

Commission on Poverty (CoP)

“From Welfare to Self-Reliance” – Social Enterprise Development

BACKGROUND

At the CoP meeting held on 28 June, Members agreed that helping the able-bodied unemployed to move from welfare to self-reliance should be the focus of further work. Members also reiterated the importance of suitable training and employment opportunities to assist the unemployed to move back to mainstream employment.

2. This paper sets out the development of social enterprises in Hong Kong in enhancing the self-concept and employability of the disadvantaged, as well as other positive outcomes including social capital and role model for younger generations. The paper ends with proposing some possible areas where further development of social enterprises could help enhance the eventual self-reliance of the able-bodied unemployed.

SOCIAL ENTERPRISES IN HONG KONG

3. There is no formal statistics on how large the social enterprise sector is in Hong Kong partly due to their very diverse background and mode of operation and partly due to the lack of a common definition¹ -

- (a) some social enterprises are subsidiaries of for-profit businesses which run well-developed corporate social responsibility programmes alongside their business operations;
- (b) some social enterprises are run by charities and non-profit organisations (either directly or through a subsidiary) which have become more entrepreneurial and integrated market operation approaches with some of their welfare programmes; and
- (c) some social enterprises stem from projects supported by Government seed funding. Most of them have long-term financial self-sufficiency as the aim while currently at various level of cost-recovery.

¹ There is no common definition of social enterprises. One key distinguishing feature of such enterprises is the conduct of activities, in whole or in part, with both a commercial and a social purpose.

4. On the last category, the most prominent example is the “Enhancing Employment of People with Disabilities through Small Enterprise Project” (“Seed Money” Project). The project aims to enhance employability of people with disabilities (PWDs) though it has also generated employment opportunities for the able-bodied. As at June 2005, 396 posts were created (290 disabled and 106 able-bodied) by the 31 social enterprises in the Project. Noteworthy is that some of these “Seed Money” projects have successfully competed for business in the open market. A short note on the initiative is at **Annex A**. There will be a presentation on its operation at the meeting. Besides, social enterprises may also be generated from some of the projects funded by the Community Investment and Inclusion Fund (CIIF), notwithstanding that the key aim of CIIF is promotion of sustainable social capital.

SOCIAL ENTERPRISE – POSITIVE CONTRIBUTION

5. Experiences both overseas and in Hong Kong reflect a growing recognition of the positive contribution of social enterprises to the well-being of the society -

- (a) the integration of social and commercial purposes in goods/services delivery creates a real-work environment for the disadvantaged groups, and is conducive to raising their skills level and employability;
- (b) the business approach incorporated in social enterprises will help secure progressive changes in the mindset of the disadvantaged and enhance their capacity for embracing challenges and uncertainties, something essential for ultimate and long-term self-reliance;
- (c) the alternative income from trading also stimulates dynamism and innovation on the part of the NGOs/community organisations in service delivery to meet societal needs; and
- (d) the growth of social enterprises is often accompanied by an increasing density of community networks and cross-sector partnerships in reducing the initial entry barriers for social enterprises. Both of these are highly desirable from the perspective of nurturing social capital.

6. The positive contribution of the social enterprise sector has prompted governments and non-governmental sectors in many places to give increasing attention to facilitating social enterprise development. Some overseas experience is set out at **Annex B**.

7. On the other hand, encouraging the disadvantaged groups to run business is not uncontroversial in the international arena. Some have argued that this may lead to an increase in the pool of working poor and creates unsustainable business. Besides, entrepreneurship requires all the effort and skill of a paid job, but it has higher risk. Entrepreneurs must take up diverse roles when running the business and need to excel in them for the business to succeed, while employees need to excel at fewer risks only. Hence, exploration of the possible

modalities of social enterprise must involve consideration of how to combine entrepreneurial/professional business expertise with the manpower of the disadvantaged groups.

SOCIAL ENTERPRISE – GENERAL POLICY

8. The Government recognizes the potential benefits of the development of social enterprises in enhancing the employability of the disadvantaged, particularly the PWDs, and currently provides seed funding as set out in paragraph 4 above. In considering how to further encourage their development, we need to first take into account the experience and success factors of social enterprise development both locally and overseas.

Success factors of social enterprises

9. Like other business enterprises, some social enterprises are successful while many start-ups fail. A critical factor is for the social entrepreneurs to have a *real enterprising spirit* and a mentality to compete and operate like a business. Other success factors include professional and business management, and community support.

10. *Community support* to the objectives and missions of such enterprises, both from the neighbourhood and from the private sector, facilitates the long-term sustainability of such operations. For instance, some social enterprises provide low-skill personal/community support services and rely on neighbourhood networks and goodwill for business. At the same time, partnership with the private sector often proves to be fruitful, providing a source of business and other support (e.g. donations and soft loans to facilitate start-up and expansion, business connections and professional advice).

11. While some may view social enterprises as a welfare initiative and call for special preferences and exemptions from the usual statutory business obligations and level-playing market conditions, social enterprises are not conventional welfare operations, and should not be treated as such in order to compete and to gain community support. In terms of *policy positioning*, it is important that social enterprises be regarded in the main as business operations, with preferences and exemptions, if any, rigorously justified and ring-fenced. This is essential for two reasons. First, to forestall unfair competition and displacements of small and medium enterprises (SMEs) and associated jobs. In addition, any undue and long term sheltered operation would inadvertently blunt the enterprising spirit of social enterprises. Pertinent to note, for example, is that, in the UK, social enterprises are considered no different from other forms of enterprises in terms of economic policy making; and notwithstanding the presence of a myriad of support measures, such measures are not unconditional and social enterprises generally are expected to compete on a level playing field.

Limitations of social enterprise development in Hong Kong

12. Despite the increasing number of enterprising NGOs, there is still a general lack of personnel in the NGO/welfare sector with professional business experience (or a lack of experienced personnel with business background to operate social enterprises) in Hong Kong. This limits the development of successful social enterprises, and it would take time to nurture such “social entrepreneurs”.

13. Most of the social services are currently provided by NGOs. There may be little room left for social enterprises to enter this market and to generate a decent income for the participants.

14. Community support for social enterprises for PWDs is relatively easy to secure. The same may not apply to able-bodied unemployed. This is particularly so given their possible displacement of SMEs. Nevertheless, given the positive contribution of social enterprises (see paragraph 5 above) and noting the successful experience overseas in extending the concept to the able-bodied, there may be merit in exploring how social enterprises may be further developed to help prepare the able-bodied for work and eventual self-reliance.

AREAS PROPOSED FOR FURTHER ACTION

15. Reflecting on the local and overseas experiences, it would appear that creating an enabling environment for social enterprises (particularly in respect of start-up and initial operation) while simultaneously ensuring proper regard for business bottomline should guide our future deliberation on harnessing social enterprises to help the able-bodied unemployed to move from welfare to self-reliance. Subject to Members’ endorsement of this general direction, the following are proposed as possible areas for further exploration.

(I) Establish the value and gain public acceptance

16. While social enterprises have a relatively longer history in overseas countries and have flourished in number and diversity over the years, their development in Hong Kong is still relatively new and not widely known/understood. As a first step, it would also be useful to map out the development of social enterprises in Hong Kong, albeit limited, and where applicable, overseas, with a view to extracting relevant experience to guide future policy deliberation.

17. In addition, support from the business sector and the wider community may need to be garnered before social enterprises can be further developed to assist the able-bodied unemployed in particular (see paragraph 14 above).

Action

- To work with NGOs and the private sector with experience in social enterprise development and CPU² in mapping the overall picture of social enterprise development in Hong Kong, and to draw reference from relevant overseas experiences after taking into account cultural and other differences in order to guide future deliberation.
- To collaborate with the Advisory Committee on Enhancing Employment of People with Disabilities in distilling some of the good practice models of social enterprises to date, to publicize and encourage replicating, extending and adapting such models.
- To organize forums to further the understanding on social enterprises, and to involve the business sector and the wider community in considering the potential of using social enterprises to assist the able-bodied unemployed.

(II) Create an enabling environment

18. The Administration would identify any administrative, legal and regulatory barriers which may hamper the development of social enterprises in Hong Kong. Some of the concerns have been raised with the Health, Welfare and Food Bureau (HWFB) in the context of encouraging development of cooperatives, which is one of the legal forms of social enterprises.

(a) Administrative environment

19. The Administration has some initial experience in contracting out its services, for instance in the welfare sector, for enterprises including social enterprises with PWDs to compete for contracts. This facilitates the development of enterprising activities among not-for-profit organisations. But, most of the out-sourced welfare services are currently provided by NGOs.

Action

- To promote the concept of social enterprises among those responsible for public procurement at both the central and district level, with a view to factoring, insofar as possible, the multiple bottom-lines achieved by social enterprises, while without compromising the principles of transparency and best value for money.
- To explore if there are administrative barriers which hinder the development of social enterprises at the district level and in specific sectors.

² The Central Policy Unit (CPU) of the Government has conducted several studies on Hong Kong's Third Sector (non-Government and non-profit sector). The relevant reports are available at <http://www.info.gov.hk/cpu/english/new.htm> Social enterprises as a "not-for-profit" sector has not been researched upon.

(b) Legal environment

20. Social enterprises may take different legal forms (companies, subsidiaries of charities, cooperatives, etc.) appropriate to the background and the needs of the particular operations. Some have proposed that the Administration should review the Co-operative Societies Ordinance to help the disadvantaged groups to run their own businesses, as part of the Administration's initiative to help promote the community economy. However, it is doubtful if cooperatives should be the foundation structure of social enterprises generally. Some of the prime concerns and requests raised in fact relate to concerns (e.g. business and financial viability, need for capital assistance and personal empowerment) beyond the legislative framework of the Ordinance. HWFB has met some co-operatives to better understand their concerns and consider how best their concerns can be addressed.

Action

- HWFB would continue their dialogue with the relevant stakeholders and consider if there is any need to amend the Co-operative Societies Ordinance, or if the concerns can be addressed in other manner, noting that co-operatives is only one of the legal forms of social enterprises, and the success of social enterprises depend on a variety of other factors as stated in paragraphs 9 - 11.

(c) Interface with requirements for able-bodied unemployed

21. There have been requests for co-operative members to be exempted from Support for Self-Reliance measures required for recipients of the Comprehensive Social Security Assistance (CSSA) (including the need to find jobs, attend training courses and do community work).

22. HWFB recognizes that being members of a cooperative may be a form of job-related training, and has therefore disregarded cooperative members' wages from the calculation of their payments under the CSSA scheme, up to a monthly level of \$1,000 and for a period of six months. They are also exempted from complying with the Support for Self-Reliance measures during this period³.

Action

- HWFB would keep in view the development of social enterprises and how it may integrate with other social and employment assistance to facilitate the meaningful participation of the able-bodied CSSA recipients in social enterprises.

³ Members working in co-operatives beyond this six-month period would be treated just like other Comprehensive Social Security Assistance recipients and would only be exempted from the self-reliance requirements if they earn more than \$1,430 and work for no less than 120 hours a month. This is to encourage the co-operative members who are still unable to earn a reasonable amount after six months to find other higher-paid jobs and become more self-reliant.

(III) Business facilitation and support

(a) Access to finance

23. Besides private and non-profit sources, there are a number of public funding sources which can be tapped to support the start-ups of social enterprises – funding from the “Seed Money” Project, CIIF, Partnership Fund for the Disadvantaged and SME funding schemes⁴. Each of the funding schemes has different scopes and focuses.

24. Like for-profit business especially SMEs, social enterprises also need funds to start up and expand. Cooperatives and other SMEs often have difficulties accessing to commercial finance.

Action

- To consider if the current funding source in support of start-ups of social enterprises is adequate.
- In the longer run, with more experience and understanding of the sector, to consider ways to assist social enterprises’ access to finance while bearing in mind the principles and pitfalls highlighted in paragraph 11 above.

(b) Empowering and motivating social entrepreneurs

25. Similar to for-profit businesses, social enterprises face competition, carry business risks and need to manage cashflow. Viability of business plans and vigilance to changing market needs are among the most important factors determining the success or otherwise of social enterprises. If a social enterprise is to be sustainable, social entrepreneurs need to possess good business, financial and personal and cashflow management expertise. There is a lack of knowledge of professional/business knowledge among aspiring social entrepreneurs (e.g. accounting and financial management, marketing and publicity, contract bidding)⁵, including successful social enterprise business models.

26. Besides the hard business skills mentioned above, we consider that the motivation of social entrepreneurs to take up the challenge of operating a business is also very important. Moreover, putting aside the risks involved, the time required to develop a financially viable business may be as long as a few years. They would face ups and down in the process, without certainty of success. This possibly requires some support from a business mentor. Like any SMEs, some of these social enterprises may be marked by frequent business trials in their attempt to identify a market niche.

⁴ Members may visit the Trade and Industry Department’s website (<http://www.tid.gov.hk>) on the support and funding schemes for SMEs, which are also available to social enterprises in the form of companies and co-operatives with business registration.

⁵ Assistance is available to establishment of social enterprises. The Hong Kong Women Professionals & Entrepreneurs Association has set up a scheme to provide loans of up to \$50,000 for each group and capacity-building assistance (e.g. accounting, market analysis and business planning) for cooperative formation.

Action

- To explore mechanisms and channels on how to empower and motivate social entrepreneurs, including training, facilitating business-mentoring network and sharing of international best practices, etc.

CONCLUDING REMARKS

27. Social enterprises are not intended to replace the conventional welfare service delivery, and given the limitations set out in paragraphs 12 to 14 above, its scale of development would be limited and it would take time for the sector to develop and mature. That said, the social enterprise model provides for NGOs, community organizations, and the private sector an alternative and supplement to the more conventional welfare approach when rendering employment-related support to the disadvantaged. This could help promote meaningful, gainfully and sustainable engagement of the disadvantaged.

28. Social enterprise development also ties in well with the Commission's endorsement of a district-based approach, the need to nurture social capital and neighbourhood network. Social networks, individuals' readiness for work, district enterprise development and job opportunities in fact form a virtuous cycle. Through networking, individuals improve their presentation, thinking and communication skills, empathy and team work; all being essential soft-skills in the work setting. The greater the knowledge base about the neighborhood, the greater is the sensitivity to possible marketable goods and services conducive to raising the living standard, comfort or convenience of residents in the district.

ADVICE SOUGHT

29. Members are invited to consider –
- (a) if we should work towards the promotion of social enterprises in Hong Kong as part of the strategy to facilitate community employment in the promotion of “from welfare to self-reliance”; and if yes,
 - (b) in taking the initiative forward, whether we should undertake the actions proposed in paragraphs 15 – 26 above.

Commission Secretariat
September 2005

“Seed Money” Project

It is the Government’s policy to promote and enhance employment opportunities for them and help them integrate into mainstream employment market. It is recognized that an enterprise-driven approach (instead of a sheltered environment) serves the dual purpose of creating employment opportunities for PWDs and training up disabled persons with lower work ability for open employment.

2. In order to foster such development, a one-off provision of \$50 million was announced in the 2001/02 Budget for the “Enhancing Employment of People with Disabilities through Small Enterprise Project” (“Seed Money” Project). Non-governmental organizations (NGOs) can apply for a maximum grant of \$2 million for each business, which is offered in the form of a non-recurrent grant to support the initial capital expenditure and the first-year operation. The businesses should be self-sustaining in the long run and employing people with disabilities to fill no less than 60 per cent of its total posts on the payroll.

3. There are currently 31 such approved businesses operating in retail, catering, car cleaning, repair and maintenance, laundry, recycling, tele-survey service, mobile massage, travel and conference service, eco-tourism¹. As at June 2005, 396 posts were created (290 disabled and 106 able-bodied) by the 31 social enterprises in the Project. There are also other positive social outcome including building of social capital, increased self-esteem for the PWDs etc.¹

Commission Secretariat
(Input from Health, Welfare and Food Bureau)
September 2005

¹ Please refer to <http://www.mcor.org.hk> for more details of the Project.

Social Enterprises - Overseas Experience

The increasing competition caused by the globalization of the economy places ever greater demands on companies. It is becoming increasingly clear that certain groups such as the disabled and the long-term unemployed are threatened with complete exclusion from the labour market. By giving employment to the disabled and the long-term unemployed, social enterprises contribute to a more balanced, more inclusive and more human society.

Tarja Filatov, Minister of Labour, Finland

I was struck by the fact that social enterprises are delivering high quality, lower cost products and services. At the same time, they create real opportunities for the people working in them and the communities they serve.

Tony Blair, Prime Minister, U.K.

United Kingdom (U.K.)

In 2002, the U.K. Government conducted a review of charities and the wider not-for-profit¹ sector as part of the efforts to encourage the development of the sector to tackle social and community problems. The “Private Action, Public Benefit” Report made a number of recommendations to modernize the running and regulation of not-for-profits, including how to take into account the particular needs of social enterprises. The recommendations concerning social enterprises are being followed up both by the Government as well as through various non-for-profit agencies.

2. The Social Enterprise Coalition (SEC), UK’s national body for social enterprises², represents the social enterprise sector and promotes best practice. While social enterprises are to compete with other for-profit enterprises in public procurement, SEC recently publishes a new guide on procuring from social enterprises to promote greater understanding of social enterprises among those responsible for public sector procurement at the national and local level, and disseminate information to facilitate social enterprises in winning public sector business.

¹ “Not-for-profit” is the description commonly used in the U.K. to describe social enterprises, as distinguished to the U.S. definition which covers all “non-profit” organisations.

² SEC’s website is at www.socialenterprise.org.uk.

3. A Social Enterprise Unit was established in the Small Business Service of the Department of Trade and Industry (DTI) to identify the administrative and legal barriers to growth of the sector. Among other things, legislation of a new legal form for social enterprise - Community Interest Company (CIC)³, came into force on 1 July 2005 in order to create a stronger brand and stimulate development of social enterprises.

4. Social enterprises themselves contribute to the promotion of their experience. For instance, a School for Social Entrepreneurs was founded in 1997 and is now expanding across U.K. In a recent survey released by the DTI, social enterprises generate some £18billion in annual turnover and employ over 775,000 people in the U.K., representing around 1% of businesses.

Ireland

5. The Social Economy Programme⁴ was introduced by the FAS (National Training and Employment Authority) in September 2000 to support the development of social enterprises that offer employment opportunities for the long-term unemployed and other disadvantaged groups. Social enterprises supported by the programme should be professionally managed and “entrepreneurial” i.e. functioning in the market place, and in a position to be self-sustaining within three years. The programme provides grants (start-up capital) and assistance (development of business plan, staff development, financial advice and support) to the social enterprises.

Germany

6. Faced with serious unemployment, many social enterprises were developed in the field of work integration, or sometimes referred to as “WISE” (Work Integration Social Enterprises). Instead of being a source of long-term employment, WISE is increasingly seen as a transitional stage for the unemployed providing them with paid work opportunities, vocational training, short-term qualification and social support. Emphasis is on progression to, and meeting the needs of the open labour market. Most WISE are cooperating with the Federal Labour Office, the regional Ministry of Labour, or the municipalities and their social assistance departments⁵.

³ Relevant information is at DTI's home page <http://www.dti.gov.uk/cics>.

⁴ Please see http://www.fas.ie/services_to_jobseekers/social_economy_programme.html for more details.

⁵ Ingo Bode, Adalbert Evers, Andreas Schulz (July 2004) Facing New Challenges – Work Integration Social Enterprises in Germany, ISTR paper.. <http://www.istr.org/conferences/toronto/workingpapers/bode.ingo.pdf>. Also relevant is the development of WISE in Spain. See Isabel Vidal <http://www.istr.org/conferences/toronto/workingpapers/vidal.isabel.pdf>.

Finland

7. Finland passed an Act on Social Enterprises which came into force in early 2004. A company with at least 30% of its staff who are disabled, or a mix of disabled and long-term unemployed (who has been unemployed for at least 12 months), can apply to enter into the register of social enterprises maintained by the Ministry of Labour. Social enterprises are on an equal footing with other business as regards private and public financing. However, they can receive wage-related subsidies as a compensation for potentially reduced work ability in hiring a disabled or long-term unemployed employees.

United States

8. In the U.S., the definition of social enterprise is quite wide and generally encompasses all nonprofit organizations, public sector entities, and other organisations that are social mission-driven in nature.

9. There are more than a million nonprofit organizations in the U.S. They employ approximately 8.6 million people and mobilize some 7.2 million unpaid volunteers, which together constitute 14 percent of the labor force. The nonprofit sector comprises 7 percent of U.S. gross domestic product.

10. In light of the growing social and economic importance of the nonprofit sector, and its increasing interrelationship with business, there are initiatives to facilitate its further development, including training of social entrepreneurs⁶, business scholarship, research, and placements⁷.

Commission Secretariat
September 2005

⁶ For instance, the Harvard Business School Social Enterprise Initiative <http://www.hbs.edu/socialenterprise/>.

⁷ For instance, the MBA-Nonprofit Connection (MNC) is a national nonprofit organization that facilitates the placements of business school students and graduates in nonprofit jobs.