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Subcommittee to Study the Subject of Combating Poverty

**Updated background brief prepared by
the Legislative Council Secretariat for the meeting on 12 December 2007**

Social enterprise development in Hong Kong

Purpose

This paper provides an update of social enterprise (SE) development in Hong Kong and a gist of discussions held by Members of the Legislative Council (LegCo) on the subject.

Background

2. The Subcommittee to Study the Subject of Combating Poverty (the Subcommittee) agreed at the meeting on 9 November 2006 that it would study the development of SE in helping the unemployed and disadvantaged, after completing its study on elderly in poverty. The Subcommittee commenced its study on the development of SE in Hong Kong in July 2007.

Definition of SE

3. Presently, there is no common definition of SEs in Hong Kong. According to the Commission on Poverty (CoP), one key distinguishing feature of SEs is the conduct of activities with both a commercial and a social purpose. SEs should also include the following features –

- (a) simultaneous pursuit of business and social objectives: SEs are characterised by the integration of commercial approaches and social purposes;
- (b) engagement in business/trading activities: SEs should provide goods and services in return for income; and

- (c) not-for-profit: SEs should primarily be positioned to achieved social objectives instead of maximising profits.

Present situation of SEs in Hong Kong

4. While the Government does not have formal statistics on how large the SE sector is in Hong Kong, the Hong Kong Council of Social Service (HKCSS) has indicated that there are more than 200 SEs in Hong Kong. Based on the information provided by SEs to the Social Enterprise Resource Centre of HKCSS, most SEs in Hong are small scale and some 1 100 persons were working in the SE sector as at January 2006.

5. The mode of operation of SEs in Hong Kong can be divided mainly into the following three models –

- (a) *enterprises* : some SEs are subsidiaries of for-profit businesses which run well-developed corporate social responsibility programmes alongside their business operations;
- (b) *co-operative* : some SEs are run by charities and non-profit making 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) *local community economy* : some SEs stem from projects supported by Government seed funding. Most of them have long-term financial self-sufficiency as the aim but are currently at various stages of cost recovery.

Policy initiatives to promote SE development

6. The Chief Executive has pledged in his election platform to further promote the development of SE by promoting tri-partite collaboration among the Government, the business sector and the community.

7. The Financial Secretary stated in his 2006-2007 Budget speech that the Administration would assist further in the development of SE, such as by setting up seed funds to assist the formation of SEs and facilitating participation by SEs in tenders of Government contracts.

8. In the Report of CoP released in June 2007, CoP has taken the view that SE development in Hong Kong should be further encouraged as an innovative approach to promote self-reliance and provide community employment opportunities for the unemployed to integrate into the job

market. Upon the re-organisation of policy bureaux of the Government Secretariat with effect from 1 July 2007, the policy on SE is put under the Secretary for Home Affairs for the adoption of a district-approach to promote SE.

Start-up funds for SE development

9. To provide a funding source in support of start-up of SEs, the Administration has launched the following funding schemes –

Enhancing Employment of People with Disabilities through Small Enterprise Project

10. To promote an enterprise-driven approach to create employment opportunities for people with disabilities (PWDs) and train up disabled persons with lower work ability for open employment, a one-off provision of \$50 million was announced in the 2001-2002 Budget for the implementation of the Enhancing Employment of People with Disabilities through Small Enterprise Project ("Seed Money" Project) administered by the Social Welfare Department. Non-governmental organisations (NGOs) can apply for a maximum grant of \$2 million to support the initial capital expenditure and the first-year operation. The businesses should be self-sustaining in the long run and employing PWDs to fill no less than 60% of its total number of posts. As at June 2005, there were 31 approved businesses operating in the retail, catering, car cleaning, repair and maintenance, laundry, recycling, tele-survey service, mobile massage, travel and conference service, and eco-tourism industries. These 31 SEs created 396 posts (290 for PWDs and 106 for able-bodied).

Enhancing Self-Reliance Through District Partnership Programme

11. In the 2006-2007 Budget, \$150 million has been allocated to the Home Affairs Department for five years as from 2006-2007 for the launch of the Enhancing Self-Reliance Through District Partnership Programme which provides support for SE development at the district level. As at February 2007, 41 projects have been approved with about 750 jobs expected to be created for the socially disadvantaged in various business areas, including household services, fitting-out works, retail, beauty care/massage, catering, recycling, guided tours and elderly services.

Community Investment and Inclusion Fund (CIIF)

12. SE projects may also be funded by CIIF. The \$300 million CIIF was set up in 2002 and administered by the Health, Welfare and Food Bureau. It aims to promote the development of "social capital" and encourage innovative solutions through cross-sectoral partnerships to build community

capacity for mutual help. As of October 2007, 11 batches of applications were processed and 147 projects approved with funding totalling over \$110 million, and involving over 320 000 participants.

Past discussions on the development of SE

13. The Subcommittee and the Panel on Welfare Services had discussed at a number of meetings the Government's policy in providing support for SE development, and the problems and difficulties faced by SEs as well as the progress of start-up funds for the development of SE. On 10 July 2007, the Subcommittee discussed with the Administration its initiatives to foster the development of SE, including providing start-up support for SEs, and organising forums and a summit on SE to explore the possible way forward for the further SE development in Hong Kong.

14. On 14 June 2006, LegCo passed a motion on "Vigorously promoting the development of SE". The Administration was urged to implement measures to promote vigorously the development of SE, with the objectives of enhancing social capabilities and establishing positive social values. Another motion on "Urging the Government to make effective use of the surplus and plough it back into the community" was passed on 24 January 2007. The motion urged the Administration to, among other things, accord priority to alleviating the disparity between the rich and the poor and protecting the interests of the grass-roots workers and the disadvantaged groups by making effective use of the Government's surplus and investing more resources in promoting the development of SE.

15. On 5 December 2007, LegCo passed a motion on "Promoting SEs". The Administration was urged to formulate policies to effectively promote SEs in order to alleviate the hardship of elementary workers and narrow the gap between the rich and the poor.

16. The discussions held in various forums on the subject of SEs are summarised in the ensuing paragraphs.

Limitation of SE development

17. During motion debates and discussions on the subject of SE development in Hong Kong, Members were generally in support of the policy initiatives to promote SE development. They highlighted the following major problems which had hindered the further development of SE.

Lack of the relevant business entrepreneurship and profession

18. Some Members pointed out that overseas experience showed that a

critical factor for SEs to survive and be sustainable was a real enterprising spirit and a mentality to compete and operate like a business, i.e. SEs should have long-term financial self-sufficiency. For a SE to be sustainable, social entrepreneurs would need to possess good business, financial and personal cashflow management expertise. Members expressed concern that despite the increasing number of enterprising NGOs, there was a general lack of personnel in the NGO/welfare sector with professional business experience to operate SEs. This limited the development of successful SEs, and it would take time to nurture such "social entrepreneurs".

19. The Administration advised that to empower and motivate social entrepreneurs, existing support for small and medium enterprises (SMEs) would be extended to SEs. These included the SME Mentorship Programme, "Meet-the Advisors" Business Advisory Service and business information and other activities for SMEs. In addition, the Administration had organised a training course on social entrepreneurship in collaboration with HKCSS and a number of tertiary institutions to cater for the training needs of middle to senior management from NGOs or the private sector who were interested to operate SE.

Administrative, legal and regulatory barriers

20. At present, under the Co-operative Societies Ordinance (Cap. 33), all co-operatives should have a minimum of 10 members. Some Members considered that the threshold had hindered the formation of co-operatives of SE nature at the local community level for providing domestic cleansing, child care and post-natal services. They urged the Administration to review the membership size requirement of co-operatives in the Co-operative Societies Ordinance.

21. The Administration advised that too small a membership was not conducive to the smooth operation of co-operatives, which usually involved a lot of practical tasks requiring division of labour. The restriction under the Co-operative Societies Ordinance for all co-operatives to have a minimum number of 10 members was only of secondary concern. The major difficulties faced by the co-operatives and potential co-operatives were the lack of start-up capital, and insufficient experience and professional knowledge in starting and running a business. The Administration further advised that as co-operatives were one form of SEs, it would examine whether amending the Co-operative Societies Ordinance was the best way forward, or if amendments to the Companies Ordinance (Cap. 32) was more appropriate for establishing a more modern legal entity to promote SE development in Hong Kong, similar to the Community Interest Companies (CICs) in the United Kingdom (UK). The UK introduced in 2005 CICs as a new type of companies which were designed specifically for those wishing to operate for the benefit of the community rather than for the benefit of the owners of the company.

22. Members noted that participation by SEs in tenders for Government contracts would be subject to the general procurement procedures. Given that most SEs were run by NGOs, they did not have the relevant experience and capital for bidding Government service contracts. Noting that the Hospital Authority (HA) had agreed to increase the weighting of employment of PWDs in awarding contracts from 5% to 10% of the total score, some Members considered that a similar treatment should be provided under the existing Government procurement procedures for awarding Government service contracts to those SEs which would create employment opportunities for socially disadvantaged groups.

23. The Administration advised that while it would consider whether the weighting of employment of PWDs in awarding contracts could be further increased in future by HA and other public bodies, the participation by SEs in tenders for Government contracts would be subject to the same principles of transparency, fairness and value for money for Government procurement. It would be for individual procuring departments to decide on the weighting for the employment of PWDs and unemployed persons, in the light of their specific needs.

24. The Administration further advised that the requirement of the Enhancing Employment of People with Disabilities through Small Enterprise Project to employ more than 60% of PWDs had been relaxed to 50%. The relaxation would enable SEs to widen their range of business activities and allow more unemployed persons and PWDs to benefit.

Access to finance

25. Some Members pointed out that financing was a major problem faced by SEs. Although the Government could provide SEs with seed money as start-up support, it was not desirable for the Government to provide on-going financial support as it would create unfair competition with other sectors, especially SMEs; it was also not conducive to encouraging SEs to become self-sustaining businesses. Since SEs faced difficulties in accessing commercial sources of financing due to various reasons, such as lack of business credentials, these Members considered that the Administration should encourage the private sector to explore ways for financing SEs.

26. While funding and seed money were provided for SE projects, some Members expressed concern that the slow pace of disbursement of fund and the stringent approving criteria would hinder the smooth operation of SEs.

Measures to promote SE development

27. To further encourage the development of SE as an approach to provide employment opportunities for the unemployed and disadvantaged to

integrate into the job market, Members had put forth the following recommendations –

- (a) formulating an overall policy to support the development of SE;
- (b) establishing a high-level cross-bureau task force to formulate overall strategies for developing SE;
- (c) eliminating administrative and policy barriers which might hinder the development of SE, including –
 - (i) creating an environment conducive to their growth;
 - (ii) reviewing the Co-operative Societies Ordinance and the Companies Ordinance with a view to providing more flexibility for the formation of co-operatives;
 - (iii) studying the best form of legal entity for SE development; and
 - (iv) providing a definition of SE;
- (d) mobilising resources at the district level to assist NGOs to operate SEs on a sustainable basis, e.g. District Officers should identify suitable venues and coordinate support services for the smooth operation of SEs;
- (e) providing more support for the social partnership programmes, including –
 - (i) offering advisory and mentorship service to SEs, e.g. the Administration should enlist the assistance of SMEs who would act as business mentor for the potential entrants of SE projects;
 - (ii) organising social entrepreneurship training including focused social entrepreneurship training for NGOs and facilitating cross-sectoral collaboration;
 - (iii) providing SEs with one-stop support, training and consultancy services, such as establishing a SE operation support centre to provide such services;

- (iv) providing seed money, short term rent remission and tax concession for SEs, and offering further tax concession to SEs which employ a certain proportion of unemployed persons and PWDs;
 - (v) providing loan guarantee and setting up marketing, training and development funds for SEs, with reference to the modes of the funding schemes implemented by the Government for SMEs;
 - (vi) encouraging private enterprises to offer rent concession for SEs;
 - (vii) reviewing the criteria for awarding Government service contracts for SEs, such as giving more weight to the employment of socially disadvantaged groups and the creation of employment opportunity when awarding Government service contracts, and reserving a certain percentage of the procurement of Government goods and services for SEs; and
- (f) enhancing the awareness of the business sector and the public about SEs and promoting their acceptance of SEs.

Latest development

28. The Administration will brief the Subcommittee on 11 December 2007 about the details and preparations for the Summit on Social Enterprises.

Relevant papers

29. A list of relevant papers and documents is in the **Appendix** for members' easy reference. The papers and documents are available on the LegCo website at <http://www.legco.gov.hk>.

Relevant Papers/Documents

<u>Meeting</u>	<u>Meeting Date</u>	<u>Papers/Questions</u>
Legislative Council	14.6.2006	Motion on vigorously promoting the development of social enterprise
	24.1.2007	Motion on urging the Government to make effective use of the surplus and plough it back into the community
	5.12.2007	Motion on urging the Government to promote social enterprises
Subcommittee to Study the Subject of Combating Poverty	25.1.2006	Minutes of meeting LC Paper No. CB(2)2488/05-06
	28.2.2006	Minutes of meeting LC Paper No. CB(2)1820/05-06
	22.6.2006	Papers provided by the Administration LC Paper No. CB(2)2461/05-06(01) LC Paper No. CB(2)2461/05-06(02) LC Paper No. CB(2)2477/05-06(01) Minutes of meeting LC Paper No. CB(2)323/06-07
	5.10.2006	Minutes of meeting LC Paper No. CB(2)506/06-07
	9.11.2006	Paper provided by the Administration LC Paper No. CB(2)250/06-07(01) Minutes of meeting LC Paper No. CB(2)806/06-07
	10.7.2007	Paper provided by the Administration LC Paper No. CB(2)2386/06-07(01) Minutes of meeting LC Paper No. CB(2)2744/06-07

Panel on Welfare Services	8.5.2006	Paper provided by the Administration LC Paper No. CB(2)1874/05-06(03) Minutes of meeting LC Paper No. CB(2)2264/05-06
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