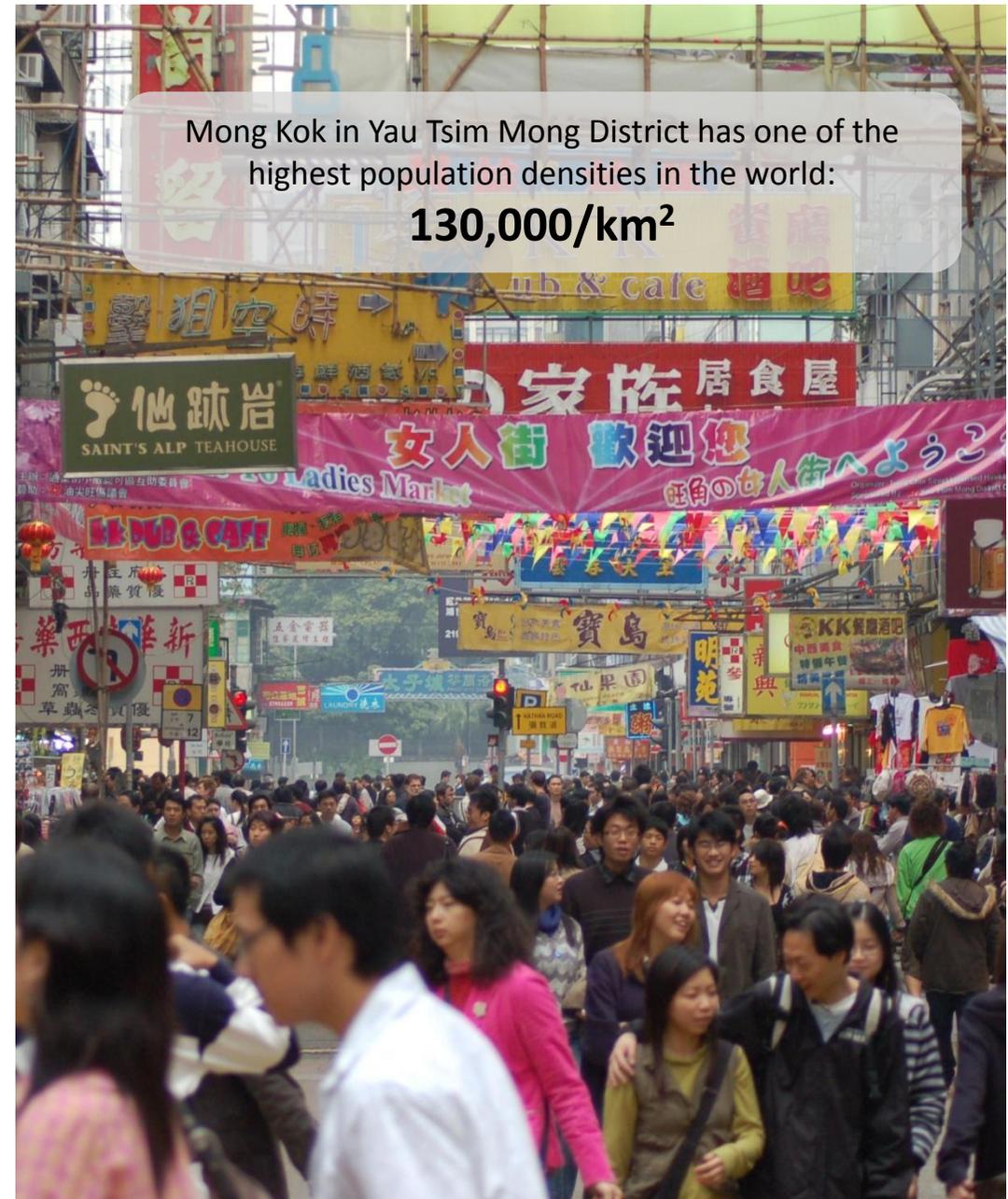
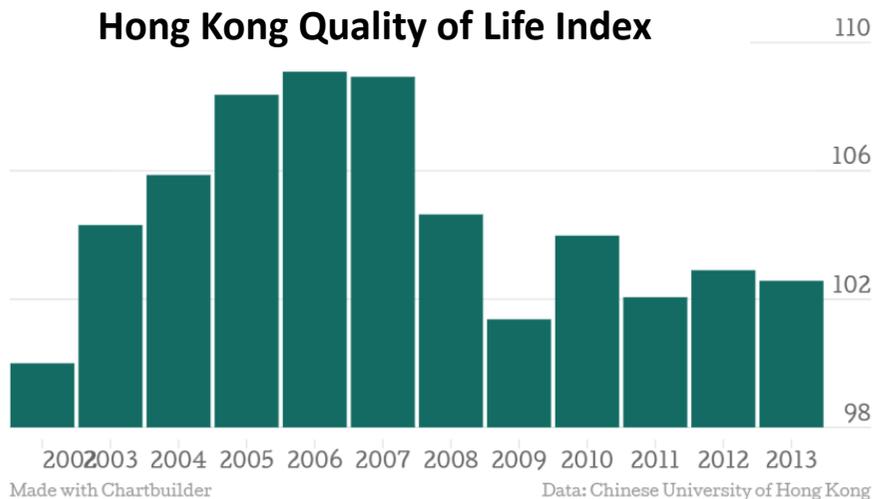




Background

Hong Kong at a Glance: the Pros and Cons of Ultra-Urban Living

- Population: 7.324 million
- Density: 6,650 people/km²
- GDP per Capita: US\$36,117 USD (2015)
- Median wage: US\$22,884 (2015)
- Regularly ranked among the worlds freest economies and best places to do business
- Due to congested streets roadside air pollution far surpasses safe levels set by WHO
- Ranked 75th on UN's World Happiness Report



Hong Kong has a Lesser Known, Greener, Side

- **75%** of Hong Kong's territory is made up of countryside (total area 1,104 km²)
- **1976:** Country Park Ordinance enacted, establishing 24 Country Parks covering over 430 km²
- **50 km²** additional area designated as a UNESCO Global Geo park in 2009
- **3000** varieties of flowering plants and 300 native tree species make their homes here
- **4** Marine Parks and one Marine Reserve cover a total area of 24.3 km²

Hong Kong's Rural & Agricultural Decline



Photo credit: The Hong Kong Heritage Project



- Hong Kong's agricultural sector – the economic driver of rural communities – is a “Sunset Industry”.
- This is due to a variety of factors ranging from rapid urbanization and manufacturing to the diversion of water resources away from irrigation to reservoirs for drinking water.
- The 1950's onwards saw a mass migration of indigenous farmers abroad and to more urbanised areas of Hong Kong.
- New waves of settlers from mainland China continued to engage in farming to support their livelihoods through to the early 1990s but as new towns were developed across the New Territories farming activity saw a sharp decline.
- Over the years, air and water pollution from pig farming and disease scares like avian flu resulted in harsh restrictions and closures of many pig and poultry farms throughout the territory.
- Today only 7 km² of Hong Kong (less than 0.01% of total area) is used for active farming, mainly of leafy green vegetables as well as a very small number of pig and poultry farms.
- This rural and agricultural decline has led to Hong Kong's reliance on Mainland China for nearly 90% of its fresh meat and vegetables.

Hong Kong has the potential to produce a larger portion of its own food

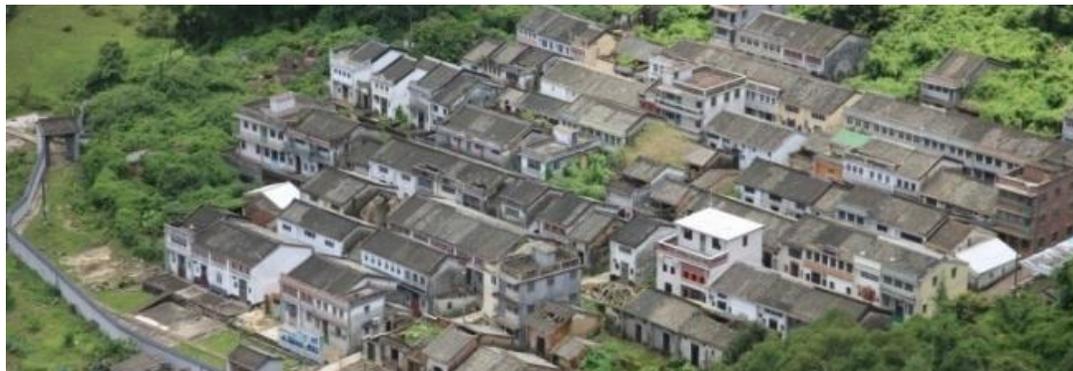
Rural Country Park Enclaves: Forgotten Treasures (1/3)



What is an 'Enclave'?

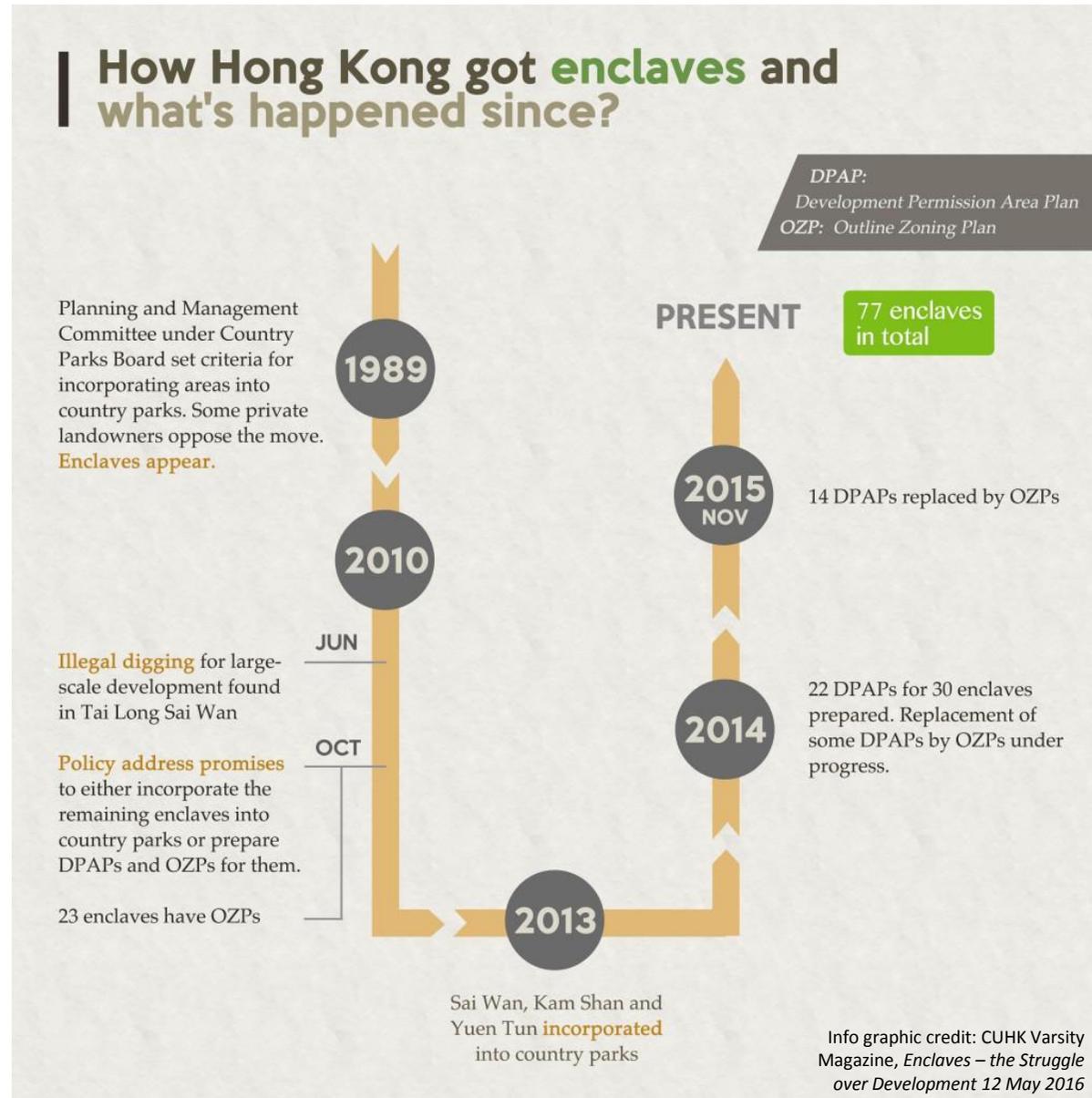
Within the Country Parks there are 77 'Enclaves' consisting of 2,076 hectares of privately owned property 'pockets' (formerly inhabited villages) that are excluded from designated Country Park boundaries.

Rural Country Park Enclaves: Forgotten Treasures (2/3)



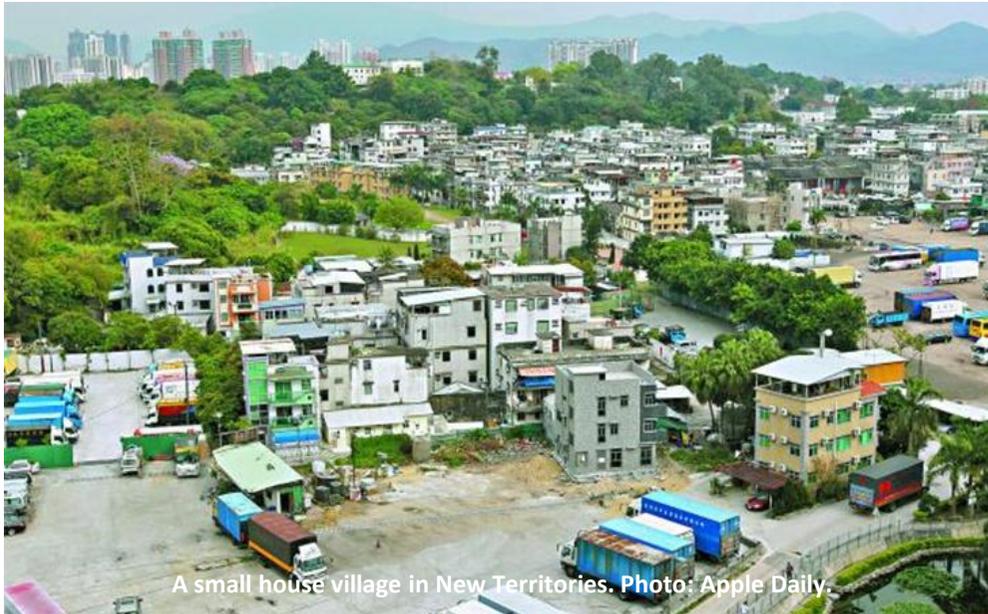
- Many of these Country Park enclaves are the remainders of once common Hakka villages.
- The traditional Hakka communities, originally descended from China's Han people, migrated and established successful agricultural based communities in the New Territories as far back as the 17th century.
- As a result, before the 20th century much of the lowlands in New Territories were occupied by fields and Rice paddies, supplying produce for local trade and consumption.
- In 1905 there were almost 10,000 hectares of inhabited traditional villages across the New Territories.
- These "indigenous" communities thrived until the 1950s & 60s, at which point the rural population was still over 450,000.
- A mass migration of indigenous inhabitants seeking a better life either overseas (predominantly in the UK) or in more urban parts of Hong Kong, began in the late 1950s.
- Enclaves were originally excluded from the Country Parks' boundaries to avoid infringing on the legal rights of the villagers who lived there or owned the land.

Rural Country Park Enclaves: Forgotten Treasures (3/3)



Info graphic credit: CUHK Varsity Magazine, *Enclaves – the Struggle over Development* 12 May 2016

Land Policy and Related Challenges



- Since the 1950's various controversial land policy has led to tensions and disagreements over enclave development, restoration and revitalisation.
- Perhaps the most contentious of these is the Small House Policy (SHP) enacted by the British colonial government in 1973 to gain support from indigenous inhabitants for development in the New Territories (NT).
- It allows male indigenous inhabitants descended (from the male line) from someone resident in a recognised NT village in 1898 to erect, for himself, once during his lifetime, a three-story house with a footprint of 700sqft on their own land at reduced or zero premium, or on public land through a private treaty grant.
- This right is non-transferable, and it is a criminal offence to sell the right.
- The policy has drawn much concern due to the transfer of land rights to developers, turning land for small houses into property projects.

Why is this relevant for enclave revitalisation?

- Erecting what amounts to modern mini housing estates in enclaves precludes reviving their cultural and architectural heritage. Enclaves need innovative alternatives to the SHP!

The Tension Between Conservation and Preservation



- Globally there is an inherent conflict between ‘preservation’, being the static protection of an environment from all development; and ‘conservation’: the active, ethical use and management of an environment in a sustainable manner. **Hong Kong is no different.**
- Government zoning plans dictate how much, or how little, development may take place within enclaves. There are three main camps when it comes to enclave development:
 1. Indigenous inhabitants who view it as their right to develop private land and who are thus opposed to the incorporation of enclaves into country parks.
 2. Villagers and other stakeholders who believe the cultural and economic heritage of enclaves should be revived in harmony with the surrounding natural systems.
 3. Activist and green groups who believe any development whatsoever paves the way for environmental destruction.
- Due to the relative isolation of enclaves and restrictions on development many indigenous inhabitants have expressed frustration at the inability to return ‘home’ due to lack of viable income and amenities. **This has led to approximately 80% of enclaves already being sold to private developers.**

Hong Kong's Countryside has Much to Offer

Food Production

There is good potential for waste-free natural livestock and crop farming in Hong Kong and yet 90% of its fresh meat and vegetables are imported. Increased food production on our doorstep can support food security, improve food safety and diversify the economy.

Cultural Heritage

Hakka culture is intrinsic to Hong Kong's history as well as its rural and agricultural heritage. The countryside and enclaves in particular provide a window into this heritage which all Hong Kong residents, especially young people, should be aware of.

Ecosystem Services

Hong Kong's rich natural resources and biodiversity offer untold benefits to our society. While these benefits are yet to be quantified they include purification of air and water, habitat for species and moderation of extreme weather conditions.

Alternative Lifestyle

The countryside offers an alternative lifestyle for those wishing to escape the stress and strain of busy city life. With buy-in from villagers and landowners enclaves can be restored to "living villages" once again if residents can be attracted to (re)settle.

Leisure/Eco-tourism

Hong Kong residents already enjoy world-class hiking trails across the territory. There is immense potential for domestic and international eco-tourism which can increase awareness around the value of our countryside and conservation in general.

Countryside makes for a more 'liveable city', provides education and employment opportunities



Institutional Framework & Village Renewal Model

Rationale for an Institutional Framework and Village Renewal Model

The proposed rural renewal model requires a robust and independent institutional set-up to balance the needs of various stakeholders and ensure a right balance is struck between renewal, conservation and heritage protection. It will also need to strike a balance between financial sustainability and positive social impact. Key features of the model include:

- The creation of a new statutory body – **The Rural Renewal Authority (RRA)** – to act as the nexus of all rural revitalisation efforts, policies and stakeholder engagement, and which would attract, manage and allocate funds to support village cluster level activities;
- The formation of **Village Cluster Committees (VCC)** to coordinate and leverage local resources, share best practises and ensure the cultural and environmental heritage of each village is respected;
- The formation of **Village Renewal Foundations (VR)** to manage the operations of village renewal at the cluster level by channelling resources into enterprise development, conservation, restoration and infrastructure;
- The establishment of **Cluster Enterprises** in village clusters to revive the economies of rural enclaves by developing a range of social enterprise activities, such as tourism, wellness, agriculture and eco-education;
- Cluster Enterprises operated by carefully selected operators on a contract basis. They will be given a high degree of autonomy but the business must be financially sustainable and be run in the interest of local communities within the parameters established by the RRA. Profits will be shared between operators and **VRs**.



Rural Renewal Authority (RRA)



Proposed Logo developed during the Young Leaders Programme

The proposed **Rural Renewal Authority (RRA)** is a new quasi-governmental statutory body that will act as the nexus of all rural revitalisation efforts. Although in the long run it may be profit-making it will be tax exempt and initially will channel funding from the government and other sources towards rural revitalisation efforts.

Vision

- A Hong Kong where every resident and visitor has the opportunity to rediscover the territory's hidden and forgotten rural treasures.

Mission

- To develop and support **Village Cluster Committees** and **Village Renewal Foundations** carry out the sustainable and inclusive revitalisation of village clusters.

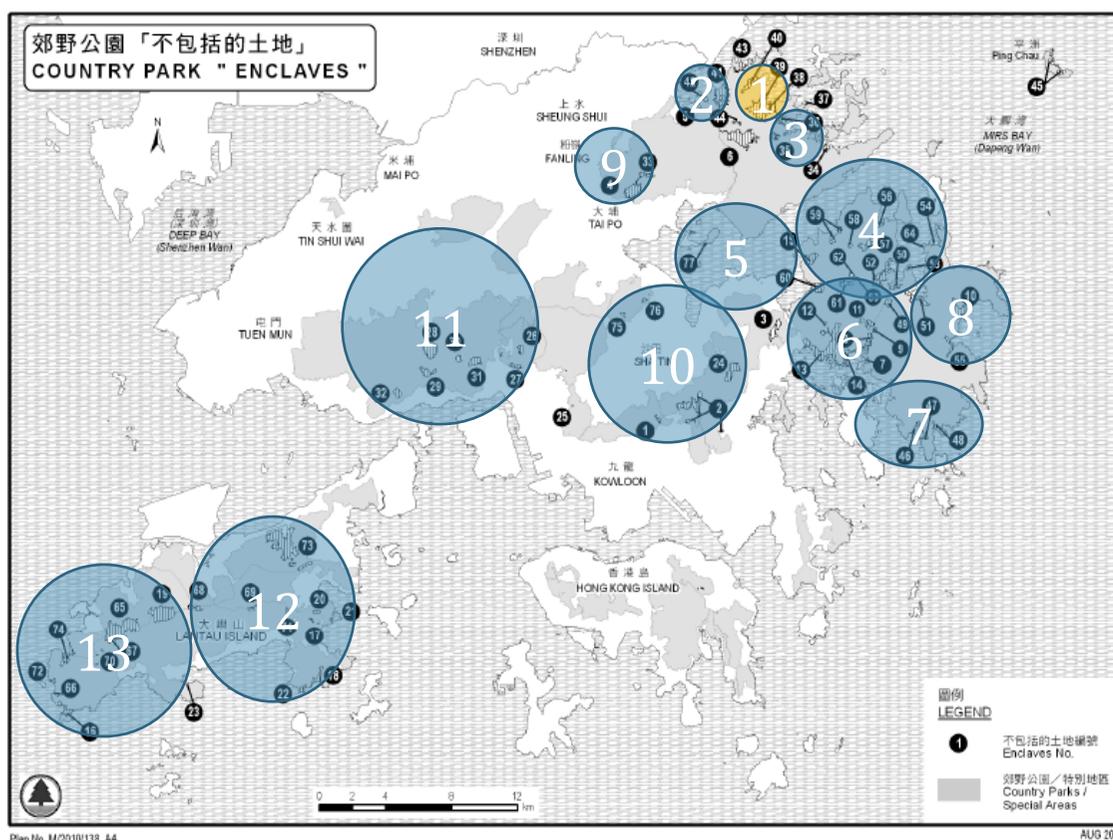
Values

- **Community-first:** Balancing the interests of local indigenous inhabitants with society and the natural environment that helps to sustain Hong Kong's rural treasures.
- **Collaborative for Conservation and Renewal:** Leveraging the strengths of different parties and working together to achieve a common goal founded on conservation and renewal.
- **Convening for Social Good:** Bringing together various stakeholders, pooling and channeling resources towards rural renewal for high social impact.

RRA: A new entity to consolidate and coordinate revitalisation efforts

The Village Cluster Approach

- It is proposed to group the existing 77 enclaves into 10-15 clusters to consolidate efforts, leverage the unique resources and features of different villages and find synergies to support revitalisation.
- Clusters will be organised based upon current Outline Zoning Plans (OZPs) and Development Permission Area (DPA) Plans, with further due diligence and community engagement required before confirming a cluster.
- For example Lai Chi Wo together with its four neighboring villages will form a pilot cluster to demonstrate proof of concept.
- Initial funding for clusters will come from **RRA** and be channeled through **VRs** with oversight from **VCCs**.



Pilot
Cluster 1

Cluster 1 Villages:

1. Lai Chi Wo
2. Mui Tsz Lam
3. Kop Tong
4. Siu Tan
5. Sam A Tsuen

A cluster approach offers the benefits of scale and pooling of resources

Village Renewal Ltd. (VR)



Proposed Logo developed during the Young Leaders Programme

The proposed **Village Renewal Foundations (VRs)** will be companies limited by guarantee (nonprofit, tax exempt) established at the cluster level and overseen by a Board called the **Village Cluster Committee (VCC)**.

Vision

- Transforming country park enclaves into **living villages**.

Mission

- To renew villages through a combination of community development, cultural restoration, infrastructure improvements and enterprise development so that they have inhabitants and are economically viable.

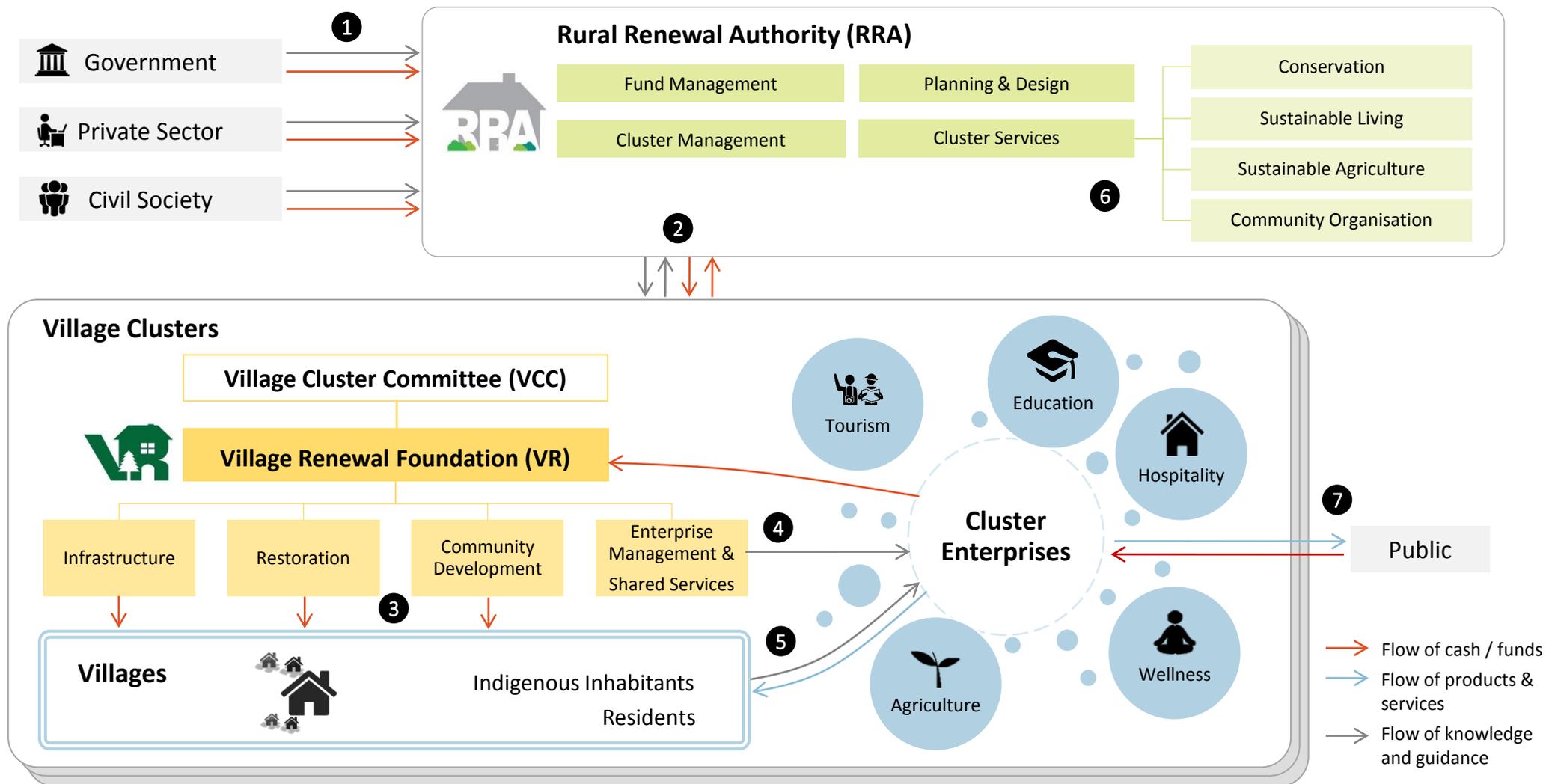
Values*

- **Inclusivity:** Actively engaging and inviting all key stakeholders to be a part of revitalisation efforts with the goal of making enclaves living villages again.
- **Respect:** Ensuring respect for the history and cultural heritage of all villages as well as the natural systems that surround them.
- **Sustainability:** Integrating sustainability in every sense of the word, including the environmental, financial and social dimension making enclaves models to be emulated elsewhere in Hong Kong and Greater China.

*Proposed for Lai Chi Wo cluster – VR values may differ from cluster to cluster

VRs play an integral role in transforming enclaves into living villages

Institutional Framework and Village Renewal Model



- 1 The RRA board consists of representatives from the government, private sector and civil society. Funding will come from the government, private sector and charitable foundations.
- 2 RRA manages village clusters by coordinating with cluster level VCC and VR.

- 3 VR channels resources into villages for conservation, restoration and infrastructure.
- 4 VR manages cluster enterprises and provides them with shared services such as accounting and online service platform.
- 5 Indigenous Inhabitants and residents can become operators of cluster enterprises, as can individuals/businesses from outside.

- 6 The RRA provides supporting services to VR/VCC and shares best practice across different clusters.
- 7 Cluster enterprises provide services to the local community and visitors generating income in the process.

A Multi-Stakeholder Platform

- Rural revitalisation involves a wide and diverse range of public, private and civil sector stakeholders
- **RRA** provides a virtual platform where these stakeholders can convene, communicate and collaborate
- Ultimately it will be RRA's responsibility to ensure the interests of all stakeholders are considered during the revitalisation process
- Below are some of the key stakeholders identified during the Young Leaders Programme – this is by no means an exhaustive list

Government

- **Legislative Council**
- **Executive Council**
 - Creation of a new statutory body (RRA) to coordinate and streamline rural revitalisation
- **Home Affairs Bureau**
- **Environment Bureau**
- **Development Bureau**
- **Education Bureau**
- **Agriculture, Fisheries and Conservation Dept.**
- **Tourism Board**
- **District Councils**
 - Policies, advice and support on
 - Planning and design
 - Infrastructure development
 - Ecological conservation
 - Architectural conservation

Community

- **Heung Yee Kuk**
- **District Rural Committee**
- **Indigenous Inhabitants**
- **Residents**
 - Creating living villages and vibrant communities
 - Preserving cultural heritage
 - Conserving natural resources

Advisory Groups

- **Policy for Sustainability Lab HKU**
- **HK Institute of Engineers**
- **HK Institute of Surveyors**
- **HK Institute of Architectural Conservationists**
 - Supporting rural revitalisation and conservation

Foundations and Funds

- **HK Countryside Foundation**
 - **Agricultural Development Fund**
 - **Sustainable Development Fund**
- Supporting
- Conservation and restoration
 - Sustainable agriculture
 - Infrastructure development

NGOs

- Supporting and promoting:
- Community development
 - Education
 - Environmental conservation
 - Sustainable agriculture
 - Sustainable living
 - Social enterprise development

Enterprise Operators

Running cluster enterprises which provide goods, services and employment opportunities thereby contributing to reviving local economies and attracting indigenous inhabitants, settlers and visitors

Public

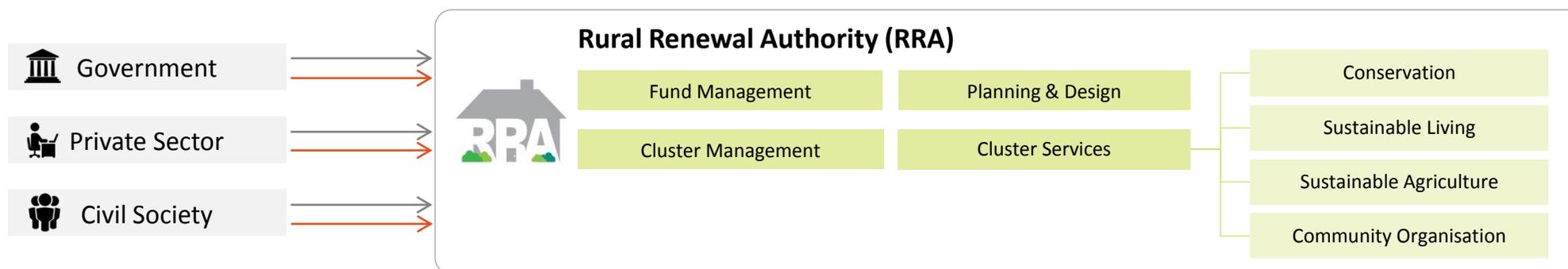
Participate in revitalisation efforts by visiting clusters, enjoying activities such as:

- Eco-education
- Farming
- Wellness retreats
- Eco-tourism

A collaborative multi-stakeholder platform driven by RRA

Key Functions: Rural Renewal Authority

Territory Level



Key functions of RRA

Fund Management

Acts as a central body to raise, manage and allocate funds for rural revitalisation across Hong Kong. Funding sources include the government, private sector, charitable foundations, individuals and revenue-generating activities at cluster level.

Planning & Design

Serves as a single channel to coordinate with different government departments and engage with local communities and domain experts on planning and design issues.

Cluster Management

Serves as a central authority to evaluate proposals from each cluster, provide oversight and advice on revitalisation efforts, share best practices across clusters and so on.

Cluster Services

Conduct research and provides supporting services to VRs, cluster enterprises and communities in areas such as:

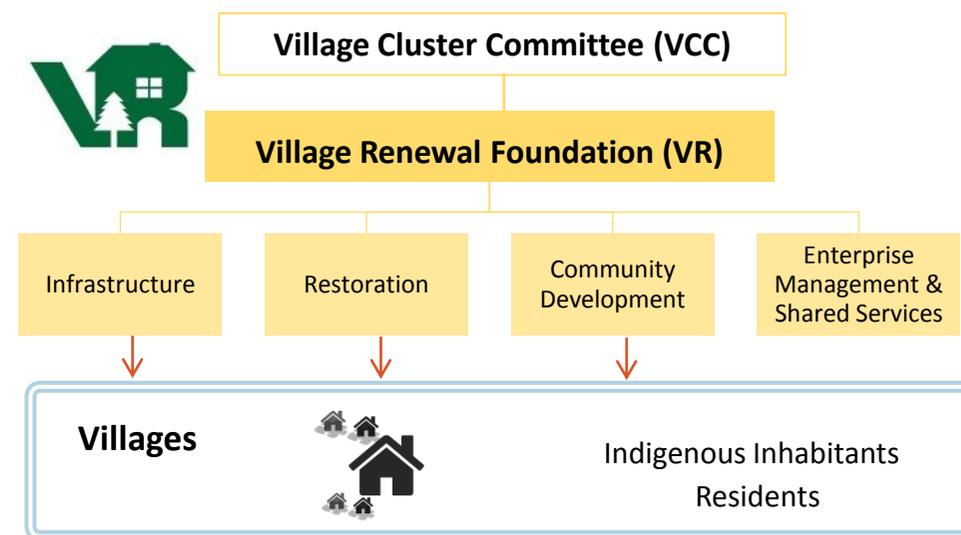
- **Conservation** – Ecological, cultural and architectural;
- **Sustainable Living** – promoting renewable energy solutions, waste and water management, health & wellness practices;
- **Sustainable Agriculture** – Circular natural farming, livestock fermentation-bed technology, permaculture, and other sustainable agriculture practices;
- **Community Organisation** – communications and activities with indigenous inhabitants, settlers, etc.

Key Functions: Village Renewal Foundation (VR)

Village Cluster Level

A new entity called **Village Renewal (VR)** will be established at each cluster to act as a conduit for **RRA** funding and to manage the local operations of rural renewal.

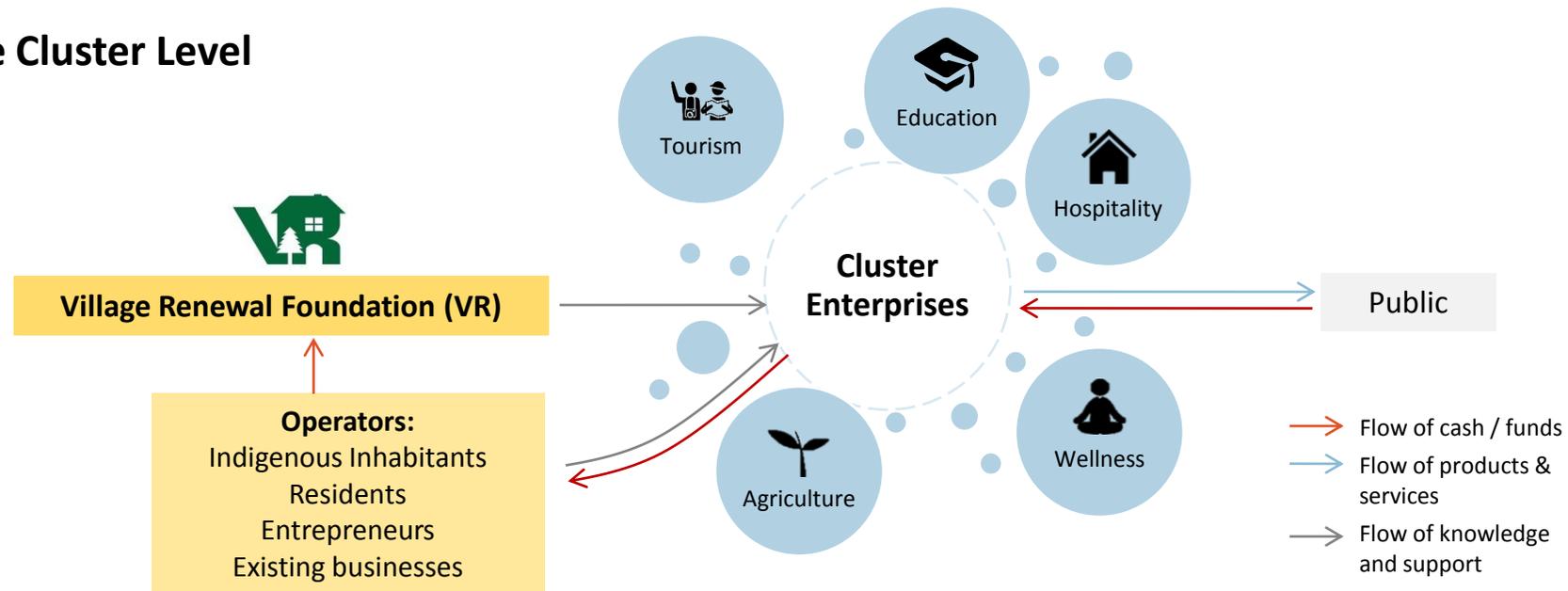
- The **VR** will be overseen by a board – the **Village Cluster Committee (VCC)** – formed by local stakeholders, including the district rural committee, and representatives from indigenous inhabitants, landowners and local residents.
- It is recognised that **VR** can either be a Company Limited by Shares (for-profit company) or Company Limited by Guarantee (not-for-profit foundation).
- It is recommended that **VRs** be companies limited by guarantee which allows it to accept donations and offers tax exempt status but does not preclude it from engaging in revenue-generating activities. **Each Cluster VCC will ultimately be able to decide which legal form their respective VR entities should take.**
- **VRs** receive funding from **RRA** and channel resources into land rehabilitation and building restoration (by signing long-term leases with land/property owners), enterprise development, conservation, community development and infrastructure.



- **VR** will also act as a local liaison for government depts., the private sector and NGOs engaged in cluster level revitalisation and infrastructure improvements.
- **VR** will be a lean operation with a small team to manage the deployment of funds and the relationship with indigenous inhabitants, settlers and enterprise operators (see next page). VR will also offer shared services (accounting, IT, marketing, etc) for cluster enterprises.

Key Functions: Cluster Enterprises

Village Cluster Level



- Each **VR** will fund and oversee the development of a handful of “business units” – **cluster enterprises** – to contribute to the long-term financially sustainability of rural revitalisation.
- These social enterprises will provide employment for residents and goods & services for visitors based on the environment and resources available in each cluster.
- For the purpose of this report and the Lai Chi Wo cluster pilot these enterprises have been categorised under Agriculture, Education, Tourism, Wellness and Hospitality. These categories may change at other clusters.
- **Cluster enterprises** will be operated by carefully selected third-party operators on a contract basis. They will have a degree of autonomy but must adhere to the terms of the contract with regard to key financial, social and environmental indicators.
- In lieu of start-up costs which will be covered by **RRA** funding via **VR** grants, operators will pay a monthly fee to **VR** for shared services as well as a 50% share of profits generated by the enterprise. **VR** will use these revenues to cover its own administrative expenses and repay **RRA** a portion of its funding.

Cluster Operator Selection and Role

Operators of cluster enterprises would have to meet strict criteria before being considered, namely:

- Competency in providing relevant services
- Financial management capabilities
- Entrepreneurial or business management experience
- Commitment to creating social value
- Reputation and relationships in the community

Potential candidates may include entrepreneurs or existing businesses with a strong reputation or NGOs with prior experience running similar operations. Indigenous inhabitants and local residents will be given preference in the selection process.

Upon being awarded a contract and providing they adhere to the guidelines set-out therein, operators will be offered a high degree of autonomy in running the businesses.



Operators are selected through a tendering process with strict criteria

The Village Renewal Model as a Catalyst for Change



Economic activity in a cluster is not limited to VR cluster enterprises!

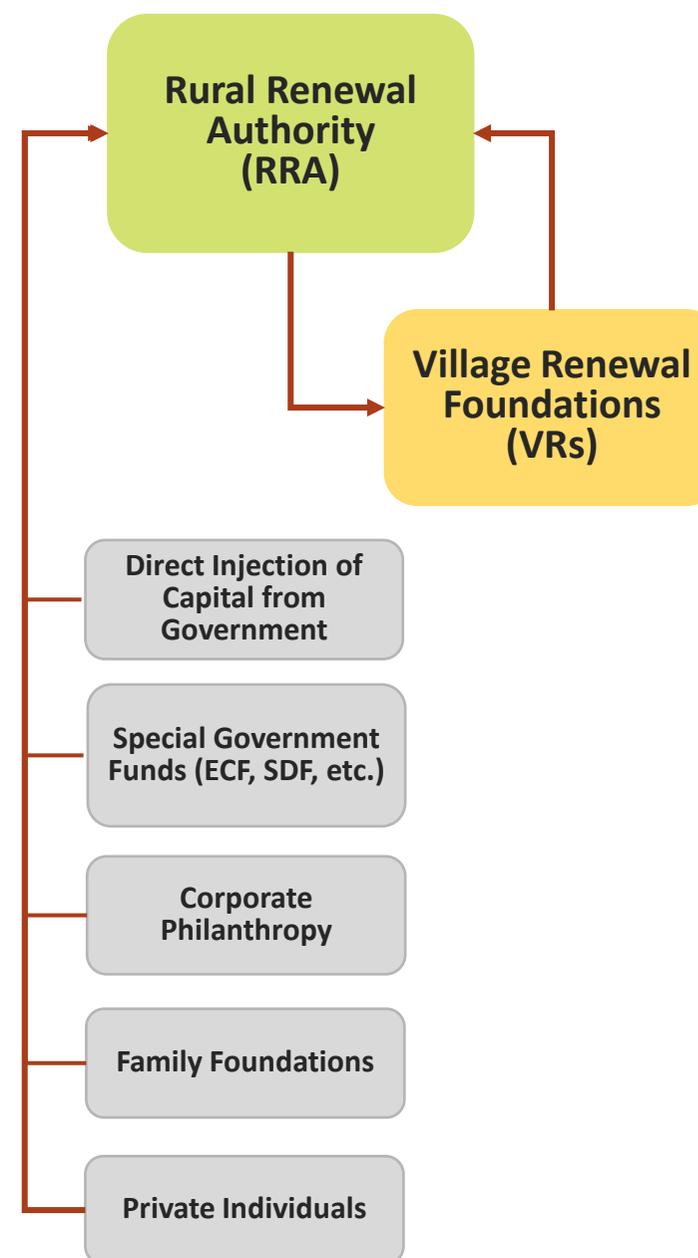
It is hoped that as the economy of a cluster is being revived other indigenous inhabitants and settlers would start their own businesses as well, contributing to diverse and sustainable local economies at the cluster level.

Financial Management: RRA Funding

Like other quasi-governmental agencies, it is proposed that **RRA** receive direct and indirect financial support from the Hong Kong Government through capital injections, land subsidies and so on.

It is also proposed that RRA seek additional funding from other sources included but not limited to:

- Special Government Funds relevant to rural revitalisation such as the Environment & Conservation Fund (ECF), the Sustainable Development Fund (SDF), the Sustainable Agricultural Development Fund (SADF), etc.
- Corporate philanthropy from iconic Hong Kong companies whose philanthropic efforts are aligned with the values of rural revitalisation or who simply wish to support meaningful initiatives to create a better Hong Kong.
- Family Foundations and private individuals with a track record of investing in conservation and heritage, particularly those whose patrons can trace their own roots back to villages or country park enclaves in Hong Kong.
- Cluster **VRs** will also channel a portion of their financial surplus back to **RRA** so that it can recoup at least some of the capital outlay to **VRs**.

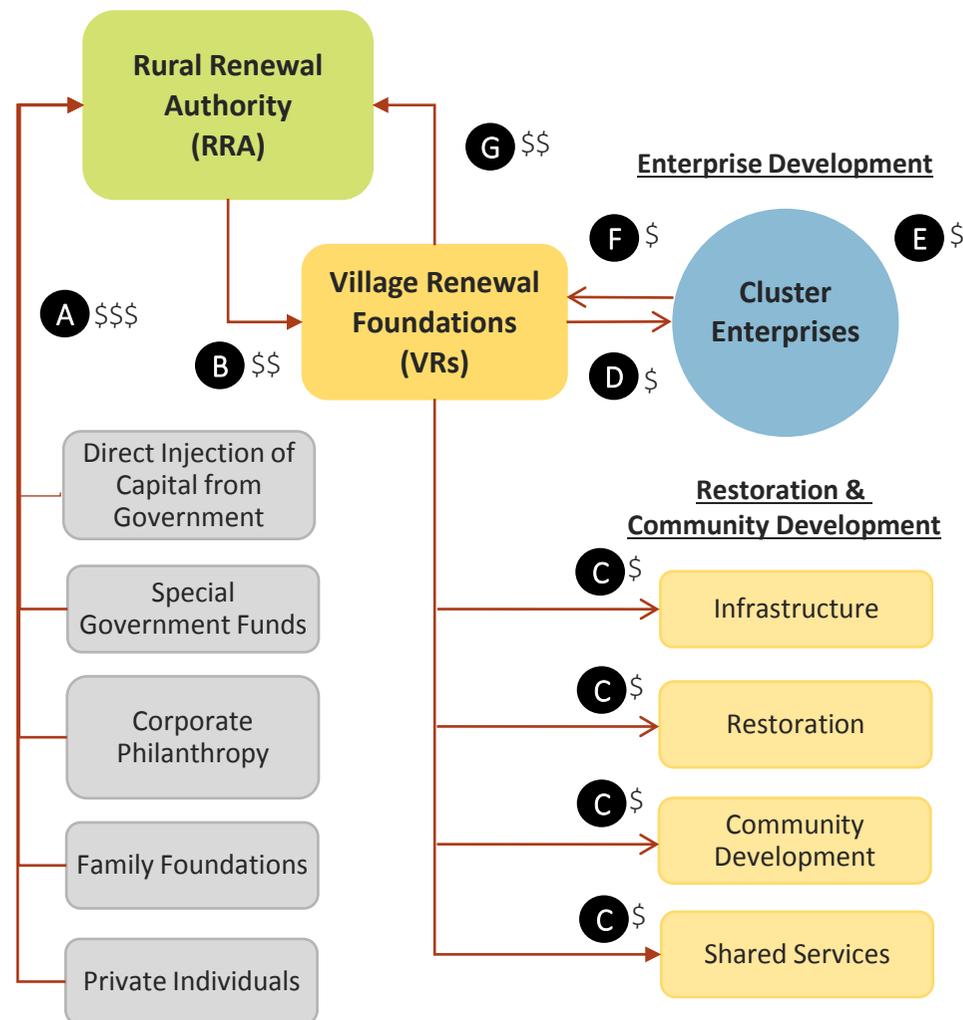


Financial Management: Flow of Funds through the System

Financial management is central to the **RRA** to support revitalisation efforts. The fund flow is envisaged as follow:

- A** **RRA** raises funds from the government, charitable foundations, private companies and individuals.
- B** **RRA** channels funds into respective **VRs** based on their proposals for cluster revitalisation. **VCC** provides oversight.
- C** The **VRs** utilize funding for capital expenditure in infrastructure, restoration, community development, shared services and minimal daily operational expenses at the cluster level.
- D** The **VRs** invest in set-up cost of cluster enterprises to lower the bar for aspiring entrepreneurs to run a rural enterprise.
- E** Cluster enterprises are expected to be self-sustaining. Cluster enterprises generate operating income by providing services in tourism, agriculture, eco-education, wellness, hospitality, etc. to the local communities and visitors.
- F** Management fee and surplus sharing from cluster enterprises operators will serve as recurrent income to the **VRs**.
- G** **VRs** channels channel a certain percentage of its operating income back to its main benefactor the **RRA**.

Fund Flow



Raising Public Awareness

- Raising awareness about the need for and benefits of rural revitalisation is a crucial for gaining widespread support.
- These activities should be carried out with the explicit aim of gaining support in the form of funding, manpower, advisory services, capacity building at the cluster level and so on.
- In terms of policy support, using awareness raising campaigns with the aim of reaching public consensus that rural revitalisation is a good thing for Hong Kong will make it easier to get buy-in from policy makers and senior civil servants.
- **A strategic partnership with a top-class PR firm** will be very useful in this regard. It is likely that given the mission and vision of **RRA** these services could be obtained on a discounted or even pro-bono basis.
- **Collaboration with the HKSAR Education Bureau** will also be key to ensuring that rural revitalisation receives the attention it deserves in schools and universities bearing in mind that regular school field trips can be a very good revenue generator for cluster enterprises – an educational “road show” may be considered to highlight the **RRA/VR** model and developments of the Lai Chi Wo cluster to children and youth around the territory.



Public and private sector partnerships are critical to generating a “buzz” around town

Critical factors for village revitalisation (1/3)

- The following eight factors are deemed critical for successful revitalisation.
- For each factor a clear set of guidelines should be developed but must remain flexible given the variety of different settings and situations across the 77 enclaves.



Critical factors for village revitalisation (2/3)

Land titles

- Consent (and ideally participation) of land owners is required for successful revitalisation.
- Land may be owned by indigenous villagers, other persons, companies, developers or the government – **in all cases revitalisation is possible.**
- Revitalisation efforts will be difficult if development is underway, if owners cannot be contacted, or if the government has existing plans for public projects.

Development potential

- If a village, cluster of villages or the land surrounding them have very high development potential the feasibility of revitalisation may be reduced considerably.
- In all cases due diligence will have to be conducted including interviews with developers and relevant government departments to ascertain a sites development potential.

Support from villagers and key stakeholders

- Without support from indigenous villagers and/or key stakeholders revitalisation is simply not possible.
- Key stakeholders may include, but not be limited to: indigenous villagers; land owners; Village Representatives; Rural Committee; Heung Yee Kuk; Government Departments; Civil Society Organisations; Academia and others.

Accessibility

- Striking a balance between remoteness and accessibility is a key criteria for revitalisation.
- On the one hand members of the public, future residents and enterprise operators must all be able to travel to/from the village with relative ease.
- On the other hand the more accessible a village is the higher chance it would be slated for development.
- If a village is particularly remote but has great potential efforts may be made to increase accessibility (e.g. through a new ferry service).

Critical factors for village revitalisation (2/3)

Infrastructure

- As with accessibility, whilst there must be adequate infrastructure in place the lack thereof should not preclude revitalisation.
- An assessment of existing infrastructure should be made and additional requirements factored into revitalisation efforts.
- There is no reason why critical infrastructure such as electricity, drainage, etc cannot be put in place by RRA and VR with support from public and private sector partners (CLP, DSD, etc.).

Cultural heritage

- Cultural and historical heritage can be leveraged to gain early-stage support for revitalisation efforts, to attract residents to inhabit villages and also to entice visitors.
- The heritage of a village (or cluster) should guide revitalisation efforts to ensure that the history and culture are respected throughout the process.
- Differentiating a village based on its heritage can also guide restoration and the “theme” of activities that residents and visitors take part in.

Ecological value

- The ecological value of a village (or cluster) must always be carefully considered when approaching revitalisation.
- Any restoration of land/buildings or development of infrastructure must be carried out with the utmost respect for nature whilst also creating “living villages” which can be enjoyed by both residents and visitors alike.
- Rare species of animals, plants, fish and insects must be protected and can also be used as “place-making” elements of revitalisation.

Architectural value

- Wherever possible existing structures should always be utilised rather than constructing new buildings.
- Any structures with unique historical or architectural value should be assessed for potential restoration as these can add to the overall atmosphere of the village as well as be an attraction for visitors.
- If long-term leases can be secured for existing buildings they may be renovated (with permission from owners) and used for accommodation, visitor centres, food & beverage facilities, etc.



Governance and Organisational Structure

Why Good Corporate Governance Matters

What is corporate governance?

- Corporate governance is driven by principles such as conducting business with integrity, fairness and transparency and making all the necessary disclosures so as to protect the interest of all stakeholders.
- Organisations, both public and private, should comply with all the laws of the land, be accountable and responsible towards stakeholders, and commit to conducting business in an ethical manner. They should focus on balancing shareholder interests with those of other key stakeholder groups, including customers, communities and supporters.
- Governance mechanisms include the monitoring of the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders.

Why do we need corporate governance?

- Corporate governance is essential to increase the accountability and the transparency of the **RRA**, **VCCs** and **VRs** thereby protecting the interests of the funders (including the taxpayer!) and ensuring the objectives of the **RRA** and **VRs** are met through well-established legal norms.
- Good governance will positively influence the reputation of the **RRA** and can mitigate the risks associated with managing funds and multiple **VRs** at the cluster levels.

Given the funding implications and diverse stakeholder interests good governance is crucial

Overview of Governance in RRA

Good corporate governance is essential to the credibility, success and sustainability of the **RRA**. The proposed **RRA** is governed by the **RRA Ordinance** (to be enacted).

Terms of Reference

- To advise the Government on any issues relating to rural renewal
- To promote and increase public awareness of rural renewal
- To formulate, implement and review rural renewal strategies and policies
- To evaluate proposals and approve funding of **VRs**
To monitor and evaluate the functioning of any entities formed in revitalised villages
- To enable and encourage the rehabilitation of dilapidated buildings and unproductive farmland to prevent rural decay
- To preserve by maintaining and restoring buildings of historical and architectural value, and to sustain local characteristics
- To revitalise through enhancing and strengthening the infrastructure, socio-economic fabric and environmental resilience of rural areas and
- To promote and adopt an innovative and sustainable approach to creating living villages in harmony with surrounding natural systems

Essential governance features

- Appropriate disclosure and transparency are fundamental to assure our key stakeholders of **RRA's** ethical standards
- Diversity and expertise of multiple disciplines in Board and management team
- Mechanisms and systems to ensure, maintain and improve management efficiency and accountability of **RRA** and **VRs**
- Regular reporting and disclosure to facilitate good understanding of the key functions of the RRA, and VRs amongst key stakeholders, funders, donors and the general public

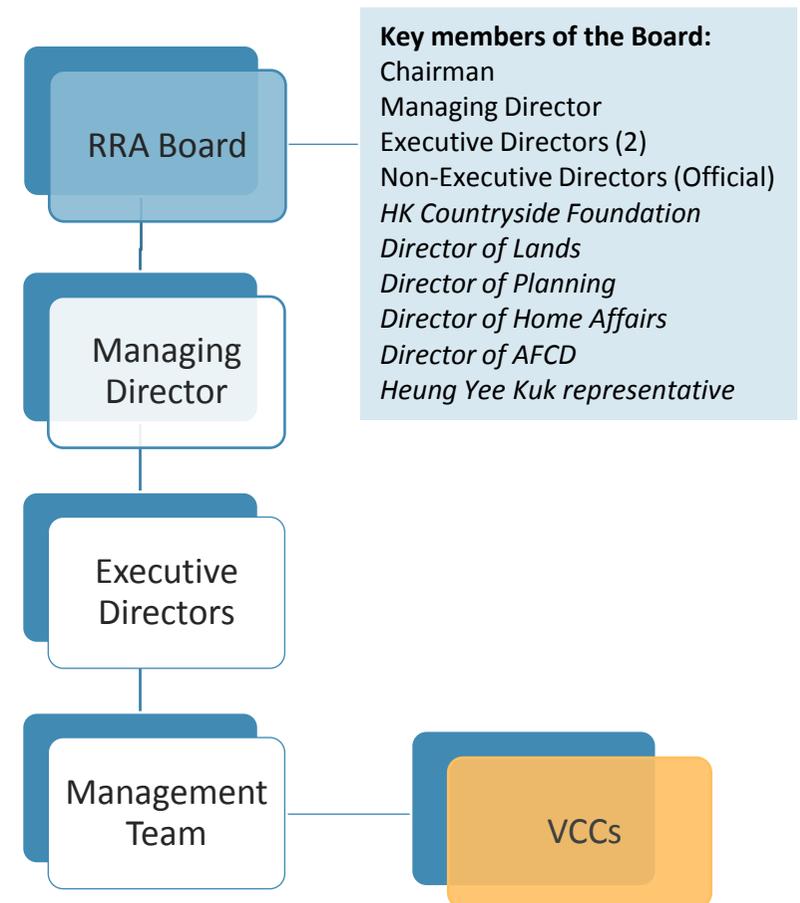
RRA Organisation and Governance—Key Roles

The **RRA** is governed by **RRA Board**. Members of the board are appointed by the HK SAR Chief Executive, and consist of representatives from the government, private sector and civil society. **The Board** is responsible for overall strategic direction and monitoring to ensure the stewardship of financial resources in achieving **RRA's** objectives.

The Managing Director of RRA is responsible to the Board in providing leadership in the daily operation of the business and executes the Board's decisions in order to achieve the **RRA's** objectives and ensure strong management and robust performance. The Managing Director also acts as a bridge between the Board and **RRA** management team.

The Executive Directors are responsible for directing the **RRA's** activity, ensuring it is well run and delivers expected outcomes. They oversee divisions such as Fund Management, Planning & Design, Cluster Management and Cluster Services.

Village Cluster Committee acts as an independent monitoring and advisory body to cluster level **VRs**. It will be set up by representatives from the local villages within the cluster. **RRA** channels resources to **VRs** and leverages the **VCC** to provide oversight.



Overview of Governance in VRs

Good corporate governance is essential to the credibility, success and sustainability of the **Village Renewal Foundations (VRs)**.

Terms of Reference

- To receive funding from RRA and manage the operations of village renewal at cluster level
- To engage a broad range of stakeholders including indigenous inhabitants and current landowners in all renewal efforts
- To channel resources into conservation, restoration and infrastructure at the villages within the cluster
- To sign long-term lease agreements for farmland and buildings in the cluster
- To establish and fund set-up costs of cluster enterprises as “business units” to generate revenues and income
- To carefully select operators to run cluster enterprises, to monitor these operators and to provide shared service support for enterprises
- To utilise income generated through operator fees and profit sharing from enterprises for local revitalisation and community development efforts and to channel a portion of this income back to RRA

Essential governance features

- A board made up of key local stakeholders as well as an RRA representative
- Regular reporting back to RRA to show how funds have been allocated and the progress of revitalisation efforts
- Management systems and decision-making processes to ensure accountability to all internal and external stakeholders
- A rigorous vetting procedure and tender process to identify suitable operators for cluster enterprises
- Financial controls to ensure collection of fees and share of profits from cluster enterprises are timely and accurate

VR Organisation and Governance—Key Roles

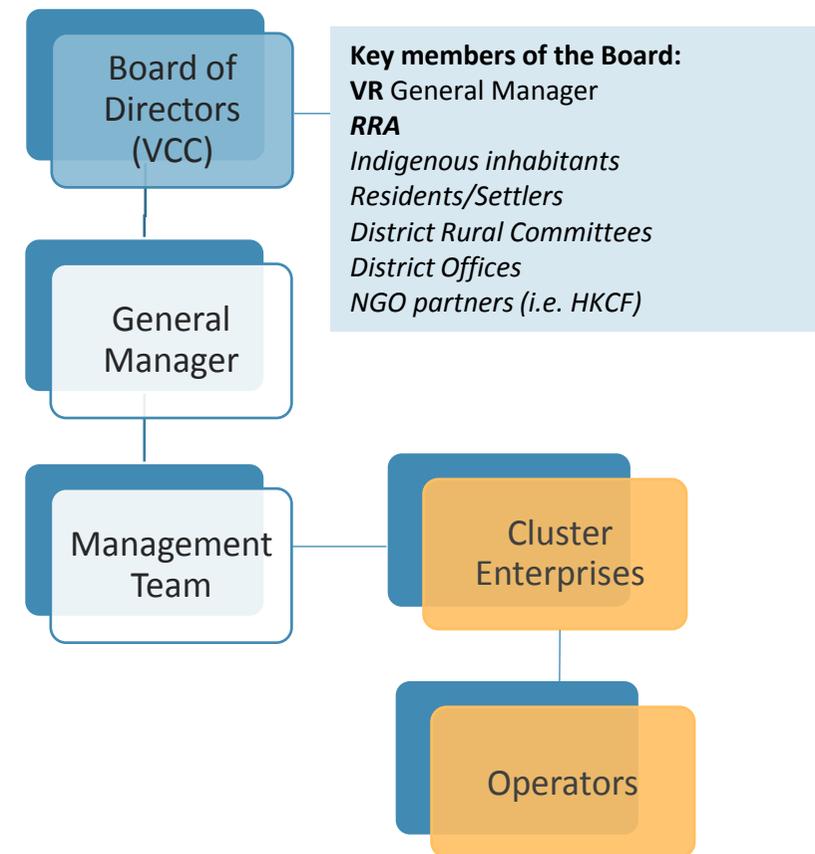
The **VR** is governed by its Board of Directors, a.k.a the **VCC**. Members of the board include local stakeholder who are involved in revitalisation efforts in the cluster.

The Board is responsible for overall strategic direction and monitoring to ensure the stewardship of financial resources in achieving **VR**'s objectives.

The **General Manager** of **VR** should ideally be someone with a strong connection to the cluster such as an indigenous inhabitant or a former employee of an organisation engaged in revitalisation efforts. Of utmost importance is their ability to manage relationships with key public, private and civil sector stakeholders.

The **VR Management Team** is comprised of 2-3 individuals at least one of whom has expertise in office management and accounting in order to provide shared services support to cluster enterprises ideally they should also have deep personal connections to the cluster.

The Cluster Enterprises are “business units” of VR operated by third partners on a contract-basis.



Service Quality Management of Cluster Enterprises

Three governance levels ensure the cluster enterprises provide quality service:

Performance monitoring and reporting mechanism

- Cluster enterprises are obliged to follow the Code of Conduct and protocols and manuals provided by the **VRs** in managing cluster enterprises.
- Cluster enterprises are obliged to submit Monthly Progress Report including Key Performance Indicators.
- Cluster enterprises are obliged to use the Point of Sales System (POS) which is centrally overseen by the **VRs** for monitoring the revenue collection of the Cluster enterprises as a part of financial controls.
- Independent audits, spot-checks and mystery shoppers would be conducted by **RRA** and the **VRs**.

Village Cluster Committee

- The **VCC** will identify areas for improvement by seeking regular feedback and advice from the local community as well as external experts.
- Suggestions will be directed to the Operators via **VR** and major issues raised with the **VR GM**.

Public feedback

- Channels for feedback collection from visitors and local residents includes online platforms (i.e. trip advisor), focus group sharing, evaluation forms, survey, questionnaires and interviews.
- Complaints handling procedure includes coordination with operators and if necessary investigation by the **VRs**.

Transparency and Disclosure

- With funding and support from financial supporters, mechanisms need to be in place to deliver information on where their money is directed, what revitalisation efforts are being undertaken, how the **RRA** and **VRs** are managed and what social impact is created.

Monitoring by Board

- Regular board meetings to evaluate performance of **RRA** and **VRs**
- Oversight of **VRs**
- Authority to hire, fire and compensate top management

Internal controls

- Regular reporting from committees to Board and Management
- Internal audits to test design & implementation of governance and control mechanisms
- Spot checks on **VRs** and operators to ensure reliability of financial reporting

Public disclosure

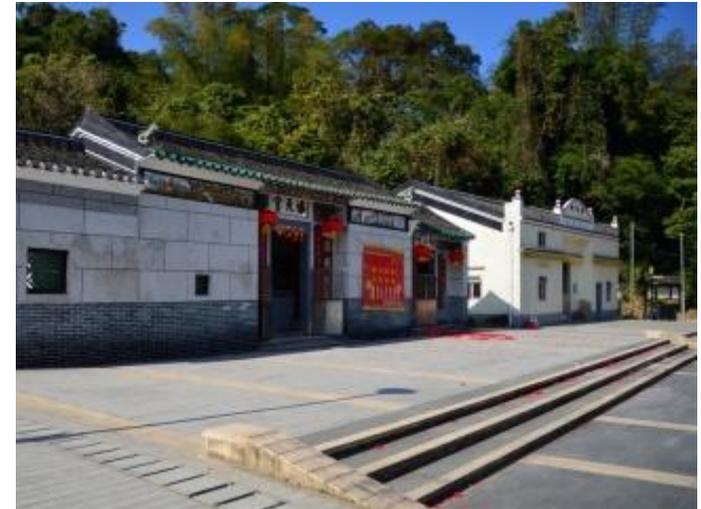
- Terms of Reference of Board and Committees
- Declarations of interest
- Audited financial reports included in Annual Report
- **RRA** AGM held and financial supporters, **VRs**, operators and community members invited to attend



Pilot Renewal Project: Lai Chi Wo Cluster

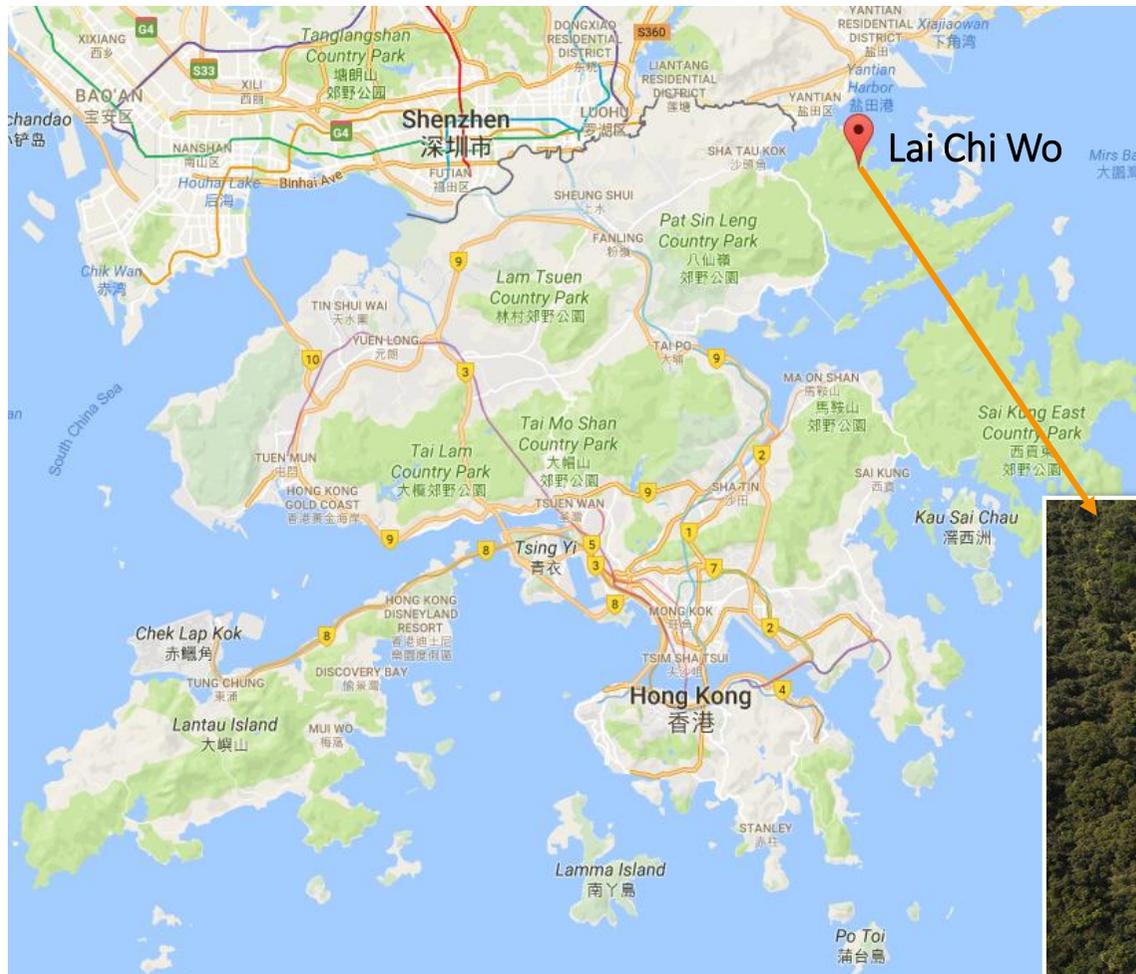
Rationale for Pilot Cluster

- In order to demonstrate proof of concept the feasibility of a cluster-based approach must be assessed. Lai Chi Wo and its four neighboring villages will be selected as a **pilot cluster**, leveraging the successful groundwork of the existing “Sustainable Lai Chi Wo” Project and its international recognition.
- Given the success and credibility of the Sustainable Lai Chi Wo Project to date it should be easier to mobilise support for a pilot cluster-based approach. It is also has good potential to be the inaugural and flagship project for the **RRA**.
- The main challenge facing the long-term sustainability of the project is its reliance on donor-funding. Up to now the Hong Kong Bank Foundation has underwritten the initiative but to be sustainable it is vital to explore other avenues for financial support.
- As described in the Institutional Framework section, once **RRA** has been established with funding secured via government support, it can provide initial funding to kick-start the renewal model. Cluster enterprises established by **VR** will, in aggregate, be self-sustaining in the long-run.
- This approach would generate a number of revenue streams for **VR** (and enterprise operators) which will contribute to transforming the cluster into five Living Villages and eliminate the need for recurrent donations over time.
- Pilot Cluster financial projections are also included in the following section.

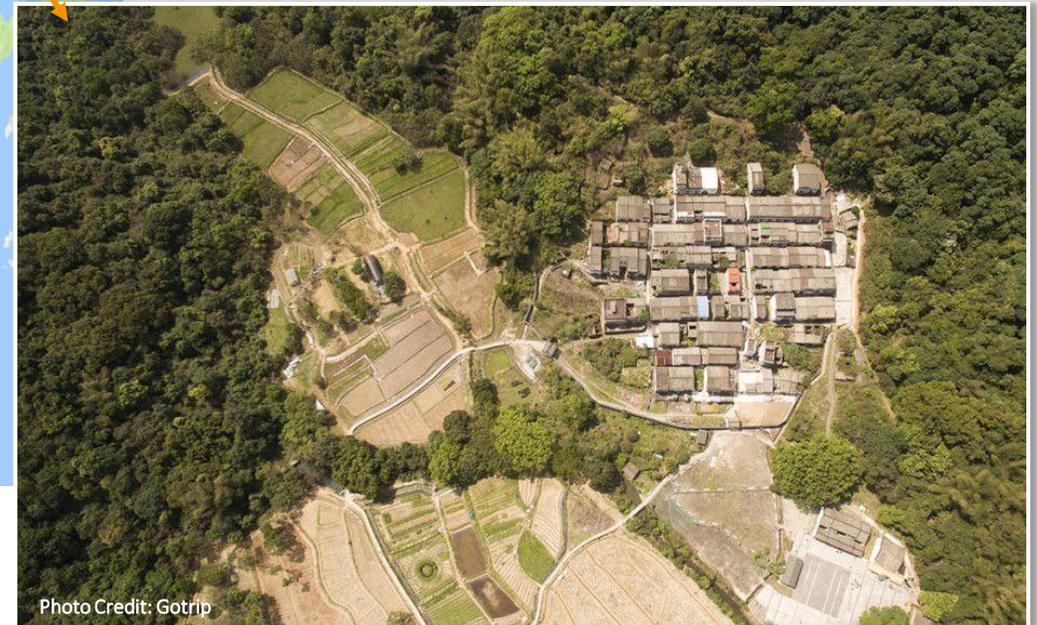


A pilot study helps bring the revitalisation model to life

Site Location: Lai Chi Wo Country Park Enclave

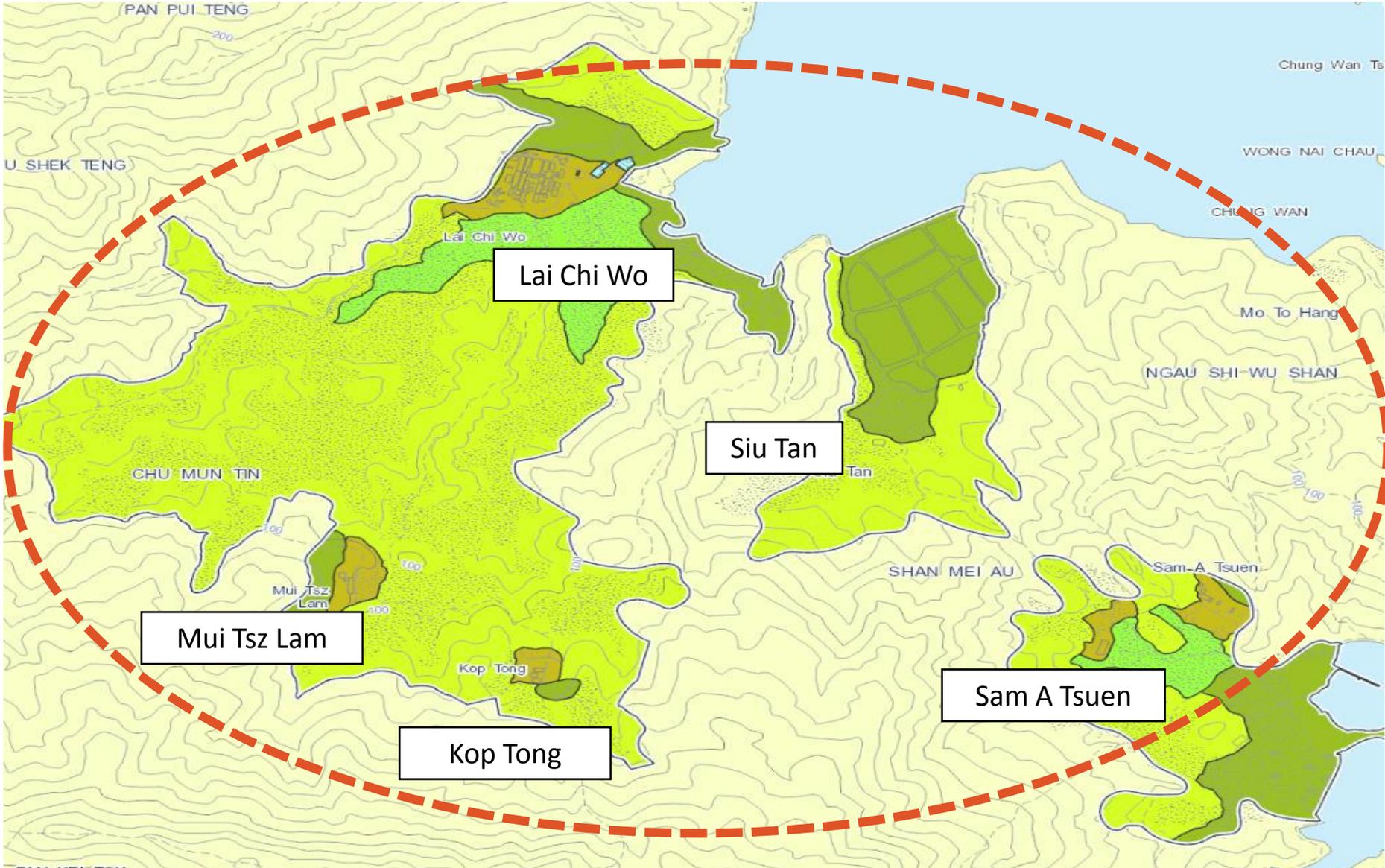


- Lai Chi Wo is located within the Plover Cove Country Park near the Yan Chau Tong Marine Park in the northeastern New Territories of Hong Kong in Sha Tau Kok District, near the border with mainland China.
- The mostly deserted traditional Hakka Village boasts a number of natural and man made attractions.
- Lai Chi Wo is currently only accessible by private boat (one public ferry runs every Sunday) or a 2.5 hour hike.



Lai Chi Wo – a perfect example of Hong Kong's rural heritage

Lai Chi Wo Pilot Cluster Formation



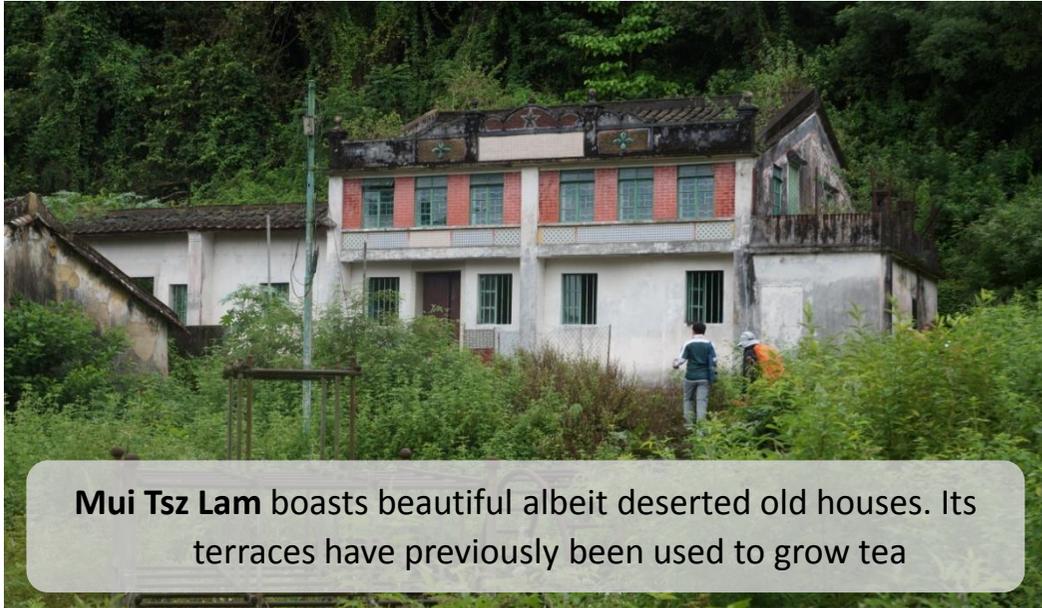
Lai Chi Wo's four neighbouring villages are all within one hour's walk

Characteristics of Cluster: Lai Chi Wo

- One of Hong Kong's oldest Hakka villages with a history dating back over 300 years.
- Once a relatively affluent hamlet and home to 1,000 people, Lai Chi Wo was the centre of a seven village alliance housing the local school and a large square for events.
- A distinctive “Walled Village” – the wall surrounding Lai Chi Wo was erected to ward off evil spirits and bad luck (and pirates!).
- Boasts one of the oldest surviving “Fung Shui” woodlands in Hong Kong as well as mangrove and fallow agricultural land, approx 5-6 hectares of which has been rehabilitated by the **Sustainable Lai Chi Wo** project.
- Lai Chi Wo has a geo-heritage centre displaying the geological resources and illustrations of old Hakka villages in Hong Kong.
- Has around 200 old houses, three Ancestral Halls (one for the *Tsangs* and two for the *Wongs*) and two Temples.
- A nature trail links up Lai Chi Wo with the coastal areas.
- Lai Chi Wo is often visited as part of tours of Hong Kong UNESCO Global Geopark.



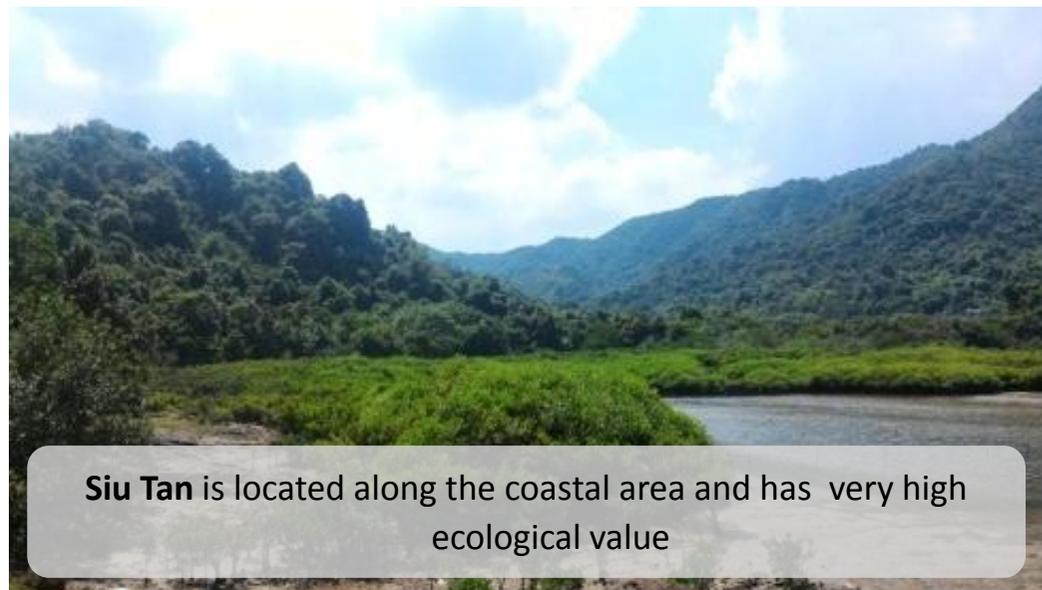
Characteristics of Cluster: Neighbouring Villages



Mui Tsz Lam boasts beautiful albeit deserted old houses. Its terraces have previously been used to grow tea



Kop Tong is very isolated with stunning views. Once well known for tangerine farming, the village is almost in ruins



Siu Tan is located along the coastal area and has very high ecological value



Sam A Tsuen is located on the seaside and has a seafood restaurant with a lot of potential

Cluster Opportunities and Constraints

Strengths:

- Strong foundations built by Sustainable Lai Chi Wo Project
- Lai Chi Wo already known by many people in Hong Kong
- Rich cultural heritage including a number of historical buildings/temples
- Many buildings still intact, others can be restored with care
- Ample land zoned for agriculture
- Remoteness – a true escape from ultra-urban Hong Kong
- Cluster is connected to GeoPark, Country Park, Marine Park and Nature trails

Weaknesses

- Only a handful of permanent/semi-permanent residents across the whole cluster
- Lack of amenities and infrastructure across the cluster including but not limited to sewerage, drainage, electricity, livable housing, etc.
- Remoteness – accessibility and transport of supplies
- Transportation – only one ferry service per week
- Current policies make it difficult to offer accommodation options to short/long-stay visitors

Opportunities

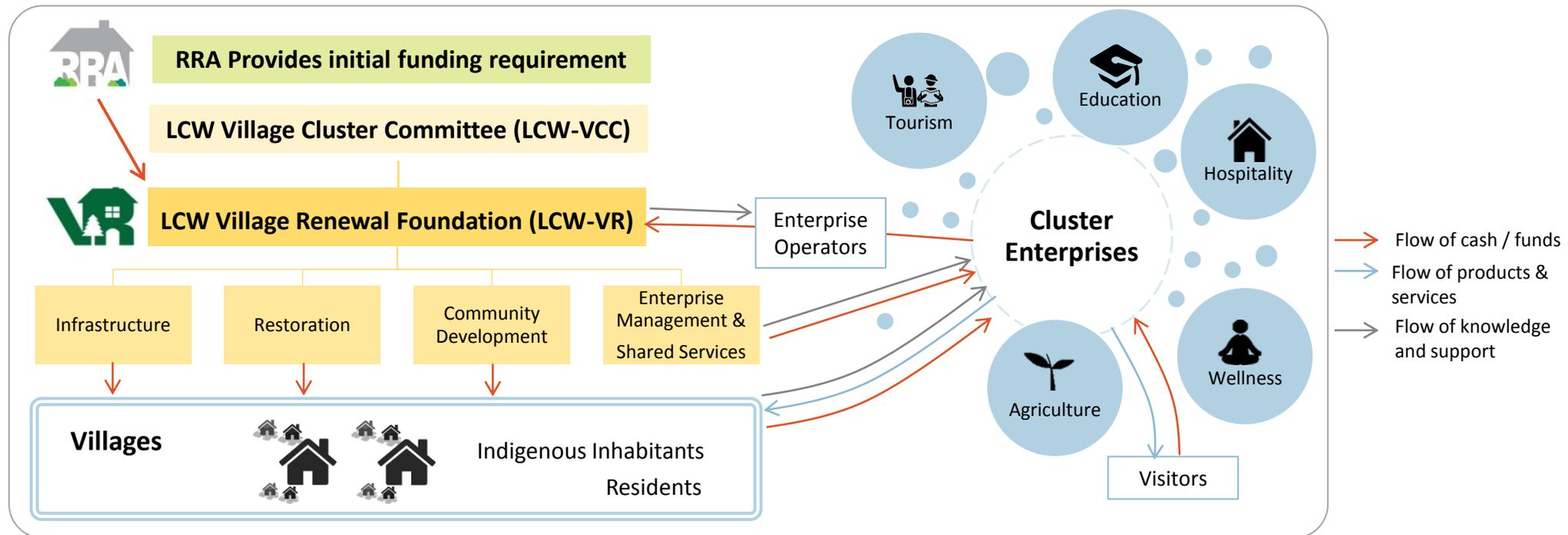
- Create a flagship cluster which all parties (esp indigenous inhabitants, land owners and government) can be proud of
- Sign long-term leases with owners and restore houses so they can be used as long/short-term accommodation
- Attract residents to live in the cluster and breathe life back into the villages (indigenous inhabitants on verge of retiring, new settlers, farmers, etc.)
- Collaboration with schools territory-wide to bring students for educational field trips on a more regular basis
- Apply waste and emission free natural farming techniques on rehabilitated land under long-term leases

Threats

- If revitalisation is very successful too many visitors may have a negative environmental/social impact
- Renewal dependant on gaining trust and consensus from indigenous inhabitants and landowners
- Development of small houses by indigenous inhabitants
- Green groups and activists lobbying against all forms of development in country park enclaves
- Incorporation of villages into Country Parks would halt all development

Cluster revitalisation will be a challenge but the Lai Chi Wo area has massive potential

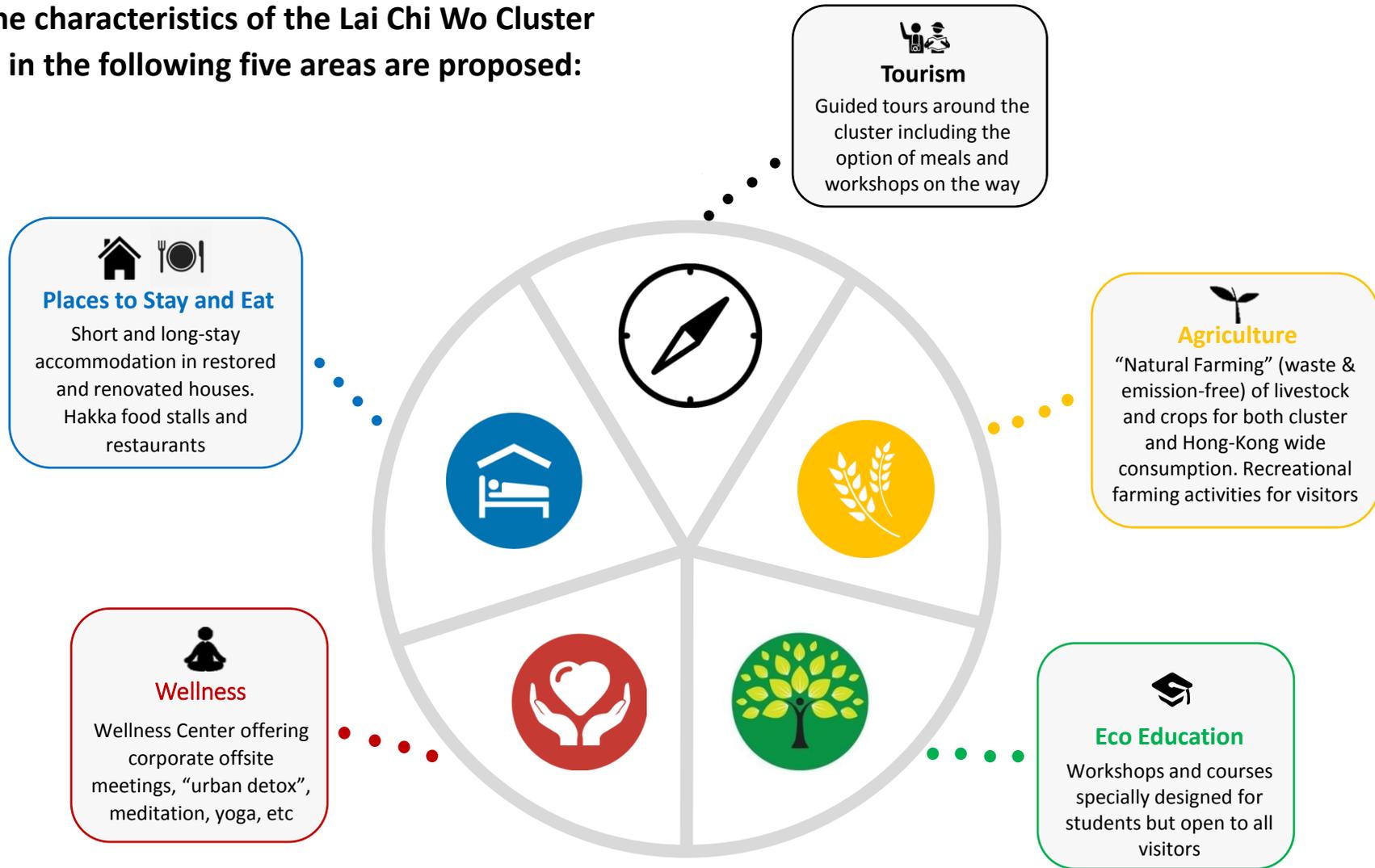
Lai Chi Wo Cluster Renewal Model



- Lai Chi Wo Village Renewal Foundation (**LCW-VR**) will be established to coordinate all **RRA**-funded revitalisation efforts. It will be overseen by the **LCW-VCC**, a board made up of indigenous inhabitants, RRA, partners, etc.
- In close collaboration with public, private and civil sector organisations, **LCW-VR** will undertake a variety of activities including but not limited to: the development of infrastructure and amenities; restoration of houses; rehabilitation of farmland; conservation of natural systems and community development initiatives.
- After conducting an 'enterprise feasibility study' a portion of funding from **RRA** will be used to cover cap-ex start-up costs for a range of cluster enterprises which will be akin to "business units" of **LCW-VR**.
- Operators will run the enterprises under a service agreement and share profits with **LCW-VR**. This income will be used to fund **LCW-VR**'s operational costs and any surplus utilised to offset some of the funding from **RRA** for non-commercial activities.

Cluster Enterprises

Based on the characteristics of the Lai Chi Wo Cluster enterprises in the following five areas are proposed:



Hong Kong Urbanites and Foreignn Visitors provide a large captive market

Activities for Visitors to Lai Chi Wo Cluster (1/2)

- Target visitors include students, tour groups, hikers, backpackers, city dwellers on rural retreats and corporate offsite participants .
- Below are activities proposed for Lai Chi Wo Cluster visitors at the village level, leveraging local resources available.
- Services will be provided by cluster enterprises and their selected operators.

	Tourism 	Agricultural 	Eco-Education 	Wellness 	Hospitality 
Lai Chi Wo	√	√	√	√	√
Mui Tsz Lam	√	√		√	√
Kop Tong	√	√		√	√
Siu Tan	√		√		
Sam A Tsuen	√				√

Village Sightseeing

Tours to introduce villages in Lai Chi Wo cluster (e.g. origins of the village, building structures, the significance of the Fengshui forest etc.)

Culinary Class

Hakka tea culture and dumpling making class.

Agribusiness

Set-up livestock (pig & poultry) and crop farms utilising waste and emission-free Korean “Natural Farming” techniques.

Recreational Farming

Short courses to introduce participants to the principles and techniques of Natural Farming, giving them an unforgettable rural living experience and appreciate the processes of food production.

Guided Walks

Workshops and guided eco-walks to introduce the ecology of the cluster and its surrounding area (designed specially for students).

Astronomy Centre

Stargazing dome to carry out stargazing activities.

Wellness Center

Offering the Following:

Corporate Off-sites

Yoga & Meditation

Yoga and meditation classes for beginners and regular practitioners.

Art Therapy

Art therapy programs allowing participants to take part in painting, photography, pottery and calligraphy.

Lodging

Bed and breakfast for families and backpackers in traditional houses.

Dining

Restaurants and food stalls serving traditional Hakka cuisine.

Camping

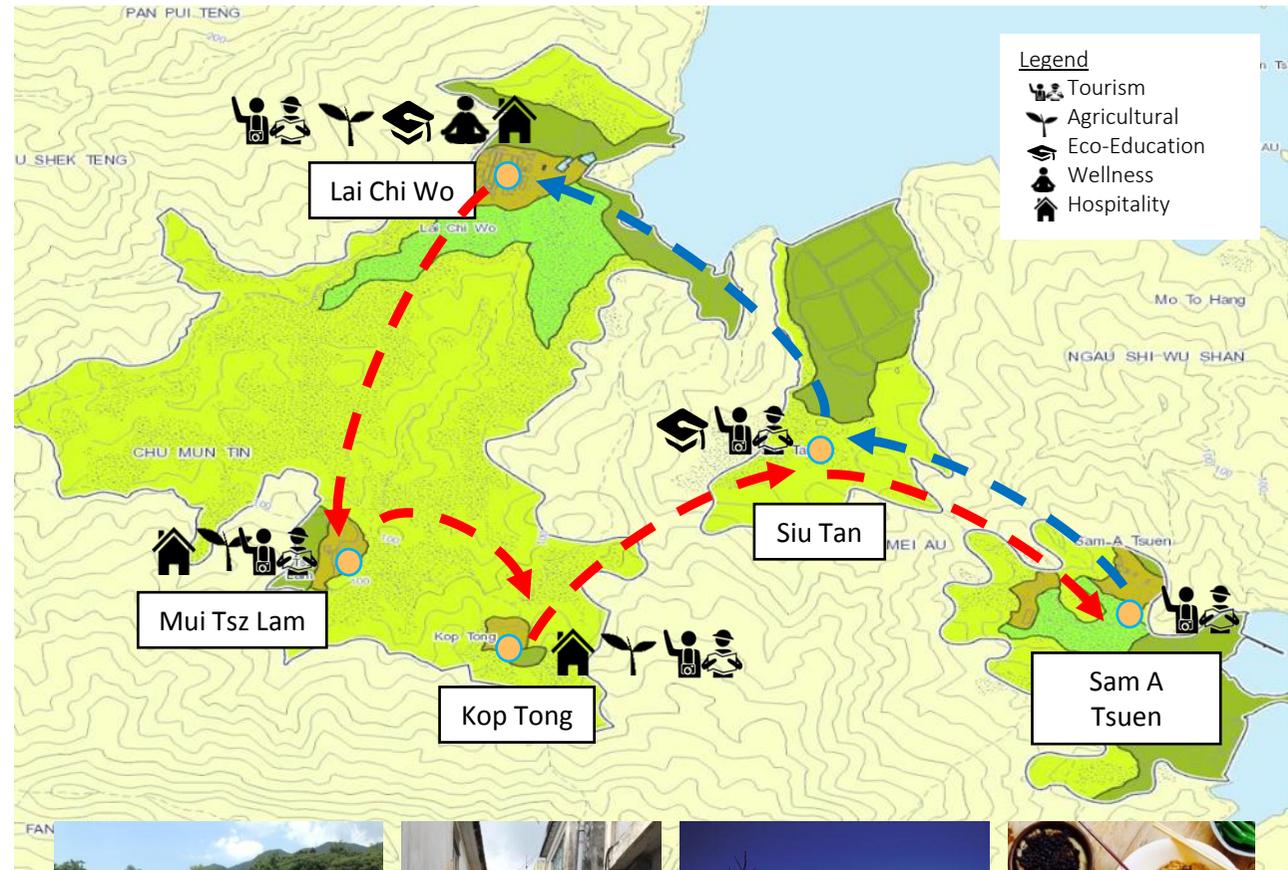
Camping sites for hikers who wish to sleep under the stars.

Activities for Visitors in Lai Chi Wo Cluster (2/2)

Example of a 3 Days 2 Nights “Urban Detox” Trip

Sample Itinerary

Day 1	→ 09:00 Depart from Ma Liu Shui Pier → 10:30 Arrival LCW → 10:45 Hakka Village Tour in LCW → 12:00 Hakka Lunch at LCW → 13:30 Farming Activity with Introduction → 16:30 Pottery Class → 19:00 Wild Camp Cooking → Camping @ LCW
Day 2	→ 06:00 Meditation Class @ LCW → 09:00 Hiking from LCW to MZL → 10:00 Hiking from MTL to KT → 10:30 Hiking from KT to ST → 11:30 Hiking from ST to SAT → 13:00 Seafood Lunch @ SA → 14:30 Hiking from SAT to LCW → 16:00 Hakka Dumpling Class → 18:00 BBQ Dinner → 20:00 Stargazing → Camping @ LCW
Day 3	→ 08:00 Morning Farming Activity → 11:00 GeoPark Tour → 15:00 Depart from LCW





Pilot Cluster Financial Analysis

Summary

- This section includes a 10-year financial projection of the Lai Chi Wo cluster.
- **Lai Chi Wo VR** would receive initial funding from RRA to kick-start revitalisation efforts and ultimately create a thriving financially and environmentally sustainable rural economy.
- **Cluster enterprises** are akin to business units of **VR** and run by third party operators under a service agreement. Operators would ideally be indigenous inhabitants or new residents but could also be entrepreneurs or existing businesses. In general, operators pay a monthly fee to **VR** which differs from enterprise to enterprise, as well as a 50% share of any surplus. Operators such as trainers for the eco-education centre and wellness centre as well as tour guides for village tours retain 50% of their revenues and **VR** covers the set-up and most operating costs.
- The financial analysis shows that **a total investment of HK\$ 133.3 million is required for Lai Chi Wo cluster over ten years** to sign long-term leases for land and houses, rehabilitate land, restore houses and set-up a range of cluster enterprises as well as minor infrastructure projects. Initial funding of HK\$80 million (60% of total) is required from RRA from Year 0-4.
- **VR** will be self-sustaining from the first full year of operations, generating revenues of HK\$21.4 million with a surplus of HK\$135,000. By year five revenues grow to HK\$39.8 million with a surplus HK\$4.8 million.
- Financial surplus obtained from these revenue generating activities allow **VR** to cover all its operations as well as invest a cumulative HK\$ 53.3 million on housing restoration and renovation over ten years. In addition, HK\$ 8.6 million will be spent on cluster and community development initiatives.
- Additionally, HK\$25 million (31% of funding received) can be returned to **RRA by** Year 10. It is expected that **RRA** would eventually be in a position to cover all its operational costs so that 100% of government funding can be directly spent on rural revitalisation.
- Key underlying financial assumptions are highlighted on the following page.

Key Financial Assumptions (HK\$)

Revenue Assumptions

- VR will generate its revenue from a share of surplus of cluster enterprises as well as management fees:

Agriculture (Veg:\$20/kg Pork:\$43/kg)
 Eco-education Centre (\$100/person/hr)
 Wellness Centre (\$1000/person/day)
 Tourism (\$50/person/guided tour)
 Hospitality (\$500/room, \$200/bed)
 House Rental (\$5000/house/month)
 Monthly Mgmt Fee (\$0-75k/enterprise)

Operating Assumptions

- Restoration work of 40 houses to be completed before Year 1
- VR will cover all cap-ex required to set-up cluster enterprises
- VR will provide shared services such as accounting and online service platform to cluster enterprises
- A management fee will be charged based on services provided (management fee for agricultural operations will be waived)

Scale of Operations

- 80 houses restored by Year 5 and 100 houses restored by Year 10
- Number of residents to grow at 20% YoY, reaching over 100 by Year 5 and 150 by Year 10
- Number of visitors to grow at 15%, reaching cluster capacity of 1200 person per week by Year 5
- Agricultural production at the scale of 6 hectares of vegetables and fruits, 1 hectare of rice as well as 200 "Naturally Farmed" pigs (waste and emission-free) by Year 5
- Wellness Centre at 350 participants per week by Year 5 (corporate retreats, open courses, customised workshops, etc)
- Hospitality at the scale of 1 restaurant and 1 café in Lai Chi Wo. and 1 restaurant in Sam A Tsuen as well as at total of 20 B&B rooms, 24 backpacker hostel beds and 10 campsite tents by Year 5 scattered across the villages in the cluster

Cost Assumptions

- 5 staff in VR management by Year 5
- Inflation rate at 3%
- Farmland leased from landowners at \$0.1 per sq ft per month for 10 years
- 50% land subsidies at \$0.05 per sq ft per month given by VR to farmers
- Houses leased from landowners at \$3000 per month for 10 years
- Full restoration cost at \$1.5M per house, partial restoration at \$0.75M and renovation at \$0.3M
- Software CAPEX est. at \$700,000

Funding Requirement

- Initial funding \$80 million over a 4 year period to sign long-term leases for land and houses, rehabilitate land, restore houses and set-up a range of cluster enterprises
- Funding to come from RRA

RRA Funding (HK\$)

Categories	Initial Capital Requirement	Additional Requirements							
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Building Restoration	36,750,000	15,000,000	15,000,000	15,000,000	15,000,000	7,500,000	7,500,000	7,500,000	7,500,000
Farmland Restoration and Farming Facilities	500,000	300,000	200,000	100,000	100,000	100,000	100,000	100,000	100,000
Infrastructure	1,000,000	500,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Office Furniture & Equipment	-	50,000	-	-	-	-	-	-	-
Online Service Platform Software	500,000	100,000	100,000	-	-	-	-	-	-
Working Capital	-	2,000,000	-	-	-	-	-	-	-
Total (Required Funding)	38,750,000	17,950,000	15,400,000	15,200,000	15,200,000	7,700,000	7,700,000	7,700,000	7,700,000
Source of Capital Requirement	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Equity									
RRA Funding	38,750,000	17,950,000	15,400,000	7,900,000	-	-	-	-	-
Retained Earnings				7,300,000	15,200,000	7,700,000	7,700,000	7,700,000	7,700,000
Total (Required Funding)	38,750,000	17,950,000	15,400,000	15,200,000	15,200,000	7,700,000	7,700,000	7,700,000	7,700,000

A total funding of HK\$133.3 million is required: HK\$80 million (60%) from RRA and HK\$53.3 million (40%) from retained earnings

Initial funding of HK\$ 80 million is needed from RRA with HK\$ 25 million returned by Year 10

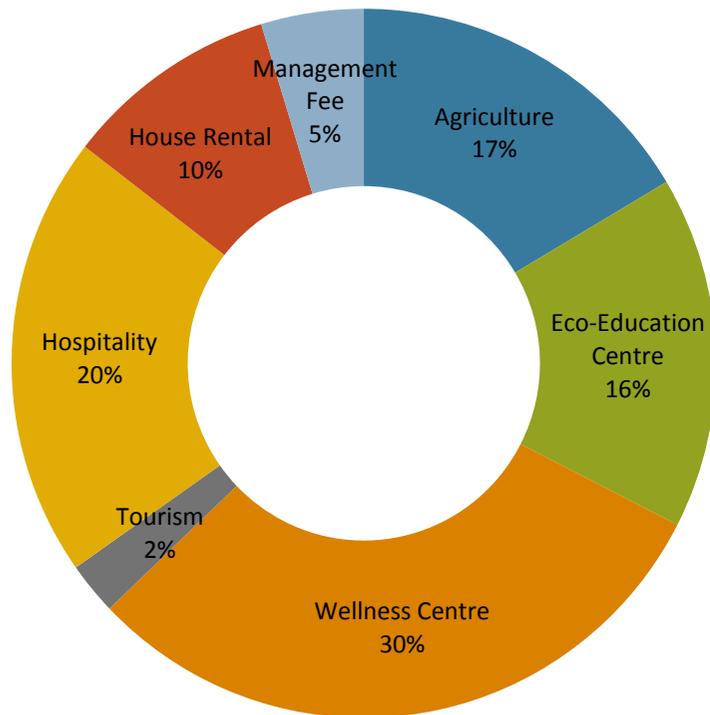
VR Consolidated Income Statement (HK\$)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	21,401,977	24,799,175	30,323,036	35,218,027	39,827,871	41,582,888	42,522,982	43,502,024	44,521,507	45,191,544
Less: Cost of Revenue/Operator Surplus	(14,910,023)	(17,187,008)	(20,780,200)	(23,767,286)	(26,277,417)	(27,669,205)	(28,259,055)	(28,861,201)	(29,476,012)	(29,923,867)
Gross Surplus	6,491,954	7,612,168	9,542,836	11,450,741	13,550,454	13,913,683	14,263,926	14,640,823	15,045,495	15,267,677
Gross Margin	30.3%	30.7%	31.5%	32.5%	34.0%	33.5%	33.5%	33.7%	33.8%	33.8%
Less: Indirect Costs										
Marketing	(20,000)	(22,000)	(24,200)	(26,620)	(29,282)	(32,210)	(35,431)	(38,974)	(42,872)	(47,159)
Administrative Wages and Salaries	(858,000)	(1,230,900)	(1,530,045)	(1,844,147)	(1,936,355)	(2,033,172)	(2,134,831)	(2,241,573)	(2,353,651)	(2,471,334)
General and Administrative	(120,000)	(132,000)	(145,200)	(159,720)	(175,692)	(193,261)	(212,587)	(233,846)	(257,231)	(282,954)
Land Subsidies	(258,334)	(322,917)	(387,500)	(387,500)	(387,500)	(452,084)	(452,084)	(452,084)	(452,084)	(452,084)
Rice Farming Demonstration	(149,167)	(149,167)	(149,167)	(149,167)	(149,167)	(149,167)	(149,167)	(149,167)	(149,167)	(149,167)
R&D and technical support in farming	(250,000)	(150,000)	(165,000)	(181,500)	(199,650)	(219,615)	(241,577)	(265,734)	(292,308)	(321,538)
Housing Rental for Enterprises and Office	(576,000)	(576,000)	(720,000)	(756,000)	(792,000)	(792,000)	(792,000)	(792,000)	(792,000)	(792,000)
Cluster & Community Development Activities	(100,000)	(500,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Depreciation	(4,025,000)	(4,025,000)	(4,025,000)	(4,025,000)	(4,025,000)	(3,725,000)	(3,745,000)	(3,725,000)	(3,725,000)	(3,725,000)
Surplus before Interest and Tax	135,454	504,184	1,396,724	2,921,087	4,855,808	5,317,174	5,501,249	5,742,445	5,981,184	6,026,442
Less: Interest	-	-	-	-	-	-	-	-	-	-
Less: Tax	-	-	-	-	-	-	-	-	-	-
Net Income	135,454	504,184	1,396,724	2,921,087	4,855,808	5,317,174	5,501,249	5,742,445	5,981,184	6,026,442
Net Margin	0.6%	2.0%	4.6%	8.3%	12.2%	12.8%	12.9%	13.2%	13.4%	13.3%
Average Gross Margin (%)	31.8%									
Average Net Margin (%)	5.6%									

Operations of VR are self-sustainable, generating a total surplus of 4.8 million by Year 5

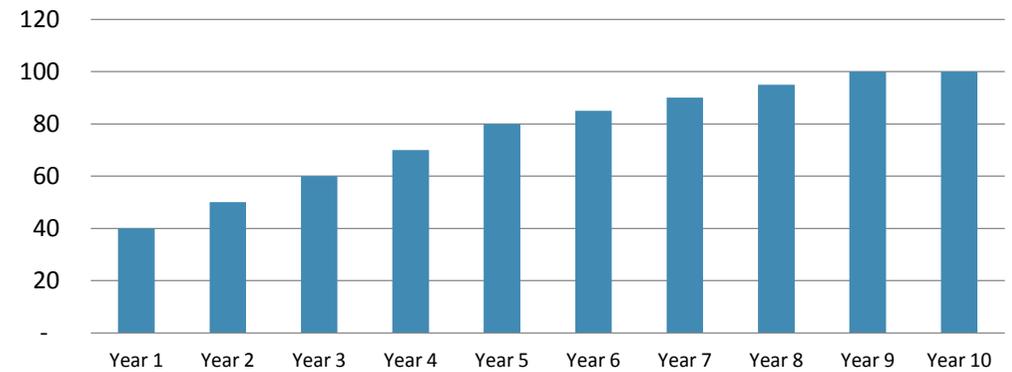
Self-sustaining Cluster Revitalisation

Revenue Breakdown, Year 5

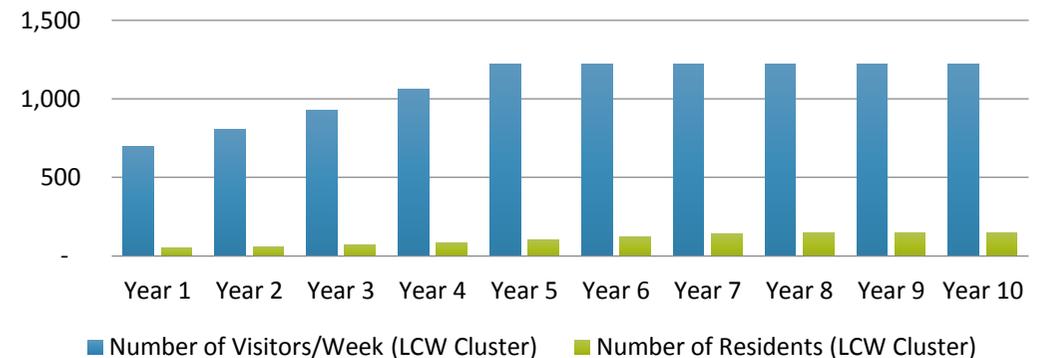


VR will generate a total revenue of HK\$39.8 million in Year 5. Wellness, Education, Hospitality and Tourism will account for 68% of its revenue. Agriculture will also play a crucial role in creating a self-sustaining community.

Houses Restored



Visitors & Residents



Lai Chi Wo Cluster will have 100 houses restored through RRA funding and VR retained earnings by Year 9, creating a community of 150 residents with over 1200 visitors per week.

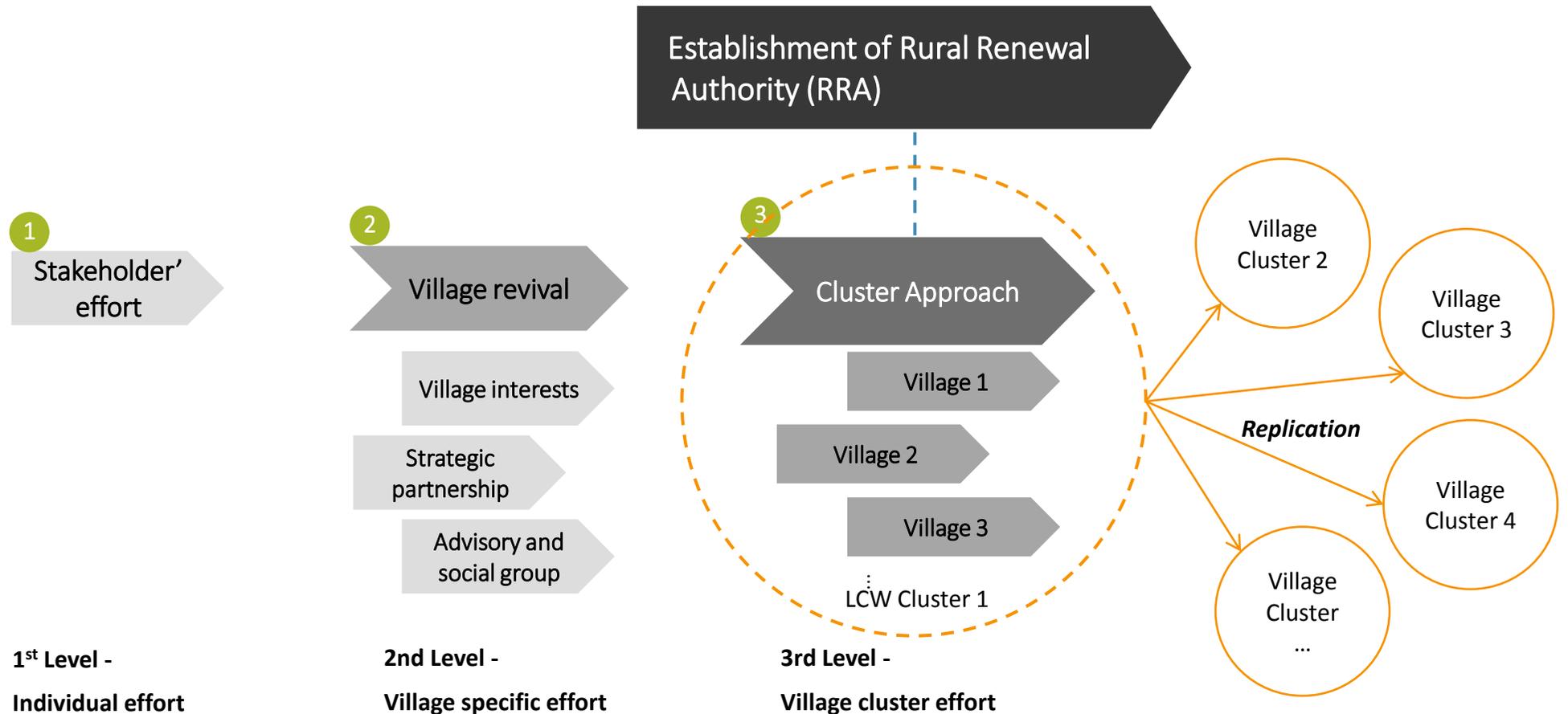
The Lai Chi Wo pilot illustrates a self-sustaining revitalisation model



Village Renewal at Scale

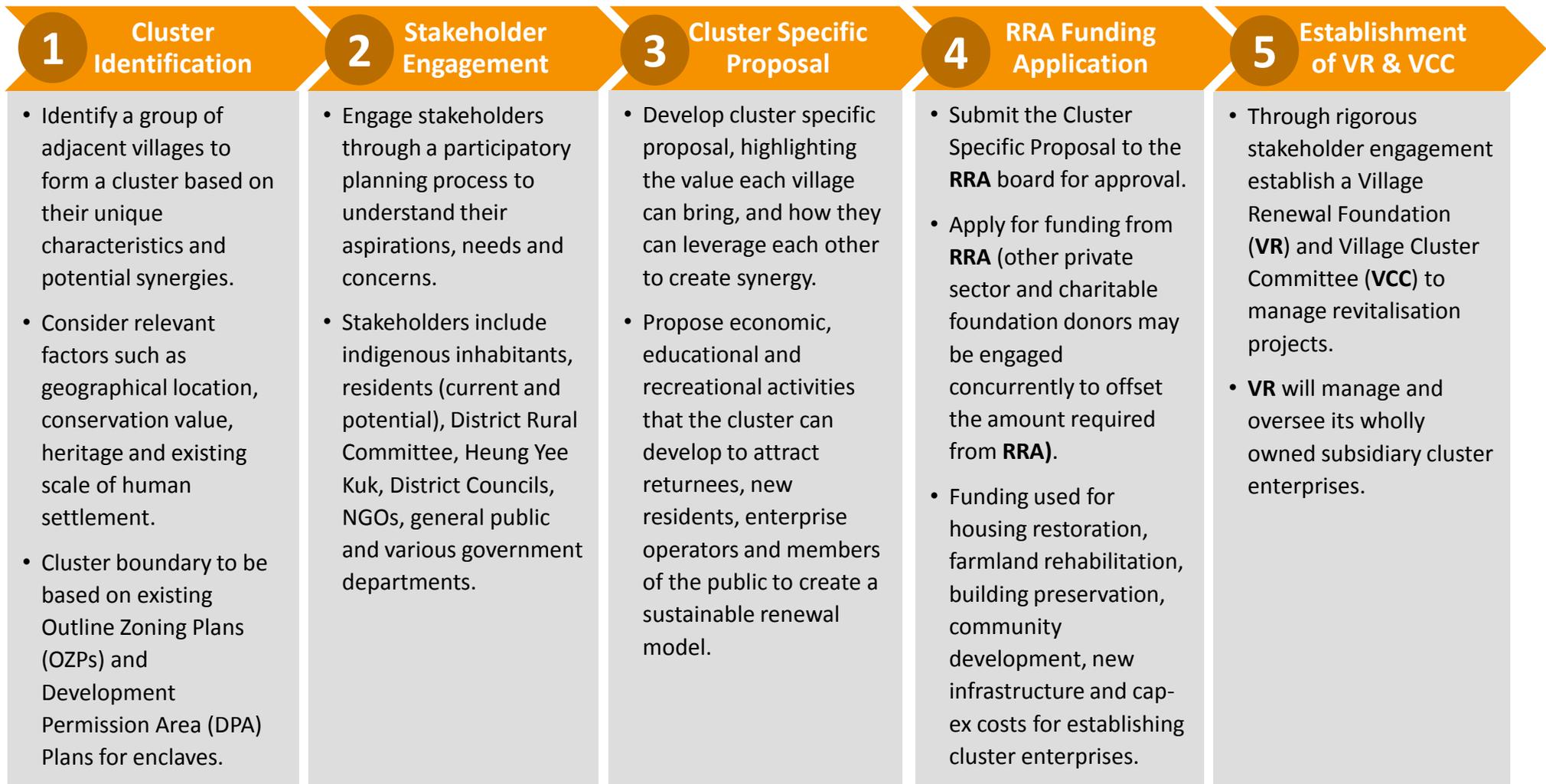
Rural Revitalisation: The Development Process

- The cluster-based approach, with **RRA** as a central authority to coordinate and oversee rural renewal initiatives, will allow for current individual and village-level revitalisation efforts initiatives to be scaled up across the territory.
- With **RRA** as the nexus for all revitalisation efforts territory-wide, the Lai Chi Wo Cluster pilot can serve as a model to scale up to 10-15 clusters across Hong Kong, covering all 77 enclaves.
- **RRA** will be established through a legislative process by enacting a new **RRA** ordinance. Development of the Lai Chi Wo Cluster will happen in parallel to demonstrate the feasibility of the cluster concept.



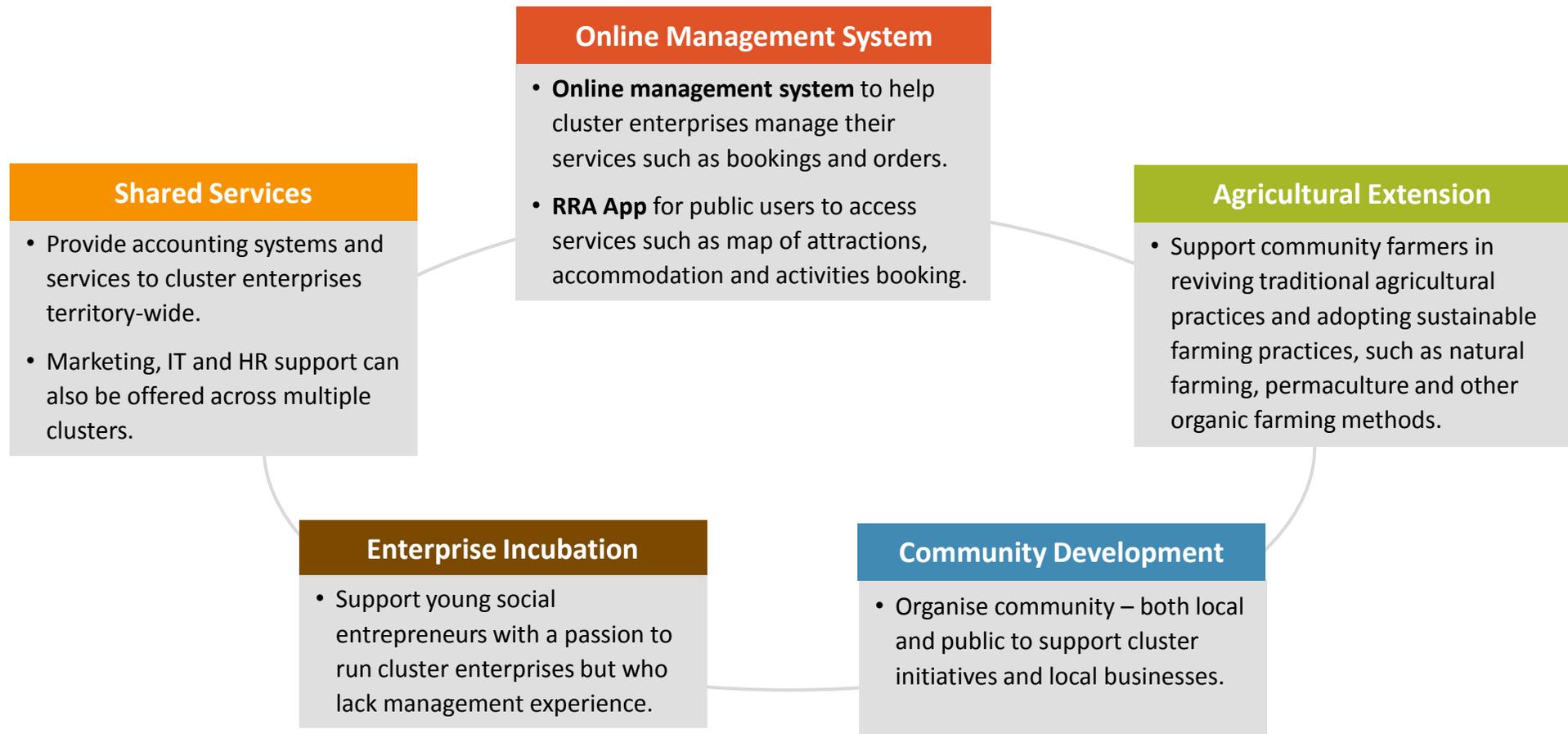
Process for Establishing and Scaling-Up Village Clusters

Below is a proposed process for establishing a new cluster . The process is to be led by **RRA** in partnership with local stakeholders.



Shared Services across Clusters

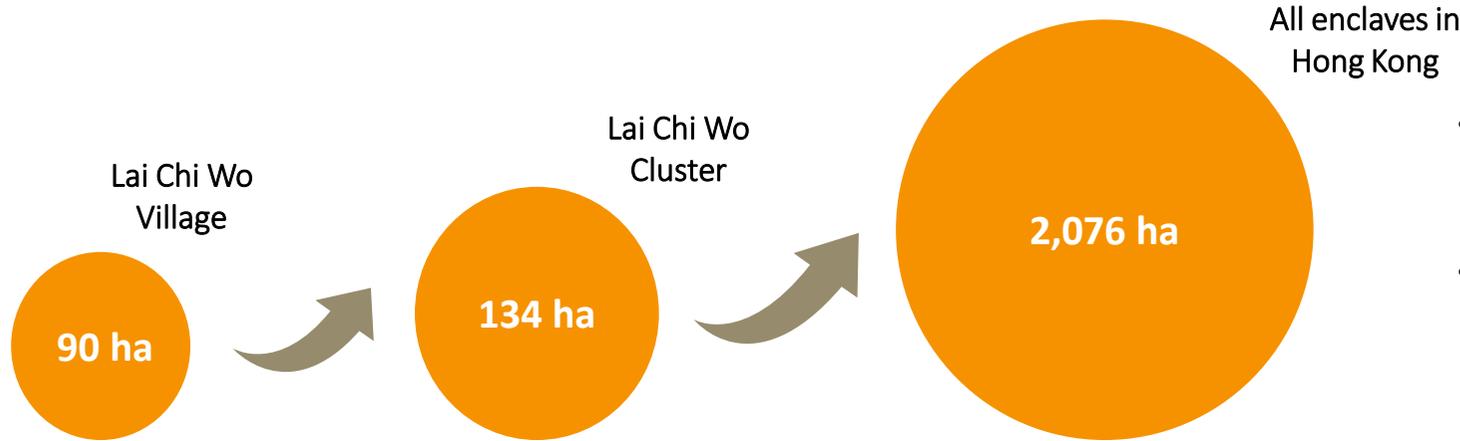
- In scaling up, shared services and revitalisation efforts can be developed across clusters to help rural enterprises better manage their operations and pool resources for restoration, community development, etc.
- Experience and best practices can also be shared among clusters online and at regular RRA-led events.



All territory-wide efforts coordinated by RRA in collaboration with key partners

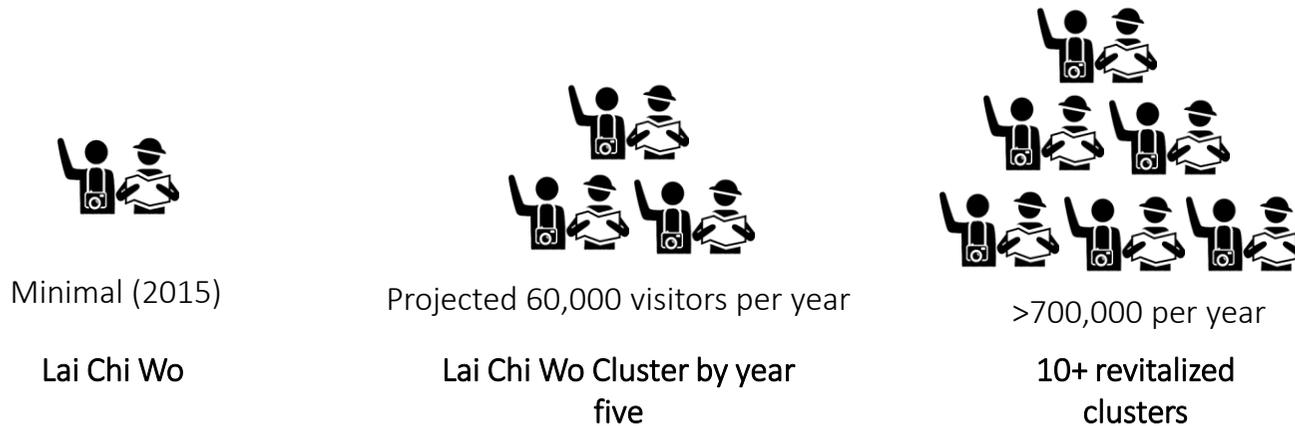
Potential for Rural Revitalisation in Hong Kong

Land area



- Country park enclaves cover an area of 2,076 ha of land in Hong Kong, which is more than 15 times the size of the Lai Chi Wo cluster.
- Given the much larger scale of land available for similar village revitalisation efforts, the social, environmental and financial impact generated will be significant.

Number of Visitors



- Lai Chi Wo village had very few visitors before the Sustainable Lai Chi Wo project. It is projected that by implementing the proposed renewal model the number of visitors to the Lai Chi Wo cluster will reach over 60,000 per year by year five.
- Hong Kong country parks attracted more than 10m visitors in 2015. These figures indicate a huge demand by locals and tourists for a rural experience.

Leading a concerted effort to unleash the potential of country park enclaves



Enabling Policies

Enabling Policies (1/2)

A range of enabling policies will be instrumental in realising successful enclave revitalisation. It is critical to have the backing of the HKSAR Government which it is assumed sees the potential and value in this initiative and will lend its support and resources to its implementation.

Feasibility Study	<ul style="list-style-type: none"> • A government sponsored comprehensive feasibility study on the proposed rural renewal model should be conducted by an independent third party such as a local university or NGO with relevant expertise. • Feasibility study lays the foundation for legislative support and the provision of long-term funding.
RRA Ordinance	<p>An Ordinance to be enacted to establish Rural Renewal Authority (RRA) as a statutory body for the purpose of carrying out enclave revitalization and rural renewal in Hong Kong. The Ordinance should include but not limited to the following key elements:</p> <ul style="list-style-type: none"> • Purpose, establishment and general power of the authority; • Financial provisions include borrowing and lending power, guarantee by Government and use of surplus funds; • Planning procedures which cover corporate plan, business plan and development schemes to accord with Town Planning Ordinances; • Resumption and disposal of land in rural area.
Business Licensing	<ul style="list-style-type: none"> • Review of existing regulations to allow flexibility around the statutory requirements on village economic activities, such as food and beverage, agriculture production, guided tour, accommodations, recreation service and etc. • To develop licensing requirements and guidelines specifically for rural villages as standards for urban settings may not be appropriate.

Enabling Policies (2/2)

<p>Transport and Infrastructure</p>	<ul style="list-style-type: none"> • The provision of restricted roads, ferry services, minibus routes and trails to improve access to remote enclaves for visitors and residents whilst considering the environmental carrying capacity of respective areas concurrent to formal establishment of new clusters. • The development of basic services (electricity, sewerage and drainage, etc) in advance of or concurrent to revitalisation efforts in a given cluster.
<p>Agriculture</p>	<ul style="list-style-type: none"> • To recognise and support the restoration and productive use of land previously zoned for agriculture providing only sustainable agricultural practices (tbd) are used on said land. • Designate space at the new Hong Kong Agri-Park as a Rural Renewal R&D Zone for the express purpose of exploring agricultural technologies and practices which may be adopted by agribusinesses operating in revitalised villages. • Sustainable Agricultural Development Fund (SADF) to support R&D in adapting state-of-the-art waste-free and odour-free Natural Farming of pigs and poultry. If deemed suitable, the issuance of new pig and poultry farming licenses should be relaxed. Pigs raised using this method are drug free, have strong immune systems, are less susceptible to disease and thus can command high prices on the local market.
<p>Education</p>	<ul style="list-style-type: none"> • Collaboration with Education Bureau to make annual Rural Renewal Field Trips mandatory for all students between 8 and 16 years old (this would be a major boost for village economies).
<p>Environment</p>	<ul style="list-style-type: none"> • To protect ecologically important habitats and biodiversity hotspots within all enclaves in collaboration with the local community and stakeholders aiming at striking a balance between “human” and “nature”. • To support community education in stopping the use of disposable containers and plastics and impose ban and fines for the usage of disposable plastic materials in all enclaves.

Through policy support Hong Kong can set a benchmark for rural revitalisation in the region



Socio-Economic and Environmental Impact

The Impact of Rural Renewal

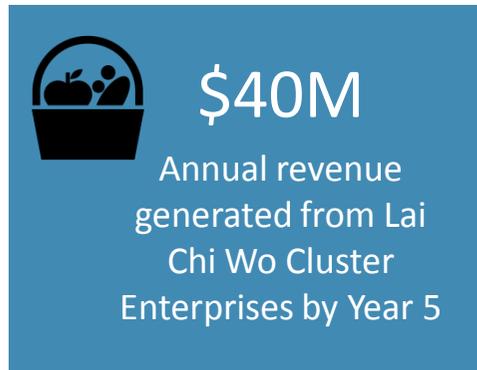
Taking a holistic approach to rural revitalisation, with RRA acting as the nexus to coordinate and manage efforts, can create significant socio-economic and environmental impact in Hong Kong.



= 1.9%

of HK total land will benefit from
renewal

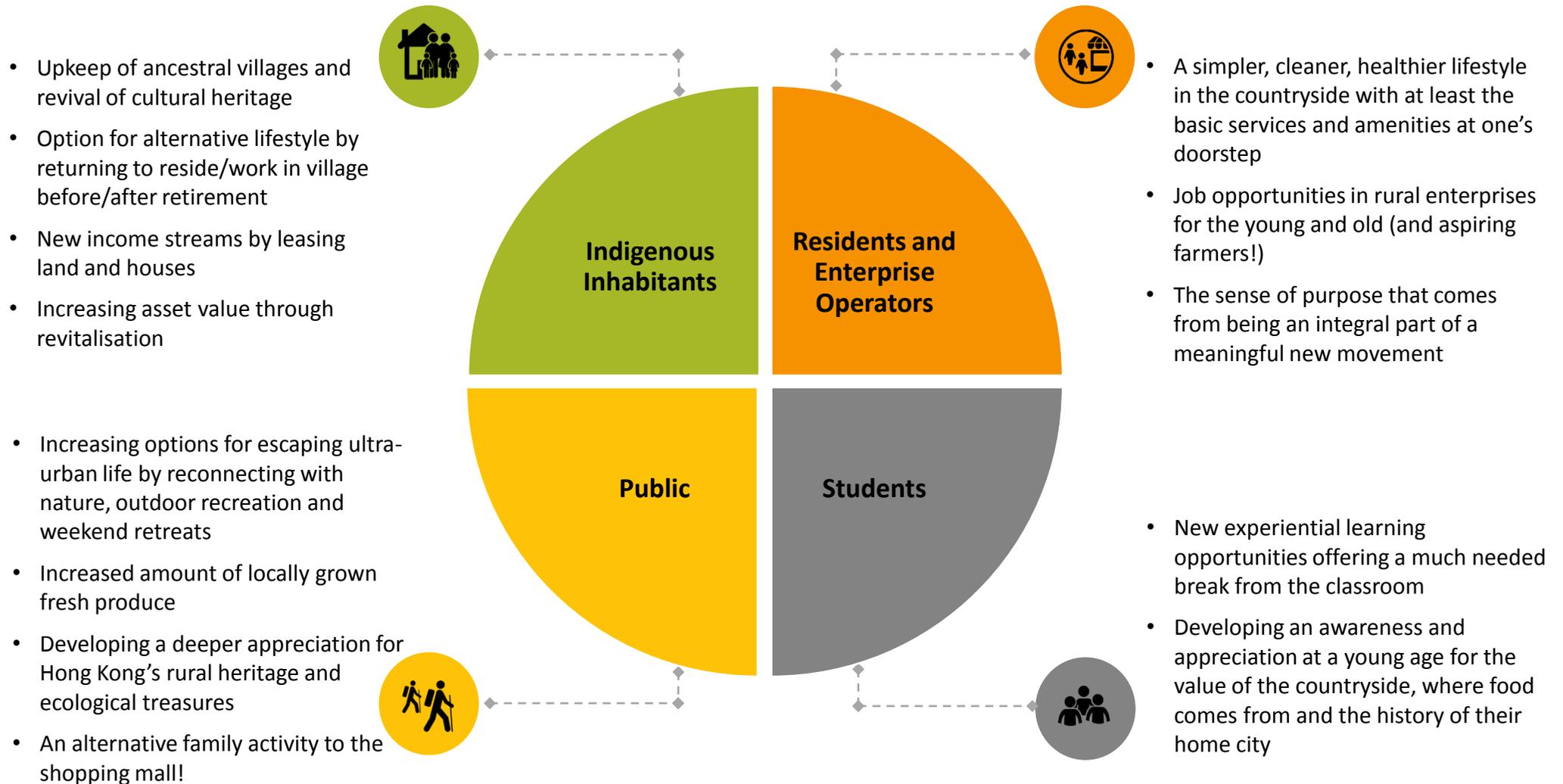
Highlights below are taken from the proposed Lai Chi Wo Cluster renewal activities.



RRA creates positive impact at Village, Cluster and Territory level

Socio-economic Impact on Communities

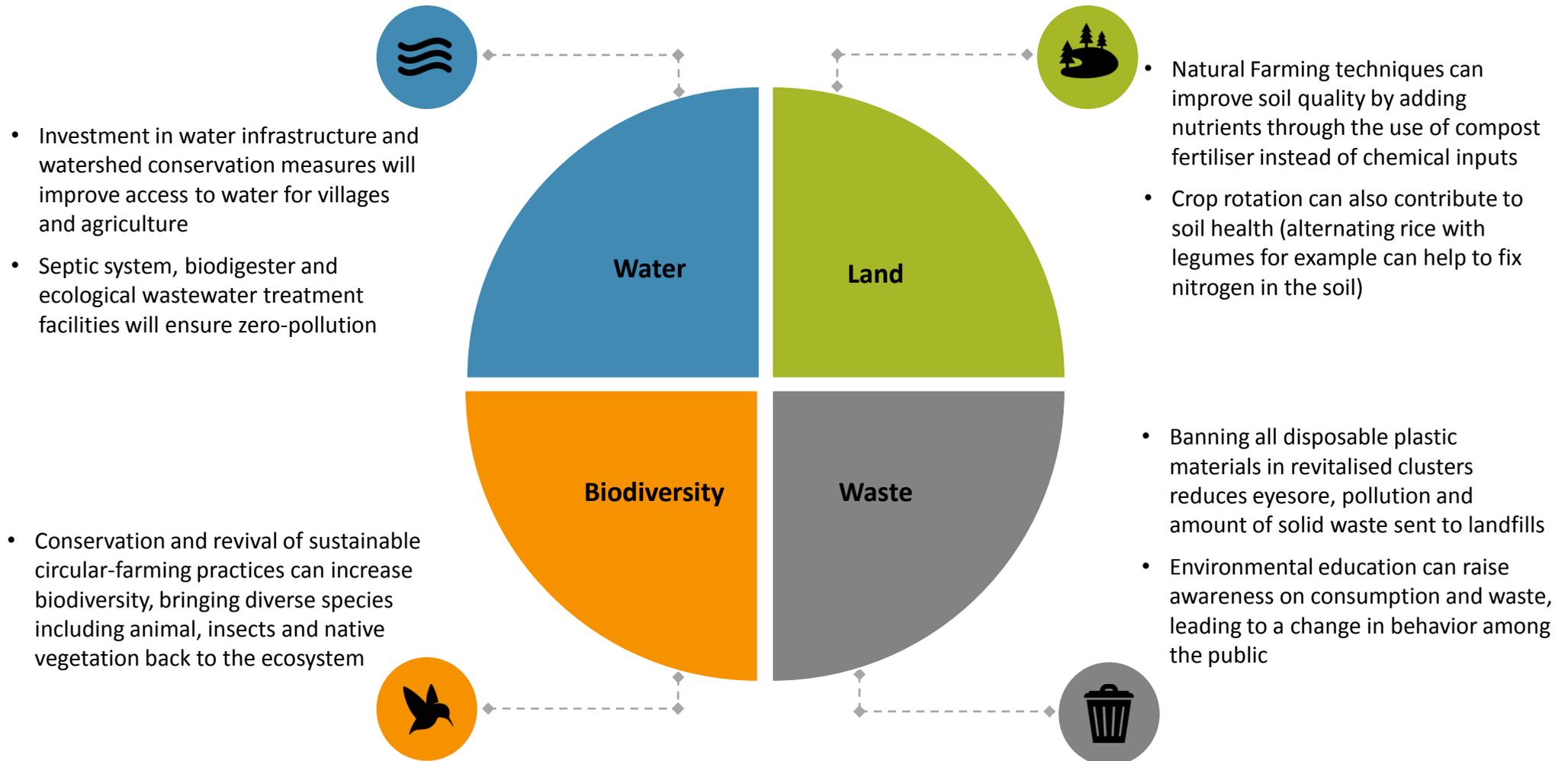
Social and economic impacts of rural revitalisation:



Rediscovering Hong Kong's forgotten treasures brings positive socio-economic impact

Environmental Impact

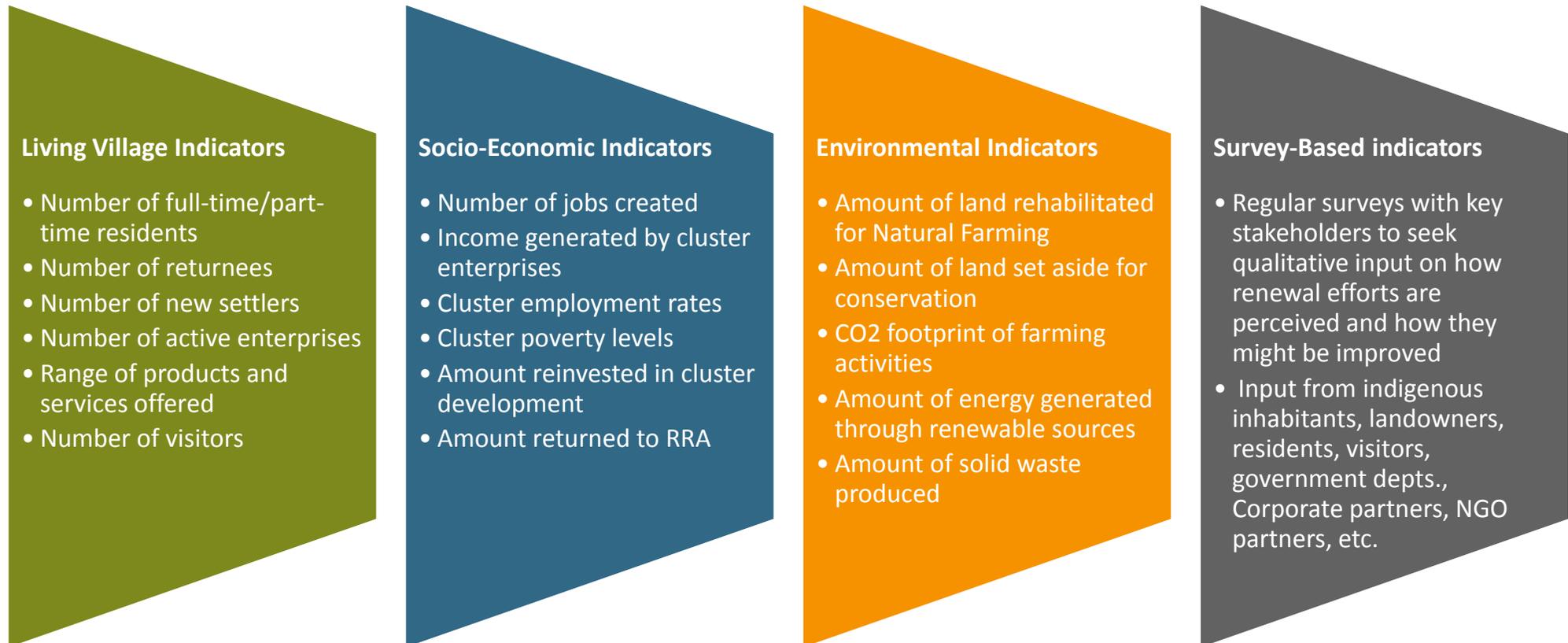
Environmental impacts of rural revitalisation:



If managed carefully rural renewal can have positive environmental impact

Measuring Impact

- As the renewal model progresses, a social and environmental impact measurement methodology and production of a yearly **Renewal Impact Report** are proposed in order to capture and apply lessons learned to other clusters and renewal efforts.
- Categories of indicators may include but not be limited to: Living Village; Socio-Economic; Environmental and Survey-Based.



Measuring and reporting impact can be a powerful tool for raising awareness and support



Risk Analysis and Mitigation

Risk Analysis & Mitigation (1/2)

1

Policy Risk: Delays in establishing RRA

Mitigation: Use proposed cluster-based approach to raise funds from alternative sources (including government) and move forward with Lai Chi Wo cluster revitalisation as a proof of concept.

2

Financial Risk: Mismanagement of funds at RRA / VR

Mitigation: Checks and balances in place including strong financial controls and governance mechanisms, all of which are regularly audited by third parties, reviewed and updated by Board.

3

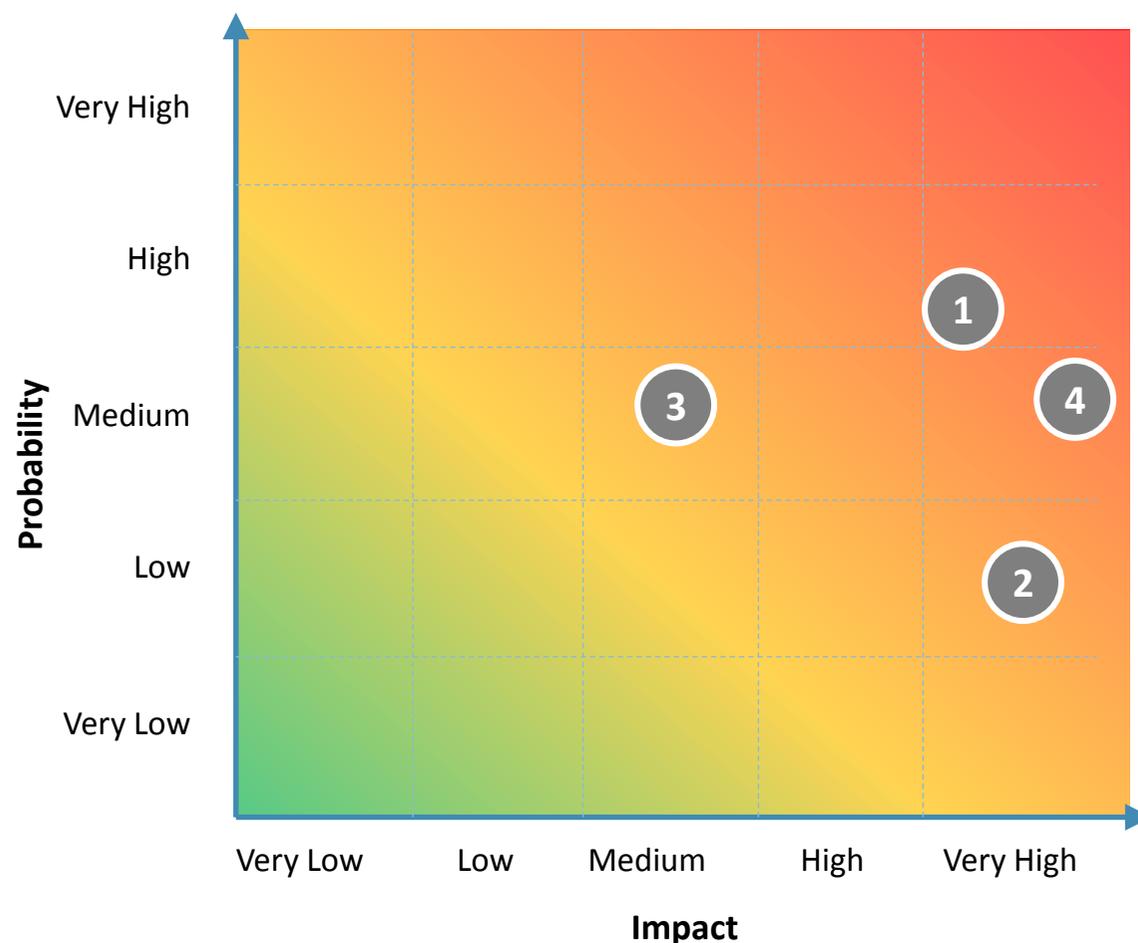
Financial Risk: Restoration or land rehabilitation process may take longer than expected which delays revenue generation

Mitigation: Phased approach to establishing cluster enterprises, including those that do not immediately require restored houses or rehabilitated land.

4

Stakeholder Risk: difficulty gaining buy-in from indigenous inhabitants or landowners to participate in renewal efforts and/or lease land/houses for restoration/rehabilitation

Mitigation: Use track record at Lai Chi Wo and positive endorsement from villagers already engaged in Sustainable Lai Chi Wo project to build trust with new stakeholders.



Risk Analysis & Mitigation (2/2)

5

Operational Risk: Enterprise Operators do not meet expectations or adhere to guidelines for operating cluster enterprises

Mitigation: Contractual terms protect VR and allow for dissolution of partnership in case of breach of contract.

6

Operational Risk: Difficulty obtaining license for cluster enterprises such as livestock farm or B&B

Mitigation: Work closely with government stakeholders and sponsors to overcome concerns. i.e. provide workable examples of B&B licensing from other countries, organise study-trip with regulators to Natural Farms in mainland China.

7

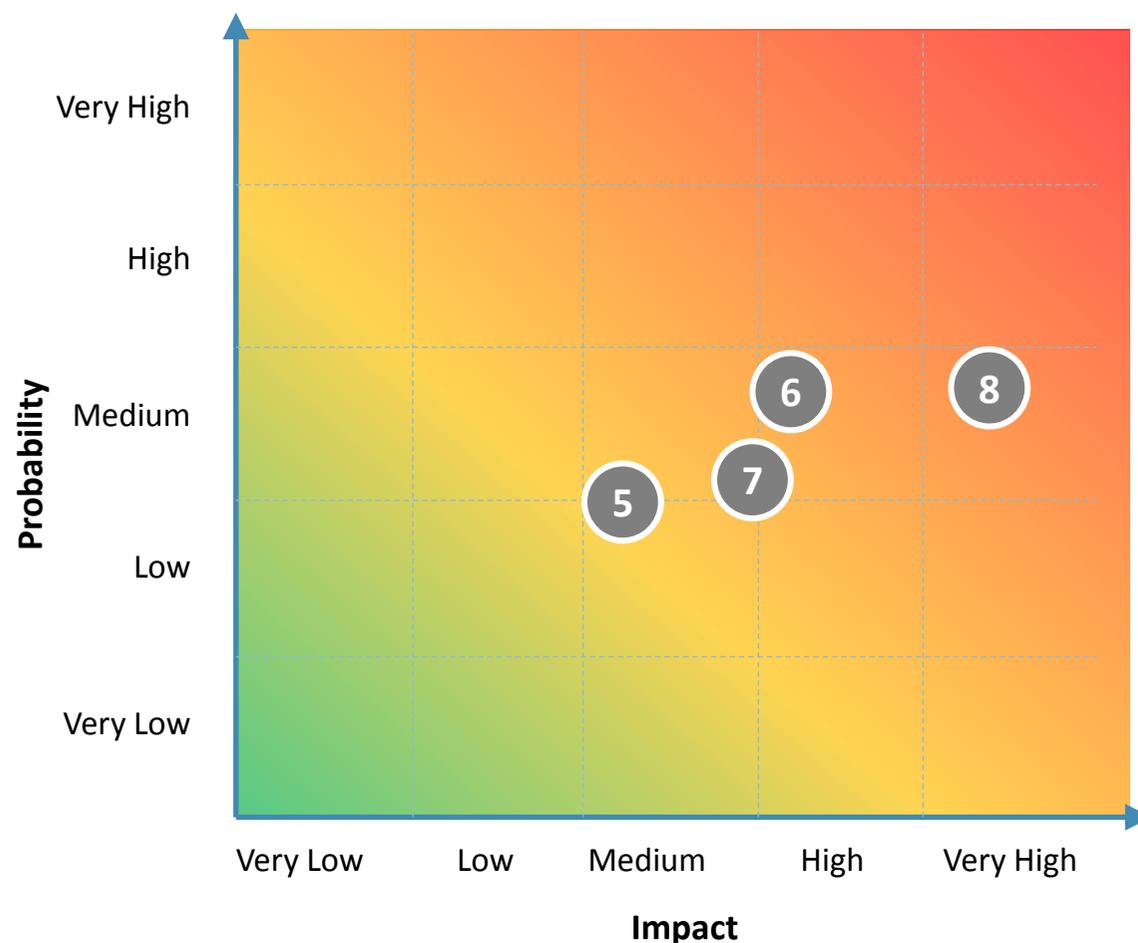
Operational Risk: Challenge of adapting Lai Chi Wo Cluster model to new clusters during scaling-up phase

Mitigation: Establish Lai Chi Wo Cluster as a “Model Cluster” which serves to demonstrate to key stakeholders from prospective clusters (indigenous inhabitants, landowners, rural committee members, etc) that this model is indeed workable and can have significant positive socio-economic impact.

8

Environmental Risk: Dramatic increase in visitors may have negative impact on natural systems

Mitigation: Take every precaution to minimize pollution – consider quota on number of visitors linked to carrying capacity of area. Use chemical-free, waste-free and emission-free Natural Farming techniques. Government supported ban on all disposable plastic materials in enclaves.





Implementation Timeline

Implementation Timeline

Focus Area	Phases	Year 0				Year 1				Year 2				Year 3				Year 4				
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Feasibility Study	Comprehensive feasibility study on proposed rural renewal model to be conducted by independent third party and sponsored by the government																					
	Engage stakeholders through a participatory planning process																					
RRA	An Ordinance to be enacted to establish Rural Renewal Authority as a statutory body		Groundwork																			
VR Governance, Org. Structure & HR	Establish Lai Chi Wo Village Cluster Committee (LCWVCC)																					
	Establish Lai Chi Wo Village Renewal Foundation (LCWVR)																					
	Secure key management for LCWVR																					
	Establish LCWVR organisational framework																					
	Develop LCW cluster specific proposal																					
	Scale up to establish other clusters																					
Lai Chi Wo Cluster Enterprises	Restore houses, rehabilitate farmland, develop infrastructure and renovate facilities for cluster enterprises		Groundwork																			
	Develop cluster enterprises and recruit operators																					
	Develop value chain for agricultural products																					
	Develop online service platform and shared services																					
	Develop cluster enterprises in other clusters																					
Sales & Marketing	Form strategic partnership with a top-class PR firm																					
	Collaborate with the HKSAR Education Bureau to organise regular school field trips																					
	Organise workshops in universities to engage students																					
	Organise public introductory talks																					
	Work with Hong Kong Tourism Board develop to attract visitors																					
	Seek sponsors for advertising																					
Finance	Secure initial funding for Lai Chi Wo Pilot Cluster																					
	RRA to raise fund for cluster revitalisation																					
	Annual financial reporting																					



Conclusion

Critical Drivers for Success

- A territory-wide coordinating body for rural revitalisation is sorely needed if Hong Kong's forgotten and hidden treasures are to be given the attention they deserve. Thus establishing the **Rural Renewal Authority (RRA)** would transform the landscape (literally and figuratively) of rural revitalisation in Hong Kong.
- At the local level, the significant work done by The Hong Kong Countryside Foundation, The Policy for Sustainability Lab of HKU and other partners on the Sustainable Lai Chi Wo project is a model which shows what is possible when trust is built with local communities and cross-sectoral collaboration occurs.
- By building on the Sustainable Lai Chi Wo project and taking the proposed cluster-based approach revitalisation efforts can be scaled-up, adapted and replicated to create living villages across country park enclaves in Hong Kong.
- The **Village Cluster Committee (VCC)** and **Village Renewal Foundation (VR)** should be established at the Lai Chi Wo Cluster as soon as possible so that cluster enterprises can provide much needed revenue streams to reduce reliance on recurrent donations and make it more attractive and feasible for indigenous inhabitants and new residents to settle in the cluster.
- Ahead of the **RRA's** establishment initial funding to kick-start the rural renewal model in Lai Chi Wo Cluster may be sought from a variety of sources including the government, corporate and philanthropic donors.
- There are several key drivers for success of the model, these include:
 - **Legislative Action** to set-up **RRA** and make long-term funding available for rural renewal;
 - **Engaging Key Stakeholders** including but not limited to: indigenous inhabitants, Landowners, Rural Committees, Government depts., Heung Yee Kuk and others to start forging the way forward, starting with the Lai Chi Wo cluster;
 - **Enabling Policies** which support rural renewal, enterprise development and environmental conservation;
 - **Governance Mechanisms** to ensure strong financial management and protection of stakeholder interests.

Want to Know More or Get Involved?



For more information on the proposed **Rural Renewal Model** or the **Hong Kong Young Leaders Programme** please contact GIFT at enquiry@global-inst.com or tel: +852 6735 1826

Tomorrow Matters.