

Commission on Poverty

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

PURPOSE

This paper provides some general pointers to facilitate Members to discuss the future direction to further promote social enterprise (SE) development in Hong Kong, including ways to foster a tripartite partnership and to provide a continuum of support with a view to make SEs better businesses.

BACKGROUND

2. At its meeting on 12 September 2005, the Commission on Poverty (CoP) supported the direction to further encourage the development of SE as an innovative approach to promote self-reliance and to provide community employment opportunities for the unemployed to integrate into the job market. A series of initiatives has been launched since then (summary at the *Annex*). Members further discussed the relevant issues at the meetings on 13 June 2006, 20 November 2006 and 8 January 2007¹. Through the work of the Commission, there has been an increasing public recognition of the potentials and benefits of SEs. The Administration is also committed to supporting its further development.

KEY CHALLENGES

Making SE better businesses

3. Since the launch of the Enhancing Self-Reliance Through District Partnership Programme in 2006, there have been over 40 new SE start-ups in various business areas, including household services, fitting-out works, retailing, beauty care/massage, catering, recycling, guided-tours and elderly services. This shows that there is no lack of interest, ideas and commitment to operate SEs in order to help the disadvantaged groups. The challenge is to help them become sustainable and better businesses in the longer-run, through fostering a tripartite partnership and providing them with suitable support.

Enhancing understanding of its values

4. In addition, despite the growing awareness in the community about SEs, the concept is still relatively new and not very well understood. While SEs help create community employment opportunities for the disadvantaged and facilitate their transition to work, employment creation is but one of the objectives of SEs. The essence of SEs

¹ CoP Paper 12/2006, CoP Paper 21/2006 and CoP Paper 4/2007 refer.

lies with achieving greater social impact and more sustainable solutions to address social problems – through the use of innovative approaches which combine entrepreneurial approaches and social purposes. Hence, the benefits of SEs should not be assessed simply by its economic impact (e.g. the number of new SEs or jobs created) but also its social impact (e.g. how the approach helps promote meaningful and sustainable participation of the disadvantaged in the community). There is a need to continue to enhance understanding of the concept and its benefits. The difficulty of measuring social impact and the lack of a common definition of SE however make the task more difficult.

FOSTERING A TRIPARTITE PARTNERSHIP

5. Fostering a tripartite partnership between the community, the business sector and the Government is crucial to help make SEs better businesses. In a way, the emergence of SEs (a business which integrates a commercial approach and a social purpose) was a response to the limitations of traditional welfare solutions to address social problems. The strength of the SE model lies in combining public, private and Third Sector resources and expertise to achieve common social purposes.

Relevant issues

6. While there are more than 200 SEs in Hong Kong², cases of active private sector support and partnerships are however relatively rare. This is partly due to the fact that the concept of SE is not widely understood and accepted in Hong Kong yet, including in the private sector. More importantly perhaps, building sustainable partnerships between the private sector and the Third Sector requires more than just a “mix” of their resources – it requires identification of common missions, active engagement of both parties in matching needs and resources, and in working towards agreed outcomes. It also involves considerations of whether the alliance and business areas fit the image and expertise of both parties. There is a need to convince the private sector of the benefits of SEs to their corporate image and to the community.

Forms of support, mechanism etc.

7. Despite the difficulties, overseas experience demonstrates that sustainable partnerships between the private sector and the Third Sector in SE operations are possible and can be mutually beneficial. Private sector support can come into the following forms -

- (i) as a provider of service contracts to SEs, or as a buyer or user of SE goods and services;
- (ii) providing premises to SEs free of charge or at preferential rental;
- (iii) offering advisory/mentorship service to SEs;
- (iv) providing financial support/loans to SEs.

8. The above are all critical to the survival and growth of SEs. Again,

² Source: Hong Kong Council of Social Service.

experience from existing SEs shows that matching private sector support with the needs of SEs is not an easy process. It is also noteworthy that the support offered by small and medium size enterprises (SMEs) can be as important as those offered by larger corporations (e.g. in rendering business advice to SEs which are usually small businesses). In this regard, the Government can play an important role in fostering a tripartite partnership between the Government, the business sector and non-governmental organizations (NGOs) and play a more facilitating role in establishing a mechanism or platform to channel the support from the private sector to match the needs of aspiring SEs.

PROVIDING CONTINUUM OF SUPPORT

9. Members have explored the various needs of SEs at different developmental stages³, including -

Incubation stage

10. Members consider that more intensive assistance can be given to SEs to develop new viable business proposals -

- (i) New market niche – Members note that it is difficult for SEs/NGOs to conduct market research on their own, and explore new business ideas which SEs have a market niche (under-developed market sectors, or market sectors with lower profit margins which are not served by profit-driven enterprises). Members consider that collective efforts to develop markets would be useful e.g. joint market research to explore market such as the elderly care.
- (ii) District-based approach – Joint market development efforts could focus on district specific business opportunities and needs.

Continuing business support

11. Apart from start-up support, continued business support is also important to help SEs operate and sustain their business in the longer-run. Such support may include -

- (i) advisory and mentorship services;
- (ii) joint marketing, promotion, establishing the SE branding etc.;
- (iii) removing policy barriers (premises, licensing etc.);
- (iv) sourcing of business – such sources can come from the Government, the private sector as well as among the Third Sector. In respect of public contracts, instead of focusing on contracts in existing services which may displace SMEs, NGOs have expressed that it would be more helpful to identify a stable source of new businesses where SEs would have a relative competitive edge, e.g. delivery of personal care services to other disadvantaged groups.

³ Members discussed the subject during a number of occasions, including the luncheon held on 13 March 2007 to explore how to promote private sector support to SE development.

Business financing

12. Members also note that financing is a problem faced by SEs. While the Government can provide SEs with seed-money as start-up support, on-going financial support to SEs by the Government is not desirable as it would create unfair competition with other sectors, esp. SMEs, and it is not conducive to encouraging SEs to become self-sustaining businesses.

13. However, SEs face difficulties in accessing commercial sources of financing due to various reasons, such as unattractive profit margins from a commercial point of view, lack of business credentials and/or collaterals, etc. In respect of business financing, Members suggest that the private sector should be organised to explore alternative ways of financing of SEs, such as a Charity Bank or a Social Enterprise Fund to pool financial resources from the private sector and the community in support of innovative SE ideas. While such ideas are relatively new among the business sector in Hong Kong, there is a growing trend of private sector involvement overseas in community business development and venture philanthropy⁴.

Platform

14. Besides launching programme-based initiatives to address the above needs, it is worthwhile to explore how to provide a continuum of support to SEs based on their individual needs to develop and grow. The Government has a clear role to play in setting up a suitable platform or institutional structure within the Government in support of further SE development. As seen from the above, not all needs in support of SE development should be filled by the Government. There is a need to involve the Third Sector and the private sector to build a tripartite platform to facilitate drawing resources from the different sectors in support of SE development.

ENHANCING UNDERSTANDING

Definition of SEs

15. As mentioned in paragraph 4 above, the lack of a common definition of SEs makes the task to enhance public understanding of the concept more difficult. As discussed previously, the mode of operation and legal forms of SEs are very diverse, and there is no common definition of SEs. Nevertheless, we note that SEs should include the following key distinguishing features –

Simultaneous pursuit of business and social objectives - SEs are characterised by the integration of commercial approaches and social purposes. The social objectives are wide-ranging, e.g. facilitating work integration of the disadvantaged, job creation, building social capital, or environmental protection.

⁴ “Venture philanthropy” emerged in the U.S. in late 1990s, drawing analogy of the approach used by venture capitalists to pool resources and expertise in support of social causes. There are some 100 venture philanthropy funds set up in the U.S. and Europe in the past few years to promote SEs and other innovative social ventures. This new concept also brought a new language to enable people from the business sector to relate to and engage with the Third Sector.

Engagement in business/trading activities - SEs should provide goods and services in return for income. This is a fundamental feature of SEs in using business approaches to achieve social purposes, and which distinguishes them from the traditional welfare type of operations. Since grants are still an important source of start up capital or supplement to ongoing income, the common definition is for SEs to have a certain percentage of their income (e.g. 50%) generated from trading and business activities.

Not-for-profit - SEs should primarily be positioned to achieve social objectives instead of maximising profits. While different legal forms allow some degree of sharing of income among the operators, the profits/surpluses from the operations should principally be reinvested for that purpose in the business or in the community.

16. For the purpose of promoting the concept of SE or building a SE brand, a slightly looser or more accommodating definition may allow more room to encourage its development. For the purpose of developing SE-specific support policies, the Government may need to consider a more operational approach. Overseas experience shows that policies and measures which facilitate SE development do not target at SEs as a type of operation, but rather through providing support to certain objectives which encourages SE development (e.g. providing funds to encourage the delivery of certain social or personal care services).

Role of SMEs

17. In previous discussions relating to SE development, Members have cautioned that the Government should be mindful of the impact of its policies and measures and their potential displacement effects to SMEs. Given SE development is still at a relatively early stage in Hong Kong, Members consider that instead of setting ambitious targets, it would be more important to adopt the right approach and policy positioning to encourage its sustainable development and growth.

ADVICE SOUGHT

18. Members are invited to note the general pointers above and to discuss the future direction to further promote SE development in Hong Kong.

Commission Secretariat
April 2007

Promoting Social Enterprise Development in Hong Kong

Overall objective: To further encourage the development of social enterprises (SEs) as an innovative approach to promote self-reliance and to provide community employment opportunities for the unemployed to integrate into the job market.

Aim	Action
(a) Business facilitation and support	
<p>To consider providing a funding source in support of start-ups of SE for disadvantaged groups other than the disabled.</p>	<ul style="list-style-type: none"> ➤ \$150 million has been allocated to the Home Affairs Department from 2006/07 for five years to support sustainable poverty prevention and alleviation efforts at the district level, including the "<i>Enhancing Self-Reliance Through District Partnership Programme</i>" which provides start-up funding for sustainable SE initiatives. As at February 2007, the Programme has provided funding to 41 SE projects, and is expected to create about 750 jobs.
<p>To empower and motivate social entrepreneurs, including training, facilitating business-mentoring network and sharing of international best practices, etc.</p>	<ul style="list-style-type: none"> ➤ Brainstorming session with members of the Small and Medium Enterprises (SME) Committee and CoP members was held on 24 November 2005. An SE/SME seminar was held on 11 February 2006. <i>Existing support to SMEs would be extended to SEs</i>, including - <ul style="list-style-type: none"> (a) The SME Mentorship Programme; (b) The "Meet-the-Advisors" Business Advisory Service; and (c) Business information and other activities for SMEs. ➤ We have organised the first training course on social entrepreneurship in collaboration with the Hong Kong Council of Social Service and a number of tertiary institutions to cater for the training needs of middle to senior management mid-careers from the NGO or private sector who are interested to operate SE. The programme will be launched in the first half of 2007. ➤ A Hong Kong Social Enterprise Challenge has been launched in the first half of 2007 to encourage students from tertiary institutions in Hong Kong to partner with SEs or NGOs in drawing up viable SE business plans, and to educate them on the needs of the community and the potential benefits of SEs.

Aim	Action
(b) Create an enabling environment	
To consider administrative/policy barriers which hinder the development of SE at the district level and in specific sectors.	<ul style="list-style-type: none"> ➤ The requirement of the Enhancing Employment of People with Disabilities through Small Enterprise Project (“Seed Money” Project) to employ more than 60% of disabled people has been <i>relaxed to 50%</i>. This relaxation should enable SEs to widen their range of business activities and allow more unemployed and disabled persons to benefit. ➤ We shall keep in view the interface between SE development and existing training and employment assistance programmes. ➤ We shall keep in view our regulatory framework and consider how it can be improved to support SE/cooperative development, including the need to have a more modern legal vehicle to promote SE development in Hong Kong.
To promote the concept of SE among those responsible for public procurement at both the central and district level.	<ul style="list-style-type: none"> ➤ The Hospital Authority (HA) has agreed to <i>increase the weighting of employment of disabled persons</i> in awarding contracts from 5% to 10% of the total score. The Administration would continue to see if there could be further increases of this weighting in future in HA as well as other public bodies. ➤ We shall continue to promote the products and services of SEs to those responsible for public procurement at both the central and district level, and we encourage the same among NGOs and the private sector. ➤ We would keep in view how our procuring policies can facilitate SE development.
(c) Establish the value and gain public acceptance	
<p>To conduct research on SE development.</p> <p>To organise forums to further the understanding on SE, and to involve the business sector and the wider community in considering the potential of using SE to assist the able-bodied unemployed.</p>	<ul style="list-style-type: none"> ➤ Central Policy Unit (CPU) has commissioned a <i>research on SE development</i> in Hong Kong and one on overseas experience to enhance understanding on the subject ➤ Jointly organised a <i>Conference on SE</i> with CPU on 6 April 2006 for policy makers, business, academia and others interested in SE development (http://www.seconference.gov.hk/) ➤ A <i>TV series</i> on SE development in Hong Kong and overseas was produced. ➤ A number of seminars and sharing sessions have also been held for relevant policy makers, advisory body members, academia, NGOs etc.