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Subcommittee to Study the Subject of Combating Poverty

Meeting on 8 March 2007

Proposed overseas duty visit to the United Kingdom and Spain

Purpose

This paper invites members to consider a proposal for the Subcommittee to Study the Subject of Combating Poverty (the Subcommittee) to conduct an overseas duty visit to the United Kingdom (UK) and Spain to study the experience of the development of social enterprises in these countries.

Background

2. The Subcommittee agreed at the meeting on 9 November 2006 that it would discuss the development of social enterprises in helping the unemployed and disadvantaged, after completing its study on the subject of elderly in poverty, with a view to drawing up specific recommendations for the Administration's consideration and response. The Subcommittee is working on its report on "Elderly in poverty", and plans to commence the study on the subject of the development of social enterprises in Hong Kong in May 2007.

3. At the meeting on 1 February 2007, a suggestion was made for the Subcommittee to conduct an overseas duty visit to better understand the policies and strategies adopted by UK and Spain in promoting the development of social enterprises, with a view to facilitating members' study on the subject of development of social enterprises in Hong Kong in helping the unemployed and disadvantaged.

4. An information note on an overview of the social enterprise policies and measures of UK and Spain is in **Appendix I**.

Objectives of the proposed visit

5. The objectives of the proposed visit are as follows –
 - (a) to obtain first-hand information on the strategies and measures designed specifically for promoting the development of social enterprises to provide employment opportunities for the unemployed and disadvantaged to integrate into the job market;
 - (b) to study the experience in the development of social enterprises, in particular their financing, operation and management; and
 - (c) to exchange views with the relevant parties involved in the development and operation of social enterprises.

Proposed timing of the visit

6. To tie in with the Subcommittee's work plan, the proposed visit is tentatively proposed for early August 2007. Taking into account the flight time and the schedule for visiting the organisations concerned and exchanging views with the relevant parties, it is suggested that the proposed visit lasts seven days. Subject to members' decision on the proposed visit, the Secretariat will liaise with the host organisations to work out the best timing of the visit.

Proposed budget of the visit

7. As approved by The Legislative Council Commission, each Member is provided with an overseas duty visit account of \$55,000 for the purpose of duty visits outside Hong Kong organised by committees of the Council. The fund in the account is for use by the Member in a four-year term. Any expenditure incurred in excess of the available balance in a four-year term has to be paid by the Member personally.

8. A rough estimate of costs of the proposed duty visit has been prepared in **Appendix II** on the assumption that the Subcommittee will visit UK and Spain for seven days in early August 2007.

Advice sought

9. Members are invited to advise whether the Subcommittee should

conduct the proposed duty visit to UK and Spain with the objectives set out in paragraph 5 above. Subject to members' decision, the Secretariat will work out the details of the proposed duty visit.

Council Business Division 2
Legislative Council Secretariat
2 March 2007

INFORMATION NOTE

Overview of Social Enterprise Policies and Measures of the United Kingdom and Spain

1. Introduction

1.1 At its meeting held on 1 February 2007, the Subcommittee to Study the Subject of Combating Poverty proposed to undertake an overseas duty visit to selected places to study the operation of their social enterprises. In this regard, this information note provides Members with information on the emergence of social enterprises in developed economies and social enterprise policies and measures adopted in the United Kingdom (UK) and Spain.

1.2 The UK is selected because the UK government has established a distinct legal identity for social enterprises and carried out some pioneering works to improve social enterprises' access to finance. Spain is selected because the Spanish government has used social enterprises as a means to alleviate the unemployment problem and social enterprises have involved in the operation of almost all economic sectors in Spain.

2. Emergence of social enterprises

2.1 In developed economies, not-for-profit organizations have long engaged in income-generating activities and businesses to supplement or complement their mission activities. For example, the first co-operative was established in the UK in 1844 to run businesses to cater for the needs of their members. Since the 1980s, such income-generating activities by not-for-profit organizations have soared and they are commonly grouped under the umbrella terms of "social enterprise"/"social economy"/"social entrepreneurship". Although there is no universally accepted definition for these terms, the notion of entrepreneurial activities being conducted for social purposes is considered pertaining to such terms.

2.2 The growth in social entrepreneurial activities is a result of the not-for-profit organizations' quest for financial sustainability as their financial support from traditional, philanthropic, and government sources is declining. In addition, the governments of many developed economies are committed to promote these entrepreneurial activities because they believe that this type of entrepreneurial activities is a vehicle to tackle social problems (e.g. unemployment) and boost the economy.

3. Social enterprise policies and measures of the United Kingdom and Spain

3.1 Social enterprise policies and measures adopted in the United Kingdom and Spain are presented in the following tables.

Table 1 — Official definition of social enterprises

United Kingdom	Spain
<ul style="list-style-type: none"> The UK government defines a social enterprise as "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners"¹ 	<ul style="list-style-type: none"> According to Spanish laws, social economy enterprises are specific forms of organizations which engage in the production and trading of goods and services, and the purpose of engaging in those activities is to fulfil social interest²

Table 2 — Social enterprise sector

	United Kingdom	Spain
Statistics of the sector in 2004	<ul style="list-style-type: none"> Around 55 000 social enterprises Estimated turnover of £27 billion (HK\$400 billion) Accounting for 2.8% of GDP Accounting for 2.5% of all private sector employment 	<ul style="list-style-type: none"> Around 48 000 social economy enterprises Estimated turnover of €87 billion (HK\$889 billion) Accounting for over 7% of GDP Accounting for 25% of total working population
Types	<ul style="list-style-type: none"> Charity trading arms Community businesses Co-operatives Community development finance institutions Social firms 	<ul style="list-style-type: none"> Co-operatives Labour societies (employee-owned companies) Mutual societies Social insertion companies³ Sheltered employment centres

¹ *Social Enterprise: A Strategy for Success* (2002), p.13.

² *Summary of the Report on the Social Economy in Spain in the Year 2000*, p.17.

³ Enterprises that provide jobs for those who are disadvantaged in the labour market e.g. long-term unemployed.

Table 2 — Social enterprise sector (cont'd)

	United Kingdom	Spain
Fields of activities	<ul style="list-style-type: none"> 92% of production and trading activities of social enterprises in 2004 were in the service sectors and the rest were in other economic sectors 	<ul style="list-style-type: none"> In the 4th quarter of 2006, the proportion of production and trading activities of social economy enterprises in the service, industrial, construction and agricultural sectors was 53.6%, 22.6%, 13.5% and 10.3% respectively
Size of social enterprises	<ul style="list-style-type: none"> Over 80% are micro (less than 10 employees) and small (11 to 49 employees) enterprises 	<ul style="list-style-type: none"> 96% of the co-operatives are micro and small enterprises Mondragón Corporacion Cooperativa (MCC) (one of the world's largest co-operatives) had a workforce of 70 884 in 2004
Problems faced by the sector	<ul style="list-style-type: none"> Poor understanding of the sector by various segments of the society Lacking a specific regulatory framework for social enterprises Difficulties in fund-raising for business purposes Insufficient business support for the sector 	<ul style="list-style-type: none"> Insufficient understanding of social economy enterprises Lacking a specific regulatory framework for social insertion companies Difficulties in fund-raising for starting a business Insufficient business support for the sector
Organization representing the sector	<ul style="list-style-type: none"> Social Enterprise Coalition 	<ul style="list-style-type: none"> Spanish Business Confederation of the Social Economy

Table 3 — Social enterprise policies and measures

	United Kingdom	Spain
Responsible ministry	<ul style="list-style-type: none"> Office of the Third Sector under the Cabinet Office 	<ul style="list-style-type: none"> Ministry of Labour and Social Affairs
Relevant policy papers	<ul style="list-style-type: none"> <i>Social Enterprise: A Strategy for Success</i> (2002) <i>Social Enterprise Action Plan: Scaling New Heights</i> (2006) 	<ul style="list-style-type: none"> <i>Convergence and Employment: The Spanish National Reform Program</i> (2005) <i>National Report on Strategies for Social Protection and Social Inclusion of the Kingdom of Spain 2006-2008</i> <i>Labour and Social Affairs Guide 2006</i>
Policy objective	<ul style="list-style-type: none"> Tackling social exclusion⁴ and creating a strong, sustainable and socially inclusive economy 	<ul style="list-style-type: none"> Promoting access to employment and fighting against poverty and social exclusion
Legal framework	<ul style="list-style-type: none"> Social enterprises are established under a range of legal forms e.g. companies and co-operatives Community interest companies (a legal form specifically designed for social enterprises introduced in 2004) 	<ul style="list-style-type: none"> Social economy enterprises are established under a range of legal forms e.g. companies and co-operatives No specifically designed legal form for social economy enterprises
Policies and measures to promote social enterprises	<ul style="list-style-type: none"> Creating an enabling environment for social enterprises <ol style="list-style-type: none"> Implementing a comprehensive social enterprise strategy Establishing a specific regulatory framework for social enterprises i.e. community interest companies Involving social enterprises in public service delivery 	<ul style="list-style-type: none"> Encouraging the unemployed to form self-employed social economy enterprises <ol style="list-style-type: none"> Allowing one-off collection of unemployment benefits by the eligible unemployed in order to start a self-employed social economy enterprise Subsidy for feasibility study of a business project Subsidy to obtain loans for investment

⁴ The Social Exclusion Unit of the Cabinet Office explains that "social exclusion happens when people or places suffer from a series of problems such as unemployment, discrimination, poor skills, low income, poor housing, high crime, ill health and family breakdown".

Table 3 — Social enterprise policies and measures (cont'd)

	United Kingdom	Spain
Policies and measures to promote social enterprises (cont'd)	<ul style="list-style-type: none"> • Making social enterprises better businesses <ul style="list-style-type: none"> (a) Social enterprises access to finance through community development finance institutions (b) Business support and training for social enterprises • Establishing the value of social enterprises <ul style="list-style-type: none"> (a) Building the knowledge base on social enterprises (b) Raising public awareness of the social enterprise sector 	<ul style="list-style-type: none"> • Encouraging social economy enterprises to incorporate the disadvantaged labour force into workplace through tax incentives • Encouraging the unemployed and disadvantaged labour force to create and sustain social economy enterprises through subsidies <ul style="list-style-type: none"> (a) Allowing one-off collection of unemployment benefits by the eligible unemployed in order to join or start a social economy enterprise (b) Subsidy for social economy enterprises to invest in fixed assets for start-up, consolidation or improvement of their competitiveness (c) Subsidy for social economy enterprises to buy business support services • Subsidy for approved organizations to conduct training, promotion and dissemination of social economy activities
Forthcoming policies and measures	<ul style="list-style-type: none"> • Involvement of younger generations in the social enterprise sector • Attracting more private investment in social enterprises • Increasing the involvement of social enterprises in the delivery of public services 	<ul style="list-style-type: none"> • Enacting laws to regulate social insertion companies • Enacting laws to ensure the right of dependent people (e.g. the elderly) to access to social services instead of depending on the care of family members - social economy enterprises will be benefited from the creation of the estimated 300 000 new jobs

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**Subcommittee to Study the Subject of Combating Poverty
Proposed overseas duty visit in August 2007**

Duration of visit : early August 2007 (7 days)

Routing of visit : Hong Kong / London / Madrid / London / Hong Kong

Breakdown of expenses

Items	Estimated expenses HK\$ (per person)		
	<u>Economy class</u>	<u>World Traveller Plus</u>	<u>Business class</u>
1. Return air passage (British Airways) Hong Kong / London / Madrid / London / Hong Kong	7,500	12,500	49,000
2. Hotel accommodation			
(a) London (3 nights)		4,700	
(b) Madrid (3 nights)		3,400	
3. Overseas subsistence allowance			
(a) London		3,200	
(b) Madrid		2,300	
4. Travel insurance		500	
5. Airport tax & TIC fee	2,600	2,600	3,400
TOTAL :	24,200	29,200	66,500

NOTE :

- Other expenditure including hospitality, local group transportation, interpretation services and souvenirs will be charged against other votes of the Secretariat.
- Exchange rates as at mid-February 2007 –
 HK\$1522 = 100 GBP
 HK\$1021 = 100 EUR