

**SUBCOMMITTEE TO STUDY THE  
SUBJECT OF COMBATING POVERTY**

**REPORT ON  
DEVELOPMENT OF SOCIAL  
ENTERPRISE**

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Legislative Council of the  
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## Chapter 1 – Introduction

### Background

1.1 The Chief Executive (CE) pledged in his election platform in February 2007 to further promote the development of social enterprise by promoting tri-partite collaboration among the Government, the business sector and the community. In his Policy Address 2007-2008, CE announced that a summit on social enterprises would be organized before end of 2007 to promote understanding of social enterprise and provide a platform for the Government, the business sector, academics and non-governmental organizations (NGOs) to explore the way forward for the further development of social enterprise in Hong Kong. The Summit on Social Enterprise was held on 20 December 2007.

1.2 Separately, the Financial Secretary stated in his 2006-2007 Budget speech that the Administration would assist further in the development of social enterprise, such as by setting up seed funds to assist the formation of social enterprises and facilitating participation by social enterprises in tenders of Government contracts.

1.3 In the Report of the Commission on Poverty (CoP) released in June 2007, CoP took the view that social enterprise 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-organization of policy bureaux of the Government Secretariat with effect from 1 July 2007, the policy on social enterprises had been put under the Secretary for Home Affairs for the adoption of a district-approach to promote social enterprises.

1.4 Various committees of the Legislative Council (LegCo) had discussed different aspects of fostering development of social enterprise. It was also the subject of a number of motion debates in LegCo. On 14 June 2006, LegCo passed a motion on "Vigorously promoting the development of social enterprise". The Administration was urged to implement measures to promote vigorously the development of social enterprise, 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 social enterprise.

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

### **The Subcommittee**

1.6 The Subcommittee to Study the Subject of Combating Poverty (the Subcommittee) was formed under the House Committee on 14 November 2004. The membership list of the Subcommittee is in **Appendix I**. The Subcommittee completed its studies on "Working Poverty", "Women in Poverty" and "Elderly in Poverty" and presented the respective reports to the House Committee in February and June 2006, and June 2007.

1.7 The Subcommittee has conducted a study on another subject of "Development of social enterprise" and has now completed its work. In the course of the study, the Subcommittee has discussed with the Administration the policy on and measures to foster the development of social enterprise. The Subcommittee has also gauged the views of the social enterprise sector on the operation of social enterprises in Hong Kong, the problems faced by the sector, and the measures to address the problems faced by the sector. A list of organizations which have presented views to the Subcommittee is in **Appendix II**.

1.8 To assist the Subcommittee in its work, the LegCo Secretariat has conducted research studies on the social enterprise policies of the United Kingdom (UK), Spain and Hong Kong [RP03/07-08]. The executive summary of the research report is in **Appendix III**.

1.9 In September 2007, a delegation of the Subcommittee visited Spain and UK to study how these countries formulate and implement strategies and measures to foster the development of social enterprise to provide opportunities for the unemployed and disadvantaged to integrate into the job market. The report of the delegation on the duty visit has been provided to the House Committee [LC Paper No. CB(2)393/07-08] in November 2007.

1.10 This report summarizes the Subcommittee's discussions and recommendations on the subject of promoting the development of social enterprise in Hong Kong. The Subcommittee will forward the report to the House Committee for information and the Administration for consideration.

## Chapter 2 – Present situation of social enterprises

### Concept of social enterprise

2.1 Social enterprise is generally regarded as a business with primarily social objectives. Its surpluses are mostly reinvested for that purpose in the business or in the community, rather than maximizing profit for shareholders and owners. The principal vision of social enterprise is to promote the concept of helping people to be self-reliant.

### Definition of social enterprises

2.2 There is no common definition of social enterprises in Hong Kong. The Subcommittee takes the view that social enterprises involve business with the ultimate mission to achieve social objectives. Social enterprises' aim is not to maximize profit, but to generate revenue in support of the social mission. Social enterprises should also include the following features –

- (a) pursuit of social objectives through adopting entrepreneurial strategy and business model;
- (b) engagement in business/trading activities: social enterprises should provide goods and services in return for income; and
- (c) social enterprises should primarily be positioned to achieve social objectives, and reinvest the profits in the enterprises.

### Statistics on social enterprises in Hong Kong

2.3 While the Government does not have formal statistics on how large the social enterprise sector is in Hong Kong, the Hong Kong Council of Social Service (HKCSS) has indicated that there are more than 200 social enterprises locally.

2.4 The mode of operation of social enterprises in Hong Kong can be classified mainly into the following three models –

- (a) *enterprises*: some social enterprises are subsidiaries of for-profit businesses which run well-developed corporate social responsibility programmes alongside their business operations;
- (b) *co-operatives*: some social enterprises, including self-help groups and mutual-help groups, are run by charities and non-profit making organizations (either directly or through a subsidiary) which have become entrepreneurial and integrated some of their welfare programmes with market operation; and
- (c) *local community economy*: some social enterprises 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.

2.5 The mode of operation of social enterprises is very diverse. Some are run by charities and not-for-profit organizations which have become entrepreneurial, with some of their welfare programmes being integrated with market operation. Others stem from businesses supported by the Seed Money Project (see paragraph 2.8 below) and the Community Investment and Inclusion Fund (see paragraph 2.11 below).

2.6 Based on the information provided by social enterprises to the Social Enterprise Resource Centre of HKCSS, most social enterprises in Hong Kong are small scale. Some 1 100 persons were working in the social enterprise sector as at January 2006, and the most common businesses operated by these enterprises were product manufacturing and sales (30%), domestic services (29%), catering services (13%), cleansing services (11%) and personal care services (5%).

### **Start-up funds for social enterprises**

2.7 To provide a funding source in support of start-up of social enterprises, the Administration has launched the following funding schemes –

#### Enhancing Employment of People with Disabilities through Small Enterprise Project

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2.8 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 employment, a one-off provision of \$50 million was announced in the 2001-2002 Budget for the implementation of a Enhancing Employment of People with Disabilities through Small Enterprise Project (Seed Money Project) administered by the Social Welfare Department. 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 social enterprises created 396 posts (290 for PWDs and 106 for able-bodied).

#### Enhancing Self-Reliance Through District Partnership Programme

2.9 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 a Enhancing Self-Reliance Through District Partnership Programme which provides grants for NGOs to carry out social enterprise projects to promote self-reliance of the socially disadvantaged. In addition to deriving economic benefits, the approved projects aim to achieve social objectives, which include enhancing the employability of the socially disadvantaged and their self-confidence as well as promoting social harmony.

2.10 The Programme provides seed money for social enterprise projects at a ceiling of \$3 million for each project and a maximum funding period of two years. After the funding period, the social enterprises will have to maintain sustainability and operate on a self-financing basis. As at November 2007, the



Programme has granted about \$51 million to over 50 projects which help create employment opportunities for the socially disadvantaged. These social enterprises include wide-ranging businesses such as eco-tourism, waste recycling, escort service for out-patients, organic farming, household services, etc.

### Community Investment and Inclusion Fund

2.11 Social enterprise projects may also be funded by the Community Investment and Inclusion Fund (CIIF). The \$300 million CIIF was set up in 2002 and administered by the Health, Welfare and Food Bureau (currently the Labour and Welfare 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 had been processed and 147 projects approved with funding totalling over \$110 million and involving over 320 000 participants.

### **Summit on Social Enterprise**

2.12 The Subcommittee was updated on the preparation of the Summit at the meeting on 11 December 2007. Members were advised that two overseas social entrepreneurs would be invited to give keynote speeches at the Summit. Representatives from different sectors such as the business sector, academics, NGOs, operators of local social enterprises, public bodies, district councils as well as Members of the LegCo would be invited to attend the Summit. According to the Administration, it would formulate an action plan on the further development of social enterprise taking into account the experience and views highlighted during the Summit.

2.13 The Summit on Social Enterprise was held on 20 December 2007.

## Chapter 3 – Problems faced by the social enterprise sector

### General

3.1 The Subcommittee is of the view that the social enterprise sector faces the following major problems –

- (a) lack of Government commitment in promoting and policy support for the sector's development;
- (b) lack of a clear public understanding and definition of social enterprises;
- (c) lack of the relevant business entrepreneurship and profession;
- (d) lack of an appropriate legal and regulatory framework to facilitate the sector's development; and
- (e) difficulties in gaining access to finance.

### **Lack of Government's commitment in promoting and support for the sector's development**

3.2 Some members point out that according to overseas experience, the Governments have shown a strong commitment in promoting and supporting social enterprises. Concrete measures for business facilitation and support have been put in place to improve social enterprises' access to appropriate finance, to provide start-up grants and aids as well as tax incentives and subsidies for social enterprise projects for the unemployed and disadvantaged. It is noteworthy that these support measures are neither launched as an ad hoc scheme nor a one-off programme. The Subcommittee notes that the Administration has yet to formulate a policy and an action plan for fostering social enterprise development, not to mention a long-term strategy for supporting the development of the sector. Given that the start-up grants are time-specific, most social enterprise projects operated by NGOs are short-term programmes, instead of a business plan.

3.3 In the absence of a clear policy direction, members have expressed concern at the administrative and regulatory barriers to the development of social enterprise.

3.4 According to the Administration, participation by social enterprises in tenders for Government contracts are subject to the general procurement procedures, given that the World Trade Organization Agreement on Government Procurement is applicable to Hong Kong. Members point out that as most social enterprises are run by NGOs, they do not have the relevant experience and capital for bidding Government service contracts. As a result, social enterprises are less competitive than other commercial organizations in bidding for such contracts. Consideration should be given to awarding more restricted tenders of Government services for social enterprises.

3.5 Some members are concerned that the current mode of social enterprise development is confined to small-scale pilot projects at the district level. The number of job opportunities so created is far from adequate for the unemployed.

3.6 These apart, the Subcommittee notes that many business overheads such as rents are high and have posed a challenge to all small enterprises and start-ups, in particular to social enterprises. Deputations share the Subcommittee's observation and advise that the major problem in operating social enterprises is cost control having regard to the soaring rentals. To save rent, some social enterprises often look for shops managed by the Housing Authority, but cannot find suitable venues. They therefore change their plans and eventually settle on shops in shopping centres which charge a lower rent but with a reasonable flow of customers.

3.7 As a number of social enterprises are operating in the mode of co-operatives, some members are concerned about the operational problems faced by co-operatives. For instance, members of co-operatives are regarded as self-employed and are required to make contributions to the Mandatory Provident Funds (MPF) in their dual capacity as employers and employees. These members urge the Administration to exempt co-operatives from the usual statutory business obligations such as business registration, profits tax, MPF contributions and employees' insurance.

### **Lack of a clear public understanding and definition of social enterprises**

3.8 The Subcommittee notes that social enterprise is a new concept which is not widely understood by the private sector, the welfare sector and the public. As shown from the findings of the survey conducted by a NGO in 2007, of the 541 respondents, 63.2% of them did not understand the concept of social enterprise and 81.7% were not aware of the Government's measures to promote the development of social enterprise in Hong Kong.

3.9 The Subcommittee takes the view that the lack of a definition of social enterprises has led to various misconception and misunderstanding of the objectives and operations of social enterprises, in particular the emergence of social enterprises has given rise to a worry about unfair competition with the small and medium enterprises (SMEs) if too much Government support is provided for the social enterprise sector to run business on a commercial basis. As a result, some SMEs might have reservations about lending support to social enterprises, particularly in offering advisory and mentorship service to their "competitors" to operate business. Some members disagree with the view that social enterprises and the business sector are competing with each other, having regard to the social objectives of social enterprises.

3.10 Deputations also advise that the employment of workers by and operation of social enterprises are essentially the same as other business corporations in the respective industries, i.e. they are offering market rentals and wages in accordance with the levels stipulated under the wage protection movement. As a matter of fact, some social enterprises have recorded loss, and some have already driven out of the market. Social enterprise operators stress that they are not competing with the business sector.

3.11 The Subcommittee takes the view that there is a need to continue to enhance understanding of the concept of social enterprise and its benefits. The difficulty of measuring social impact and the lack of a common definition of social enterprise have, however, made this task difficult.

### **Lack of the relevant business entrepreneurship and profession**

3.12 Overseas experience shows that a critical factor for social enterprises to survive and be sustainable is a real enterprising spirit and a mentality to compete and operate like a business, i.e. social enterprises should have long-term financial self-sufficiency. The Subcommittee agrees with the view that for a social enterprise to be sustainable, social entrepreneurs will need to possess good business, financial and personal cashflow management expertise.

3.13 The Subcommittee points out that the major difficulties faced by the local social enterprises in operation in Hong Kong, and by potential social enterprises, are the lack of relevant experience and professional knowledge in starting and running a business. Members are particularly concerned that despite the increasing number of enterprising NGOs, there is a general lack of personnel in NGOs and the welfare sector with business mindset, market sensitivity and business experience to operate social enterprises like a business. This limits the development of successful social enterprises, and it will take time to nurture such "social entrepreneurs".

### **Lack of an appropriate legal and regulatory framework**

3.14 At present, the Co-operative Societies Ordinance (Cap. 33) provides the legal framework for the establishment of cooperatives of social enterprise nature, but not social enterprises with other modes of operation.

3.15 Under the Co-operative Societies Ordinance, all co-operatives should have a minimum of 10 members. Some members are of the view that the threshold has hindered the formation of co-operatives of social enterprise nature at the local community level for providing domestic cleansing, child care and post-natal services. These members urge the Administration to review the membership size requirement of co-operatives in the Co-operative Societies Ordinance.

3.16 The Administration has advised that too small a membership is not conducive to the smooth operation of co-operatives, which usually involve a significant volume of 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 is only of secondary concern. The major difficulties faced by the co-operatives and potential co-operatives are the lack of start-up capital, and insufficient experience and professional knowledge in starting and running a business. The Subcommittee notes that the Administration will consider whether amending the Co-operative Societies Ordinance is the best way forward, or if amendments to the Companies Ordinance (Cap. 32) is more appropriate for establishing a more modern legal entity to promote social enterprise development in Hong Kong. The Subcommittee agrees that the Co-operative Societies Ordinance and the Companies Ordinance are outdated and should be reviewed.

3.17 Some members point out that the difficulties faced by the sector in gaining access to commercial funding are attributed partly to the lack of a distinct legal entity for social enterprises to distinguish their mode of commercial operation from charitable activities. These members urge the Administration to provide an appropriate legal framework for the sector.

#### **Difficulties in gaining access to finance**

3.18 According to HKCSS's report released in 2005, 82% of the social enterprises which responded to the survey indicated that the major problem faced by them was insufficient capital and funds for business operation.

3.19 Social enterprises generally have difficulties in accessing commercial sources of finance if they do not have proven track record or assets to use as collateral or if they do not have business credentials. Although the Government has provided social enterprises with seed money as start-up support, members generally consider it undesirable for the Government to provide on-going financial support as it will create unfair competition with other sectors, especially SMEs. It is also not conducive to encouraging social enterprises to become self-sustaining businesses.

3.20 Some members have pointed out that given that the provision of start-up funds and seed money for social enterprise projects are time specific, it is difficult for the operators to make long-term business plan. Moreover, in view of the uncertainty about the viability of the business, some operators dare not accept orders for their goods and services beyond the funding period.

3.21 Some members have expressed concern that the slow pace of disbursement of fund and the stringent approving criteria will hinder the smooth operation of social enterprises. For instance, although the \$300 million CIIF was launched in 2002, only one-third of the Fund has been allocated to successful applicants so far.

## Chapter 4 – Strategies and measures to promote social enterprise development

### General

4.1 The Subcommittee considers that the Government should make greater efforts to further promote the development of social enterprise and formulate concrete policies and effective measures in this respect.

4.2 The Subcommittee has discussed the following strategies and measures to further promote social enterprise development in Hong Kong –

- (a) formulating an overall policy to support the development of social enterprise;
- (b) creating an enabling market environment;
- (c) business facilitation and support for the sector;
- (d) studying the need for establishing a legal framework for social enterprises; and
- (e) establishing the value of social enterprises.

The details of the Subcommittee's discussions are given in the following paragraphs.

### Formulation of an overall strategy and policy for social enterprise development

4.3 The Subcommittee agrees with the principle for sustainable social enterprises to be operating on a self-financing basis. Having regard to the difficulties faced by the sector, members consider that support and assistance should be provided for social enterprises during the initial operations to help their sustainability. The Subcommittee takes the view that it is incumbent upon the Administration to formulate an overall strategy and policy for promoting



social enterprises. Concrete measures for business facilitation and support should be put in place to improve social enterprises' access to appropriate finance, to provide start-up grants and aids as well as tax incentives and subsidies for social enterprise projects for the unemployed and the disadvantaged.

4.4 In UK, a high-level Office of the Third Sector has been established under the Cabinet Office headed by a Minister to formulate a long-term strategy for social enterprises. Some members point out that as the support measures straddle different policy areas, the Government should establish a high-level cross-bureau task force to formulate an overall strategy and policy for supporting and promoting social enterprise development, instead of placing the policy purview of social enterprises under the Home Affairs Bureau.

4.5 Most members have urged the Administration to adopt a long-term policy to support social enterprise development. They point out that the support measures introduced so far are in lack of long-term commitment. For instance, the District Partnership Programme is a pilot scheme providing a one-off start-up fund for social enterprise initiative. As the maximum funding period is two years, the applicants will not submit applications for long-term business plans.

4.6 While agreeing that the Administration should mobilize resources at the district level to assist NGOs to operate social enterprises on a sustainable basis, e.g. District Officers should identify suitable venues and coordinate support services for the smooth operation of social enterprises, some members take the view that the development of social enterprise should not be confined to small-scale pilot projects at district-level, as they are far from adequate to create job opportunities for the unemployed.

4.7 Some other members consider that in formulating its strategy for social enterprise development, the Administration should introduce more social enterprises in districts where the poverty problem is more serious, such as Sham Shui Po and Tin Shui Wai, etc, so as to increase employment opportunities in these districts.

4.8 Some members have stressed that the Government should draw up objective guidelines for providing support and assistance only for those social enterprises which are considered to be financially viable.

## **Creating an enabling market environment**

### Provision of a definition of social enterprise

4.9 Noting that the mode of operation of social enterprises in Hong Kong is very diverse, some being run by charities and not-for-profit organizations which have become entrepreneurial and with some of their welfare programmes being integrated with market operation, some members strongly urge the Government to provide a clear definition of social enterprise. Members note that in UK, social enterprise is defined 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 maximize profit for shareholders and owners".

4.10 The Subcommittee takes the view that social enterprises are not welfare business. With a clear definition of social enterprise, the sector can distinguish their mode of commercial operation from charitable activities. This will also facilitate social enterprises to obtain loans from financial institutions and start business in the market.

4.11 Some members consider that fostering the development of social enterprise is a social policy. It is the Government's responsibility to provide a definition of social enterprise in which the social objectives of social enterprises can be set out clearly. Some other members have pointed out that the objectives and scope of business of social enterprises should be clearly defined so as not to pose unfair competition to SMEs if the operation of social enterprises is promoted or supported by the Government. For instance, the Administration should only promote and support social enterprises which operate in a business mode with a clear social objective for providing assistance to the low-skilled and middle-aged workers, who are difficult to find employment in the labour market, to secure long-term employment and to become self-reliant. With reference to the experience of "New Life Farm", it has been developed to provide organic vegetables plantation, wholesales and gardening since 2000 in meeting the growing market demand for organic food. In 2004, it has developed strategic partnership relationship with the former Kowloon Canton Railway Corporation and set up four organic shops in the form of social enterprises at four railway stations. Although social enterprises

operate a wide range of business activities, members consider that, in the light of the operational experience of some sustainable social enterprises, the development potential of social enterprise is huge in new market niches, obnoxious trades and unprofitable services not being provided by private organizations (e.g. cleansing services in old domestic buildings).

4.12 Some members consider that as the first step, the development of social enterprise in Hong Kong should target at the disadvantaged groups who are difficult to find employment.

### Removal of administrative and policy barriers

4.13 The Subcommittee considers that it is an opportune time for the Administration to conduct an overhaul of the administrative and policy barriers which might hinder the development of social enterprise.

4.14 Some members suggest that the Administration should review its procurement policies to facilitate social enterprise development, in particular the criteria for awarding Government service contracts for social enterprises. Given that the Hospital Authority has increased the weighting of employment of PWDs in awarding contracts from 5% to 10% of the total score, these members consider that the Administration should encourage the Hospital Authority to further increase such weighting. This apart, the Administration should also consider increasing the weighting for the employment of PWDs and unemployed persons in the existing procurement procedures of the Government and other public bodies in awarding contracts. For example, the Government should give more weights to or lower the tender threshold for those social enterprises which provide job opportunities for the socially disadvantaged groups when awarding Government service contracts. Some members also suggest that the Government should specify a certain percentage of the procurement of Government goods and services for social enterprises.

4.15 Some members, however, caution that too much support from the Government social enterprises is unfair to SMEs, as both types of enterprises are expected to operate commercially and compete on a level playing field.

## **Business facilitation and support**

### Advisory and mentorship service

4.16 The Subcommittee takes the view that it is very important for capable talents from the business sector to be recruited to the social enterprises so that the wisdom in operating business can be brought into social enterprises. To equip social enterprises with the necessary professionals to run their business, some members urge the Administration to offer advisory and mentorship service to social enterprises to run business, in addition to providing start-up funds. For instance, the Administration should enlist the assistance of SMEs who will act as business mentors for the potential entrants of social enterprise projects.

4.17 To empower and motivate social entrepreneurs, some members consider that the existing support for SMEs should be extended to social enterprises. These included business information and other activities for SMEs. In addition, the Administration should facilitate cross-sectoral collaboration and organize more tailor-made training courses on social entrepreneurship in collaboration with NGOs, tertiary institutions and the business sector to cater for the training needs of middle to senior management from NGOs or the private sector who are interested in operating social enterprises. Members and deputations also suggest that the Administration should provide social enterprises with knowledge and skills necessary to succeed in running their own business. Apart from providing one-stop support, training and consultancy services (such as through establishing a social enterprise operation support centre to provide such services), the Administration should assist them to explore the viability of their business idea and produce a business plan for the purposes of funding applications.

4.18 With reference to the operational experience of some self-financing social enterprises, members consider that the efforts by the Government and NGOs are not enough to develop social enterprise. Experience sharing and support by the business sector are equally important to assist NGOs to enter the market and run sustainable business.

Funding source

4.19 The Subcommittee notes that most social enterprise operators have difficulties in obtaining sufficient funding to start and sustain the business. The Subcommittee takes the view that in addition to providing seed money for social enterprise projects, the Administration should encourage the setting up of similar start-up funds and making donations by the private sector and encourage financial institutions to offer low-interest loans to the sector.

4.20 Given that most social enterprises do not have a track record or assets to use as collateral, some members suggest that the Administration should provide loan guarantee and set up marketing, training and development funds for social enterprises, with reference to the modes of the funding schemes implemented by the Government for SMEs.

4.21 To enable social enterprises to seize business opportunities and start the business as early as possible, members consider that the pace of disbursement of fund for seed money projects should be speeded up. They also suggest a relaxation of the threshold for applying for seed money.

4.22 To address the concern about unfair competition with SMEs and to encourage social enterprises to achieve self-financing sustainability, some members consider that the Government support to social enterprises should be time-specific. Some members stress that funding support should be provided only to those social enterprise activities with sustainable business plans.

Tax concession

4.23 To assist social enterprises to achieve financial viability, some members suggest that the Administration should offer tax concession to social enterprises. In addition, further tax concession should be offered to those who employ a certain proportion of unemployed persons and PWDs.

4.24 Apart from the above, some members suggest that the Administration should provide a profits tax exemption period for and offer profits tax concession to newly established social enterprises.

### Rent concession

4.25 Deputations have told the Subcommittee that rental attributed to a substantial part of the operation cost, and that some social enterprises have closed down their business simply because of the soaring rentals. To provide incentive for the development of social enterprise, some members are of the view that the Administration should take the lead in offering premises to such enterprises at rent lower than the market value or offering short term rent remission. Taking the Hospital Authority as an example, many convenience stores and rehabilitation shops in public hospitals have been contracted out to social enterprises. Consideration should also be given to the priority leasing of vacant premises or stalls at public housing estates or public hospitals to social enterprises. A suggestion is also made that the rentals of Government vacant premises should be determined at a certain percentage of the business turnover of the social enterprises. The Administration should also encourage private enterprises to offer rent concession for social enterprises.

### **Legal framework for social enterprises**

4.26 Notwithstanding that members have called for a review of the Co-operative Societies Ordinance and the Companies Ordinance with a view to providing more flexibility for the formation of co-operatives, some members hold the view that the Administration should take the opportunity to study the best form of legal entity for social enterprise development. Most members of the Subcommittee urge the Administration to examine the establishment of an appropriate and distinct regulatory framework to cater for the special needs of social enterprises. Some other members consider it unnecessary to establish a legal framework for social enterprises if the Government has provided a clear definition of social enterprises.

4.27 Some members suggest that consideration can be given to modelling on the new and distinct legal entity of social enterprises, i.e. the Community Interest Company (CIC), introduced in UK. CICs are a new type of companies which are designed specifically for those wishing to operate for the benefit of the community rather than the benefit of the owners of the company. Some information on Community Interest Company is in **Appendix IV**. These members consider that similar to having a definition of social enterprise, social

enterprises can, with the new legal entity, distinguish their mode of commercial operation from charitable activities. They also consider that such an arrangement will not only facilitate social enterprises to obtain loans from financial institutions and start business in the market, but will also enhance the regulation of social enterprises.

### **Increasing public awareness and acceptance**

4.28 The Subcommittee considers that the Government should establish the value of and raise the awareness of the business sector and the public about social enterprises, and promote their acceptance of social enterprises through publicity and education programmes in schools and the community. According to some deputations, although social enterprises find it difficult to compete with large enterprises in terms of resources and market share, they are still working hard to seek business opportunities, following closely the market trend and providing customers with more choices and impeccable service. Customers show their acceptance of and support to the business by patronising social enterprises. Having secured stable jobs, the disadvantaged and the unemployed are able to regain their self-confidence. The development of social enterprise has indirectly brought down the expenditure on welfare services and social security payments. The intangible benefits should be highlighted in appealing to the public support for the sector.

4.29 Apart from organizing experience sharing sessions, the Subcommittee and deputations generally consider that a platform for dialogue should be built so that social enterprises can maintain regular, frequent and multi-faceted contact with the Government and the business sector. Such contacts will also help social enterprises gain more relevant experience from the business sector.

4.30 Members note from the experience of UK and Spain that setting up a platform for the social enterprise sector can showcase the benefits of social enterprise. For instance, the Spanish Business Confederation for Social Economy ("CEPES" in the Spanish acronym) was established in 1992 as an independent organization representing social enterprises in Spain and providing a platform for institutional dialogue with the public authorities. In UK, a national body for social enterprise, i.e. the Social Enterprise Coalition, was established in 2002 by Government funding. Such platforms help to enhance

public awareness and encourage cooperation to strengthen and develop social enterprise network.

4.31 Some members consider that winning the understanding of the business sector that social enterprises are competing on a level playing field, and the awareness of workers that social enterprises offer employment opportunities, are crucial to the successful development of social enterprises. The Administration should step up publicity with a view to removing the misunderstanding of the objectives and operations of social enterprises.



## Chapter 5 – Recommendations

5.1 The Subcommittee is of the view that it is the Government's responsibility to take proactive steps to foster the development of social enterprise. The Subcommittee recommends that the Government should –

### Formulation of an overall strategy and policy

- (a) formulate an overall and long-term policy to support the development of social enterprise;
- (b) establish a high-level cross-bureau task force to formulate overall strategies for developing social enterprise, and designate a bureau/department to be responsible for overseeing and promoting the development of and providing assistance for the social enterprise sector;
- (c) encourage large business corporations to take the lead in running social enterprise business, so as to alleviate the worry about unfair competition between social enterprises and SMEs;
- (d) introduce more social enterprises in districts where the poverty problem is more serious so as to increase the employment opportunities in these districts;

### Creating an enabling market environment

- (e) provide a definition of social enterprise and specify the target groups;
- (f) review the procurement policies, in particular the criteria for awarding Government service contracts for social enterprises;
- (g) specify a certain percentage of the procurement of Government goods and services for social enterprises;

- (h) award restricted tenders of Government services for social enterprises;

Business facilitation and support

- (i) offer advisory and mentorship service to social enterprises to run business;
- (j) provide one-stop support, training and consultancy services for social enterprises;
- (k) facilitate cross-sectoral collaboration and encourage the private sector to set up start-up funds for social enterprise projects;
- (l) provide loan guarantee and set up marketing, training and development funds for social enterprises, similar to the funding schemes for SMEs;
- (m) offer tax concession to social enterprises which employ a certain proportion of unemployed persons and PWDs;
- (n) provide a profits tax exemption period for newly established social enterprises;
- (o) offer rent concession to social enterprises;
- (p) give priority leasing vacant premises or stalls at public housing estates or public hospitals to social enterprises;
- (q) encourage private enterprises to offer rent concession for social enterprises;

Legal framework for social enterprise

- (r) expedite the review of the Co-operative Societies Ordinance and the Companies Ordinance with a view to providing more flexibility for the formation of co-operatives;

- (s) consider establishing an appropriate regulatory framework to cater for the special needs of social enterprises;

Increasing public awareness and acceptance

- (t) step up publicity and promote the public's awareness and acceptance of social enterprises; and
- (u) establish a platform for the sector to maintain dialogue with the Government and the business sector.

5.2 The Subcommittee agrees that the report should be provided to the House Committee for information, and to the Administration for consideration and response.

Council Business Division 2  
Legislative Council Secretariat  
24 June 2008

**Subcommittee to Study the Subject of Combating Poverty**

**Membership list**

<b>Chairman</b>	Hon Frederick FUNG Kin-kee, SBS, JP
<b>Deputy Chairman</b>	Hon James TIEN Pei-chun, GBS, JP
<b>Members</b>	Hon Albert HO Chun-yan Hon LEE Cheuk-yan Hon Fred LI Wah-ming, JP (until 17.1.2006) Hon Margaret NG Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP Hon CHAN Yuen-han, JP Hon LEUNG Yiu-chung Hon LAU Chin-shek, JP (until 14.10.2005) Hon Emily LAU Wai-hing, JP Hon Andrew CHENG Kar-foo (until 10.10.2005) Hon TAM Yiu-chung, GBS, JP Hon Abraham SHEK Lai-him, JP Hon LI Fung-ying, BBS, JP Hon WONG Kwok-hing, MH (until 26.9.2005) Hon Alan LEONG Kah-kit, SC Hon LEUNG Kwok-hung Dr Hon Fernando CHEUNG Chiu-hung Hon Ronny TONG Ka-wah, SC Hon Albert Jinghan CHENG (until 5.11.2007) Hon KWONG Chi-kin (until 26.9.2005) Hon Mrs Anson CHAN, GBM, JP (since 14.12.07)

(Total : 17 Members)

**Clerk** Miss Betty MA

**Legal adviser** Mr LEE Yu-sung

**Date** 14 December 2007

## **Appendix II**

### **List of organizations which have presented views to the Subcommittee to Study the Subject on Combating Poverty**

1. Henderson Land Development Company Limited
2. Sino Land Company Limited
3. Tung Wah Group of Hospitals
4. MentalCare Connect Co. Ltd. (Subsidiary of the Mental Health Association of Hong Kong)
5. The Hong Kong Council of Social Service
6. New Life Psychiatric Rehabilitation Association

**Executive summary of the research report on social enterprise policies  
of the United Kingdom, Spain and Hong Kong  
prepared by the Research and Library Services Division  
of the Legislative Council Secretariat [RP03/07-08]**

1. This report studies the social enterprise policies of the United Kingdom (UK), Spain and Hong Kong, focusing on the following aspects: the backgrounds against which social enterprise policies are formulated; definitions and scope of social enterprises; size and fields of activities of social enterprises; problems faced by social enterprises; and government measures to promote social enterprises.
2. In the UK, social enterprises, which have a history of more than 160 years, are defined by the government as businesses with social objectives, with surpluses being principally reinvested in the businesses themselves or community for those social objectives rather than driven by profit maximization for the shareholders and owners of the businesses. There are more than 55 000 social enterprises, 80% of which are micro or small enterprises, accounting for 5% of all businesses with employees nationwide. The development of social enterprises has been hindered by several problems. In particular, their abilities and values have been poorly understood outside the social enterprise sector. There is no specific regulatory framework suitable for their nature. They also have difficulties in accessing finance and tailor-made business support. The government has launched a social enterprise strategy to tackle these problems. The strategy includes strengthening the abilities of social enterprises in public procurement; promoting the development of the Community Development Finance Institutions to finance such enterprises in disadvantaged or underserved markets; and funding external organizations to provide business support and training for such enterprises.
3. In Spain, the government does not provide an official definition of social economy, which is regarded as conceptually equivalent to social enterprise operation. Nevertheless, the promotion of social economy is embedded in the Spanish Constitution, which requires public authorities to facilitate the development of co-operative enterprises through legislation and encourage workers' access to ownership of the means of production. In 2006, Spain had more than 51 500 social economy enterprises, 96% of which are micro and small enterprises. They employed more than 2.4 million people, accounting for 25% of Spain's total working population. In addition, Spain has one of the world's biggest social economy enterprises, which has more than 83 000 employees. The problems faced by social economy in Spain are similar to those in the UK. The government has launched measures in its national action plans to encourage the unemployed to form and sustain social economy enterprises, enhance such enterprises to absorb the disadvantaged, and support representative organizations to promote social economy activities. Such measures include enacting legislation to reduce the minimum number of partners required for co-operatives; integrating the principles of corporate social responsibility in public administration; launching the "One-off Payment" scheme for the unemployed to apply for a one-off, lump-sum payment of unemployment benefits to create social economy enterprises or invest in them; subsidizing activities relating to the promotion of social economy, and subsidizing the operational costs of entities representing social economy.

4. In Hong Kong, the development of social enterprises is a relatively new phenomenon. In mid-2006, there were 48 non-governmental organizations operating 187 social enterprise units. As at January 2006, some 1 100 people worked in the social enterprise sector. The problems of the sector in Hong Kong are similar to those in the UK and Spain. In recent years, the Government has launched measures to encourage the development of social enterprises, focusing on three areas, namely establishing the value and gaining public acceptance of such enterprises; creating an enabling environment; and providing business facilitation and support. The key measures include involving the business sector and the wider community in considering the potential of using social enterprises to help the able-bodied unemployed; reducing the administrative or policy barriers that hinder the development of such enterprises; examining the establishment of an appropriate regulatory framework to cater for their special needs; facilitating their participation in public procurement; and considering the provision of a funding source in support of social enterprise start-ups.
5. The Analysis chapter compares the main features of the social enterprise policies of the UK, Spain and Hong Kong.

## Community Interest Companies in the United Kingdom

Social enterprises (SEs) can operate in different legal forms, as registered charities, in the form of companies, or as co-operatives. The U.K. introduced in 2005 a new type of companies, called the Community Interest Companies (CICs) (社會公益公司), designed specifically for those wishing to operate for the benefit of the community rather than for the benefit of the owners of the company. This provides a unique type of companies to facilitate SE development.

### Background

2. The CIC concept was first raised in the U.K. in 2002. CICs are companies which are limited either by shares or by guarantee or limited by guarantee and having a share capital. They are subject to Part 2 of the Companies (Audit, Investigations and Community Enterprise) Act 2004 (which is a free-standing item of primary legislation quite separate from the Companies Act) and the Community Interest Company Regulations 2005, in addition to the general requirements applicable to ordinary companies under the U.K. Companies Act. In this respect, companies already formed and registered under the Companies Act as well as completely new companies can apply to become CICs. However, once they have been formed and registered as CICs, they are subject to the additional statutory requirements set out in the 2004 Act and the Community Interest Company Regulations 2005 as well as their existing statutory obligations under the Companies Act.

### Special Features

3. The special features of CICs include a "community interest test" and an "asset lock", which ensure that the CICs are established for community purposes and the assets and profits are dedicated to these purposes.



4. The "community interest test", in gist, is whether a reasonable person might consider that the company's activities (or proposed activities) will be carried on for the benefit of the community. The criteria used are broader and more flexible than those used in the public interest test for "charities". In line with regulation of charities, a CIC cannot be formed to support political activities.

5. Limited companies that do not have charitable status may find it difficult to ensure that their assets are dedicated to public benefit. The statutory "asset lock" ensures that the assets and profits of a CIC are either retained within the CIC and used solely for the community purposes for which it was formed, or transferred to another asset-locked organisation such as another CIC or charity. The "asset lock" however does not prevent a CIC from using its assets for normal business activities, meeting its financial obligations or paying allowable dividends.

6. CICs limited by shares can pay dividends to individual shareholders, subject to a cap, but stakeholders in CICs will still have the assurance of community benefit provided by the asset lock.

7. CICs do not enjoy any special tax advantage over other companies by virtue of its legal form. However, they may benefit from other programmes for particular activities or regions. For instance, the Community Investment Tax Relief ("CITR") gives tax relief to individuals and corporate bodies investing in Community Development Finance Institutions (CDFIs). These CDFIs then provide finance to qualifying profit-distributing enterprises, social enterprises or community projects in disadvantaged communities that are excluded from mainstream sources of finance.

## **Regulation**

8. Registration of a company as a CIC has to be approved by an independent regulator (i.e. not the UK Companies House) appointed by the U.K. Secretary of State for Trade and Industry, who also has a continuing monitoring and enforcement role. The Government expects the Regulator to be a "light touch regulator" who will encourage the development of the CIC brand and provide guidance and assistance on matters relating to CICs.

9. The accounting requirements for a CIC is the same as those of other companies, but CICs have an additional obligation to prepare an annual community interest report to be filed with their accounts in order to enhance transparency of their activities.

### **Benefits**

10. CICs offers an additional legal form for SEs to operate in - a non-charitable company form to conduct activities and operate more “commercially”, but with a clear assurance of not-for-profit distribution status. The new and unique status also helps raise the profile of SEs. Nevertheless, SEs may choose to use other legal forms that suits the needs of their organisations best, and some may view the additional benefits from the legal form may not outweigh the additional complexity and regulatory requirements.

11. More information about CICs is available at <http://www.cicregulator.gov.uk> and <http://www.nearbuyou.co.uk/>.