

*Social enterprise policies of
the United Kingdom, Spain and Hong Kong*

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Executive summary

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.

Social enterprise policies of the United Kingdom, Spain and Hong Kong

Chapter 1 – Introduction

1.1 Background

1.1.1 At its meeting on 8 March 2007, the Subcommittee to Study the Subject of Combating Poverty (the Subcommittee) decided to undertake an overseas duty visit to the United Kingdom (UK) and Spain to study the government policies on social enterprises. The Subcommittee requested the Research and Library Services Division (RLSD) to conduct a research on the social enterprise policies and their implementation in the UK, Spain and Hong Kong to facilitate the duty visit. The research outline proposed by RLSD was endorsed by the Subcommittee at its meeting on 26 March 2007.

1.2 Scope of research

1.2.1 In developed countries, not-for-profit organizations have a long history of engaging income-generating businesses to supplement or complement their operation. For example, in the UK, a group of not-for-profit organizations known as co-operatives began to adopt this kind of arrangements in 1844. Since the 1980s, the income-generating businesses run by these organizations have been soaring. Such businesses have been generally categorized as "social enterprises" or "social economy". While these terms do not have universally accepted definitions, they usually contain the notion of entrepreneurial activities for social purposes (e.g. providing jobs relating to health care and environmental protection to the unemployed or disabled) rather than commercial gains.

1.2.2 Against this background, this research examines the social enterprise policies and their implementation in the UK, Spain and Hong Kong in the following aspects:

- (a) background against which social enterprise policies are formulated;
- (b) definitions and scope of social enterprises;
- (c) size and fields of activities of social enterprises;
- (d) problems faced by social enterprises; and
- (e) government measures to promote social enterprises.

1.2.3 The UK is selected because its government has established a distinct legal identity for social enterprises and carried out some pioneering works to improve such enterprises' access to finance. Spain is selected because its government has used social enterprises to alleviate the unemployment problem, and social enterprises have been involved in the operation of most economic sectors in Spain.

1.3 Methodology

1.3.1 This research adopts a desk research method, which involves literature review, documentation analysis, Internet search and correspondence with the relevant authorities.

Chapter 2 – United Kingdom

2.1 Background

2.1.1 In the UK, not-for-profit organizations, which include voluntary and community organizations, charities and co-operatives, have long been engaging in income-generating businesses to supplement or complement their operation, owing to their declining funding from philanthropic and government sources and the mounting competition for such funding. The pioneers of social enterprises can be traced back to the 1840s when a worker's co-operative was set up in Rochdale (known as the birthplace of the co-operative movement) to provide affordable food to factory workers. Since the 1990s, such businesses for social purposes have been categorized as "social enterprises".¹

2.1.2 The UK government has been supporting the growth of social enterprises because it considers that they can help tackle social exclusion arising from problems faced by many of the UK's disadvantaged areas, such as unemployment, discrimination, poor skills, low income, poor housing, high crime, ill health and family breakdown, and promote a strong, sustainable and socially inclusive economy.² Recent research has showed that certain ethnic minority groups, such as Black Africans and Black Caribbeans, are more likely than Whites to be social entrepreneurs.³

2.1.3 In 2001, the Department of Trade and Industry established the Social Enterprise Unit (SEU) to co-ordinate stakeholders of the social enterprise sector and government officials to identify the main issues facing social enterprises and to make recommendations for improving the environment for starting and sustaining such enterprises. In 2002, with inputs from the social enterprise sector, the government launched a three-year social enterprise strategy described in a policy paper, *Social Enterprise: A Strategy for Success*, to promote social enterprises. In 2006, following a review of the social enterprise strategy, the government published a new policy paper, *Social Enterprise Action Plan: Scaling New Heights*, setting out further measures to foster the development of social enterprises.

¹ According to the Organisation for Economic Co-operation and Development, the term "social enterprise" was first used by the King Baudouin Foundation of Belgium in 1994, referring to "undertakings all of which involved an entrepreneurial dynamic, harnessing both market and non-market resources to get low-skilled workers back to work".

² *Social Enterprise: A Strategy For Success* (2002) p. 23.

³ *Social Entrepreneurship Monitor* (2006) p. 22, and *Social Enterprise Action Plan: Scaling New Heights* (2006) p. 17.

2.1.4 According to the government and the social enterprise sector, the UK currently has more than 55 000 social enterprises, accounting for 5% of all businesses with employees nationwide. In 2006, they generated a total turnover of more than £27 billion (HK\$400 billion) and contributed more than £8 billion (HK\$120 billion) to the national economy, representing almost 1% of the UK's annual Gross Domestic Product (GDP). In the UK, there has been insufficient proof beyond anecdotal evidence that social enterprises have an impact on the communities, income or job creation. Nevertheless, some findings from not-for-profit research organizations did illustrate that social enterprises had higher turnover and created more jobs than mainstream enterprises.⁴

2.1.5 In the UK, most social enterprises are represented by the Social Enterprise Coalition (SEC), which represents more than 240 national umbrella bodies of social enterprises, 46 regional and national networks of social enterprises, and 10 000 social enterprises that operate in more than one region in the UK. SEC provides a national platform for social enterprises to voice their needs and discuss with the government on social enterprise issues. It also helps raise the profile of social enterprises to both the public and the business sector.

2.2 Definition of social enterprise

2.2.1 The 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 maximize profit for shareholders and owners".⁵ In particular:⁶

- (a) social enterprises engage in some forms of trading, which primarily support social purposes instead of maximizing profit;
- (b) the trading activities of social enterprises include offering social or environmental goods and services (such as childcare and recycling); trading to provide social or environmental goods or services (such as the trading arms of some charities); and using processes or ways of working that have a significant social benefit (such as co-operatives, social firms and fair trade organizations, to be discussed in **paragraph 2.2.4**);
- (c) while some social enterprises start off as for-profit businesses, most are in transition from their beginning as voluntary sector organizations dependent largely on grants and volunteers, and working to increase traded income; and

⁴ Global Entrepreneurship Monitor (2003).

⁵ Social Enterprise: A Strategy for Success (2002) p.13.

⁶ Social Enterprise Coalition (2006).

- (d) the management structure of a social enterprise is mostly based on participation by stakeholder groups (e.g. employees) or by trustees or directors (e.g. the board of directors of a charity) who manage the enterprise on behalf of a wider group of stakeholders.

2.2.2 According to SEC, a business which generates more than 50% of its income from trading (or at least 25% for a start-up) and reinvest the majority of its profit to further its social or environmental goals can be classified as a social enterprise. At their best, social enterprises "combine a public service ethos with the innovation and efficiency of a commercial business".⁷

Legal forms of social enterprises

2.2.3 According to the government, social enterprises can take any legal form. They include:

- (a) companies limited by shares, which are corporate bodies owned by shareholders whose liability is limited to the amount unpaid on shares they hold;
- (b) companies limited by guarantee, which are corporate bodies owned by guarantors whose liability is limited to the amount they have agreed to contribute to such a company's assets if it is wound up; and
- (c) industrial and provident societies, which are corporate bodies with limited liability. This type of bodies has a mutual ethos and conducts business in two forms: (i) a bona fide co-operative society, which conducts business primarily to the benefits of its members; and (ii) a community society, which conducts business primarily to the benefits of the community at large. Not-for-profit in nature, the industrial and provident societies are under restriction to raise finance, such as subjecting to a limit on the issuance of equity to their members.

Types of social enterprises

2.2.4 There are several types of social enterprises, including:⁸

- (a) charity trading arms, such as restaurants and bookstores established by charities to generate incomes for the pursuit of their charity goals;

⁷ Social Enterprise Coalition (2007).

⁸ Social Enterprise Edinburgh (2006).

- (b) community businesses, such as trading organizations owned and operated by people in local communities to facilitate community development and create self-supporting jobs for local people;
- (c) co-operatives, such as businesses organized for and by their members, who come together to provide shared services beneficial to members;
- (d) community development finance institutions, such as independent financial institutions that provide financial support to individuals and organizations in deprived or underserved areas to conduct business; and
- (e) social firms, such as businesses that provide employment opportunities for the disabled or disadvantaged.

2.3 Size and fields of activities of social enterprise

2.3.1 According to the government and the social enterprise sector, in 2004, over 80% of social enterprises were micro (with less than 10 employees) and small (with 11 to 49 employees) enterprises. In addition, 92% of the production and trading activities of social enterprises were in the service sector. Some social enterprises operate in mainstream markets, while others largely depend on public sector contracts. Some operate in areas where it is harder to generate profits, and must cross-subsidize their businesses by other more profitable activities.

2.4 Problems faced by the social enterprise sector

2.4.1 According to the government, the major problems faced by the social enterprise sector in the UK include:

- (a) poor understanding of the social enterprise sector;
- (b) lack of a specific regulatory framework;
- (c) difficulties in raising finance; and
- (d) insufficient business support.

Poor understanding of the social enterprise sector

2.4.2 According to the government, the particular abilities and values of social enterprises have not been properly understood outside the social enterprise sector. In particular:⁹

- (a) policy makers have not considered social enterprises as a potential solution to social and economic problems;
- (b) business support providers have not targeted social enterprises as their potential clients;
- (c) finance providers have been unsure of the risk and appropriateness of lending to the social enterprise sector;
- (d) mainstream businesses have not considered social enterprises as potential new partners;
- (e) voluntary organizations have not recognized social enterprises as a possible means to help them move from reliance on grants towards greater self-sufficiency; and
- (f) members of the public have not been inspired to set up social enterprises or have not considered such enterprises as a valid career or employment option.

2.4.3 In addition, the government admits that the existing empirical data on the size and growth of the social enterprise sector are limited, and the social and environmental impacts created by the sector are hard to measure. Consequently, the government has difficulties in planning and providing appropriate support to the sector. Policy makers, business support providers and finance providers have also found it difficult to assess the values of social enterprises or include them in their activities.¹⁰

⁹ Social Enterprise: A Strategy for Success (2002) pp. 27-29.

¹⁰ Social Enterprise: A Strategy for Success (2002) p. 28.

Lack of a specific regulatory framework

2.4.4 Before the enactment of the *Companies (Audit, Investigations and Community Enterprise) Act 2004*, social enterprises could take any legal forms, and thus they did not have a distinct legal identity. Consequently, the society did not have a clear understanding of what social enterprises were. In addition, none of the legal forms was considered as fully suitable for the nature of social enterprises. For example, there was no requirement for social enterprises under the legal forms of companies limited by shares to ensure that their assets would be used to pursue social objectives instead of personal financial gains. Companies limited by guarantee could not raise money through equity financing because they were subject to legal restrictions on their business activities.¹¹ If social enterprises acquired the charity status, they were subject to additional rules on trading activities.¹²

Difficulties in raising finance

2.4.5 According to the government, social enterprises generally have difficulties in accessing appropriate finance. The reasons are that lenders do not understand the characteristics of social enterprises and have difficulty in assessing the risk profile of such enterprises. At the same time, social enterprises may not have a proven track record and assets to use as collateral. They may also be unaware of the funding options available to them, and need to improve their financial management and business planning skills.

Insufficient business support

2.4.6 In 2000, the Department of Trade and Industry set up the Small Business Service (SBS) as a specialist centre of expertise to facilitate small- and medium-sized enterprises (SMEs) to develop into successful businesses. Services offered by SBS, though considered relevant to social enterprises, do not fully address the needs of social enterprises. Meanwhile, the government considers that non-government specialist support and practitioner advice are insufficient for the social enterprise sector. Therefore, more tailor-made training programmes should be provided to social enterprises, particularly those from the community and voluntary sectors, which usually do not have experiences in running businesses. Consultancy services should also be strengthened to help social enterprises strike a right balance between fulfilling social objectives and making profits.

¹¹ Strategic Unit of the Cabinet Office (2002a) pp. 49-52, Strategic Unit of the Cabinet Office (2002b) pp. 12-16 and pp. 23-26, and Charity Commission (2001).

¹² For example, the rule of maximum permitted trading turnover in a financial year is applied to charities.

2.5 Social enterprise strategy

2.5.1 Since 2002, the government has launched a social enterprise strategy to tackle the problems faced by the social enterprise sector. The strategy aims to achieve the following three outcomes:

- (a) creating an enabling environment for social enterprises;
- (b) making social enterprises better businesses; and
- (c) establishing the value of social enterprises.

2.6 Creating an enabling environment for social enterprises

Social Enterprise Unit

2.6.1 In October 2001, the government established SEU to strengthen its role in creating an enabling environment for social enterprises. When it was initially set up, SEU was under the Department of Trade and Industry. Since the Cabinet reshuffle in May 2006, SEU has been moved to the Office of the Third Sector (which is responsible for setting the government's policies on social enterprises) under the Cabinet Office.¹³ SEU has the remit to:¹⁴

- (a) act as a focal point and co-ordinator for policy-making affecting social enterprises;
- (b) promote and champion social enterprises;
- (c) take actions needed to address the barriers to the growth of social enterprises; and
- (d) identify and spread good practice.

¹³ According to the Office of the Third Sector, its placement in the Cabinet Office, which sits at the very centre of the UK government, accounts for the increasingly important role that the third sector plays in both society and economy. The Cabinet Office has the functions to support the Prime Minister and the Cabinet; and strengthen the civil service.

¹⁴ *Social Enterprise: A Strategy for Success* (2002) p.35.

2.6.2 SEU has formed an Inter-departmental Official Group to monitor the implementation of the social enterprise strategy. The Group aims to ensure that social enterprises would be fully taken into account in policy development and service delivery across government departments and agencies and in changes to regulations, administrative practices and fiscal policies. The Group meets at regular intervals, keeps responsible Ministers informed of the current situation, and can convene Inter-departmental Ministerial meetings to discuss specific policy issues on social enterprises when necessary. SEU has also formed an External Stakeholder Consultation Group to collect stakeholders' views on social enterprises and ideas on the improvements to the social enterprise strategy.

Specific regulatory framework for social enterprises

2.6.3 To provide a distinct and easily recognized legal identity for social enterprises, the government has created a new type of companies known as community interest companies (CICs) under the *Companies (Audit, Investigations and Community Enterprise) Act 2004*.

2.6.4 CICs have inbuilt mechanisms to facilitate the pursuit of their social objectives and boost their ability to access finance for business purposes. The major features of CICs include:

- (a) asset lock: assets of a CIC are prohibited from being distributed to its members or shareholders. If a CIC is closing down or being taken over, its proceeds should be used for similar public interest purposes by another CIC;
- (b) public interest test: CICs are required to state their objectives which are in the public and community interest in their constitution, with any subsequent changes to these objectives being subject to the approval of the Regulator of Community Interest Companies (RCIC) to be discussed in **paragraph 2.6.5**;
- (c) issue of shares: CICs can raise finance for business purposes through issuing preference shares, which entitle their shareholders to a fixed nominal return or a return pegged to an economic variable, such as inflation or the Bank of England's base rate; and
- (d) accountability: a CIC must have a statement on how to meet its objectives in its annual accounting report submitted to RCIC, and it must observe the right of its members to access its records and documents.

2.6.5 RCIC were established by the government in 2004 to regulate CICs. The major duties of RCIC are:

- (a) considering applications and giving approval for the formation of CICs;
- (b) ensuring the compliance of CICs with their legal obligations, including reporting annually to RCIC on their service delivery to the community and involvement of stakeholders in their activities; and
- (c) investigating complaints and taking enforcement actions by removing and appointing the directors of a CIC or winding up a CIC, if RCIC has found that the CIC is not working in the interest of a community or not observing the asset lock requirement.

2.6.6 As at July 2007, a total of 1 089 CICs registered with RCIC.

Involvement of social enterprises in public service delivery

2.6.7 The government considers that social enterprises have certain advantages over profit-oriented enterprises in the delivery of public services, such as community transport, waste management, and health and social care. In 2002, the HM Treasury published *The Role of the Voluntary and Community Sector in Service Delivery*, setting out measures, through which the central and local governments could work more effectively with the voluntary and community sector, including social enterprises, to deliver high-quality public services. In response, the Department of Health set up SEU in January 2006 to explore and encourage wider use of the social enterprise model in health and social care areas.

2.6.8 Regarding the public procurement issue, the public sector has been promoting a mutual understanding between social enterprises and public procurement officers. For example, the National Health Service has organized training programmes for its procurement officers to understand and engage with social enterprises. The Local Government Association has also linked up with the Society of Procurement Officers to consider training up procurement staff of the local authorities to understand the wider benefits of contracting with social enterprises. Some local authorities have included a social clause in their procurement requirements, such as the need to provide training and create local employment opportunities. This clause deters those enterprises which are not committed to support certain social objectives from bidding public service contracts, while enhancing the chance of social enterprises to win such contracts, without compromising the principle of fair competition.¹⁵

¹⁵ Subcommittee to Study the Subject of Combating Poverty (2007) paragraphs 3.40 and 3.48.

2.6.9 Overall, the public sector and the voluntary and community sector have taken joint actions to strengthen the expertise and ability of social enterprises in public procurement. These actions include:

- (a) providing guidance on public procurement and advice on how to bid public sector contracts;
- (b) signing the Code of Practice on Funding and Procurement under The Compact on Relations between the Government and the Voluntary and Community Sector,¹⁶ which contains the undertakings of both the government and the voluntary and community sector to ensure that the public financial resources would be utilized for maximum outcomes in public services;
- (c) developing infrastructures, such as the Procurement Portal jointly established by the Small Business Service (renamed as the Enterprise Directorate in July 2007 under the Department for Business, Enterprise and Regulatory Reform) and the Office of Government Commerce (an independent office of the HM Treasury responsible for improving the efficiency and effectiveness in procurement), to facilitate social enterprises' access to information on government procurement exercises; and
- (d) setting up the £125 million (HK\$1.8 billion) Futurebuilders Investment Fund to help voluntary and community organizations, including social enterprises, build premises or refurbish buildings for the delivery of social services for children and youth, health services, and education and learning services.

2.7 Making social enterprises better businesses

2.7.1 The government has tried to make social enterprises better businesses mainly through widening their access to finance, and strengthening business support and training programmes for the social enterprise stakeholders.

¹⁶ Signed in 1988, *The Compact on Relations between the Government and the Voluntary and Community Sector* aims to promote a better working relationship, including the funding and procurement relationship, between the UK government and the voluntary and community sector. Nevertheless, it has no binding effect on both parties. Together with the agreement, there are five codes of good practices, including the *Code of Practice on Funding and Procurement* agreed by both parties and released in 2000. Following the recommendations made in the HM Treasury's policy paper, *The Role of the Voluntary and Community Sector in Service Delivery* (2002), the revised *Code of Practice on Funding and Procurement* was agreed by both parties and released in 2005.

Access to finance

2.7.2 Recognizing the difficulties of social enterprises in accessing finance, the government has published a number of guidance notes¹⁷ to inform social enterprises of various financing options available to them and enhance lenders' awareness of social enterprises. The government has also provided training and tool kits to help social enterprises develop their capacity to acquire finance in the financial market.

2.7.3 In addition, the government is promoting the development of alternative finance providers, particularly the Community Development Finance Institutions (CDFIs), for social enterprises. CDFIs are sustainable independent organizations, which provide loans (e.g. start-up and working capitals) and business support (e.g. property and equipment purchase, and marketing campaigns) to individuals and organizations which aim to create wealth in disadvantaged communities or underserved markets. The government's actions to facilitate the operation of CDFIs include:

- (a) establishing the Small Business Service, which is responsible for the accreditation and regulation of CDFIs;
- (b) establishing in 2002 the Community Development Finance Association, which is a trade association aimed to support the growth of CDFIs;
- (c) launching the Phoenix Challenge Fund (PCF) in 1999 to provide capital, revenue and loan guarantee support to CDFIs;¹⁸ and
- (d) launching the Community Investment Tax Relief (CITR) scheme, which provides a tax relief to investors who support businesses in disadvantaged communities by investing in accredited CDFIs. The tax relief, spread over five years, is worth up to 25% of the value of the investment in a CDFI.

¹⁷ For example: *The Financing of Social Enterprise: A Special Report* by the Bank of England (2003), *Lending to the Social Enterprise Sector* (2004) and *A Survey of Social Enterprises across the UK* (2005).

¹⁸ From 2000 to 2006, PCF provided almost £43 million (HK\$680 million) of capital, revenue and loan guarantee support to over 60 CDFIs.

2.7.4 According to the Community Development Finance Association, there are currently 23 accredited CDFIs. In 2005, CDFIs provided £181 million (HK\$2.7 billion) in loans and investments, and had £450 million (HK\$6.7 billion) available to lend and invest. While each loan ranged from £50 (HK\$810) to £1 million (HK\$16 million), the average loans to micro-enterprises, small businesses, social enterprises and individuals were £7,250 (HK\$107,530), £50,000 (HK\$741,583), £43,500 (HK\$645,177) and £600 (HK\$8,898) respectively. It was estimated that CDFIs financed more than 18 000 businesses and people, sustained 88 000 jobs, created 11 000 additional jobs, and levered an extra £285 million (HK\$4.5 billion) of funding into the businesses and households they served and improved the net income of 210 000 households.

Business support and training programmes for social enterprises

2.7.5 The Department of Trade and Industry is charged with the duties to provide and co-ordinate business support and training programmes specifically designed for social enterprises. In particular, the Business Link, a self-help portal set up by the government to provide practical business advice and information to SMEs, has specific training for social enterprises. Social enterprises may also join Inside UK Enterprise, a programme of one-day visits to UK companies, through which they may benefit from businesses, sharing their experiences on new techniques or innovations and ways of improving business performance.

2.7.6 In addition, the Department of Trade and Industry has funding to support external organizations to provide business support and training for social enterprises. For example, between 2002 and 2005, the Department launched the Social Enterprise Partnership project in collaboration with six social enterprise organizations, namely SEC, the Co-operative Union, the Development Trusts Association, the New Economics Foundation, the Social Enterprise London and the Social Firms UK. The project included a web-based register of social enterprise consultants and training materials to enhance the knowledge and skills in the operation of social enterprises. The Department also funds the Social Enterprise Training and Support Consortium (Setas), which is a consortium of social enterprise training providers and support agencies. Setas provides training courses on social enterprises in various fields, such as business planning, human resources, legal structures and governance. It also operates a web-based platform for social enterprises to share information about business support and training as well as other events that help social enterprises connect with each other.

2.8 Establishing the value of social enterprises

2.8.1 The government establishes the value of social enterprises by building a knowledge base about the social enterprise sector and raising awareness of the sector. In 2005, the government commissioned the social enterprise mapping exercises to map out the profiles of the social enterprise sector in the UK, with results being published in *A Survey of Social Enterprises across the UK*. In the same year, the Department of Trade and Industry included social enterprises in its Annual Small Business Survey. Since then, statistics about social enterprises have been collected regularly. The government has also co-operated with other social enterprise stakeholders, such as the Social Enterprise Partnership, to develop a social auditing tool to measure the non-financial returns of social enterprises.¹⁹ The social auditing tool is being tested in some pilot regions.

2.8.2 To raise awareness of social enterprises, the government has supported the Enterprising Solutions Award, which aims to raise the profile of successful social enterprises. The government has also provided SEC with strategic funding to develop itself as the "voice of the sector".

2.9 Strengthening the social enterprise strategy

2.9.1 Following the 2005 review of the social enterprise strategy, the government published the *Social Enterprise Action Plan: Scaling New Heights* in November 2006. The Action Plan states that the government "does not create social enterprises", but, working with social enterprises and the organizations that represent them, the government can "create the conditions that enable social enterprises to thrive", and "tackle the market failures that would otherwise frustrate them". Specifically, the Action Plan focuses on the following four areas to strengthen the social enterprise strategy:

- (a) fostering a culture of social enterprises;
- (b) improving social enterprises' access to support in the market and through government programmes;
- (c) facilitating social enterprises' access to appropriate finance; and
- (d) working with the government.

¹⁹ The social enterprise sector has developed case study databases to demonstrate the performance and impacts of social enterprises. For example, SEC has a list of 77 case studies organized by themes (such as access to finance) and by activities (such as recycling).

Fostering a culture of social enterprises

2.9.2 The measures to foster a culture of social enterprises include:

- (a) building an evidence base about the success of social enterprises and appointing 20 social enterprise ambassadors to raise awareness and understanding of social enterprises;
- (b) providing strengthened guidance on social enterprises to schools and promoting good examples of how schools have engaged with social enterprises;
- (c) working with the Qualifications and Curriculum Authority to better integrate the social enterprise business models into the General Certificate of Secondary Education, Advanced-Level and other business syllabuses;
- (d) supporting the Department for Education and Skills (which was split on 28 June 2007 into two new departments, the Department for Children, Schools and Families and the Department for Innovation, Universities and Skills) to explore new ways to provide and promote social enterprise learning within the tertiary education framework and to promote social enterprises as a potential career for students in higher education;
- (e) developing a new research programme to build further evidence on the economic, social and environmental values of the social enterprise sector; and
- (f) encouraging links between the social enterprise sector and the conventional private sector, such as facilitating discussions with business leaders about the drivers for commercial activities with social enterprises.

Improving social enterprises' access to support measures

2.9.3 The measures to help social enterprises access the support they need in the financial market and through government programmes include:

- (a) improving information and guidance relating to social enterprises on the Business Link to make it a successful single source of information for social enterprises;

- (b) providing an additional funding of up to £1.8 million (HK\$28 million) over the next few years to the statutory Regional Development Agencies²⁰ to improve the capacity of the Business Link to strengthen business support for social enterprises; and
- (c) commissioning a review to understand the specific needs of social enterprises and whether such needs are met by the mainstream business education and training networks and organizations.

Facilitating social enterprises' access to appropriate finance

2.9.4 The measures to enable social enterprises to access appropriate finance include:

- (a) making available up to £10 million (HK\$157 million) for social enterprises' co-investment with the private sector, subject to consultation with the social enterprise and finance sectors on how best to use such funding;
- (b) providing further financial awareness training for social enterprises; and
- (c) conducting a review on how the operation of the Community Investment Tax Relief and other financial incentives for social enterprises may be improved.

Working with the government

2.9.5 The measures to enable social enterprises to work with the government include:

- (a) launching a cross-departmental third sector public services action plan prepared by the Office of the Third Sector;

²⁰ There are nine Regional Development Agencies established under the *Regional Development Agencies Act 1998* in nine regions of the UK. They aim to co-ordinate regional economic development and regeneration, enable the regions to improve their relative competitiveness and reduce the imbalance that exists within and between regions.

- (b) encouraging departments to overcome barriers to social enterprises' delivery of public services (e.g. the Department for Environment, Food and Rural Affairs revised in late 2006 its waste strategy for England, setting out policies on social enterprises and steps being taken to help such enterprises to be more involved in sustainable waste management; and the Department of Health has indicated its support to the entry of social enterprises into the health and social care services market);
- (c) commissioning research on the opportunities for social enterprises in the delivery of services relating to the London 2012 Olympic Games;
- (d) providing £0.8 million (HK\$12.6 million) a year for three years to support organizations representing the social enterprise sector at a national level to enable the sector to raise its own profile and influence public policies; and
- (e) exploring the means to factor social benefits into funding arrangements, such as the inclusion of "social clauses"²¹ in the public sector contracts.

²¹ Social clauses are seen as specifications that require suppliers to demonstrate that they can deliver social benefits and outcomes, such as creating employment for disadvantaged people, while carrying out works described in the contract. However, the inclusion of social considerations into the procurement process must be in line with the overarching legal and policy framework of value for money and the European Union rules on the procedures of public procurement, such as open competition for public sector contracts.

Chapter 3 – Spain

3.1 Background

3.1.1 In Spain, co-operatives, voluntary bodies, foundations as well as other not-for-profit organizations have taken part in income-generating businesses for social rather than commercial purposes for years. Since the 1990s, such businesses have been categorized as "social economy". The term, which first appeared in France in the 19th century, refers to any economic phenomenon that has a social dimension, or any social phenomenon that has an economic dimension.²²

3.1.2 The development of social economy has been largely driven by the government. In 1985, the Ministry of Labor and Social Affairs established the Secretariat-General for Employment to take charge of employment matters, including the development of social economy. The Secretariat-General for Employment has a specific division, the Directorate-General for the Promotion of the Social Economy and the European Social Fund, which is responsible for co-ordinating the government departments that promote social economy; formalizing accords and agreements on social economy with the 17 Autonomous Regions of Spain²³ and national public institutions, such as the National Public Employment Service;²⁴ and facilitating the funding of enterprises and associations in the social economy sector.²⁵

3.1.3 The Spanish government has regarded social economy as a tool to fight against unemployment, poverty and social exclusion.²⁶ In Spain, the unemployment rate rose from around 2% in the early 1970s to more than 10% in the late 1970s, and reached the peak of 24.2% in 1994. The unemployment rate then gradually dropped from 18.8% in 1998 to 8.5% in 2006. According to the government, a major reason for the drop was the growth of social economy. Statistics from the Directorate-General for the Promotion of the Social Economy and the European Social Fund reveal that, from 1996 to 2005, the social economy sector created a total of 420 000 jobs, representing a 67% increase, which was higher than the corresponding 41% growth in the overall labor market.

²² Defourmy and Develtere (1999) p.3.

²³ Under the 1978 *Spanish Constitution*, Spain is divided into 17 Autonomous Regions. Each Region has wide legislative and executive economy, with its own legislature and regional government. Some regions have more autonomous powers, owing to their stronger regional traditions and separate languages.

²⁴ The National Public Employment Service was established in 1978 as an independent legal entity to take charge of the public employment services in Spain. The Service is governed by a General Council, which comprises 39 members. One-third of those members are representatives of the public administration, including the Secretary-General for Employment of the Ministry of Labor and Social Affairs as the Chair and the Director-General of the Service as the Deputy Chair. One-third are representatives of trade unions and the remaining one-third are representatives of employer associations.

²⁵ Ministry of Labor and Social Affairs (2003) pp. 8-10.

²⁶ Subcommittee to Study the Subject of Combating Poverty (2007) paragraph 2.7.

3.1.4 In addition, the government considers that social economy is not only "an efficient tool that has helped save jobs in companies at risk but also an important element in the creation of jobs during the period of economic growth".²⁷ According to the government, social economy enterprises have a higher survival rate than other SMEs, with over 51% of them remaining active and generating jobs five years after their establishment.

3.1.5 In 2006, Spain had more than 51 500 social economy enterprises. These enterprises employed more than 2.4 million people, accounting for some 25% of Spain's total working population. In 2004, social economy enterprises generated a yearly turnover of more than €87 billion (HK\$922 billion), accounting for more than 7% of Spain's GDP. Spain has one of the world's biggest social economy enterprises, Mondragón Corporacion Cooperativa (MCC), which has been conducting income-generating businesses since 1956. With 83 601 employees and assets of €22.6 billion (HK\$240 billion) in 2006, MCC has been involved in a variety of businesses, which include banking, insurance, social welfare and the production of goods (such as agricultural foods). It also operates research, vocational training and teaching centres, including a university with 4 000 students.

3.1.6 In Spain, about 51 000 social economy enterprises are represented by a business confederation called the Confederation of Spanish Social Economy Businesses (CEPES), which was established in 1992. Comprising 24 member organizations, CEPES has provided a platform for dialogue between social economy enterprises and the public authorities. It has been contributing actively to the formulation of government policies and initiatives at the local, regional and national levels on employment, social inclusion, empowerment and development of SMEs, corporate social responsibility (CSR) and development of de-industrialized areas. It has also been working with the National Public Employment Service on the design and execution of employment and vocational training plans. In addition, CEPES represents the Spanish social economy enterprises in European forums, and co-ordinates the "Mediterranean Euro Network of the Social Economy", which covers Spain, Greece, Italy, France and Portugal.

²⁷ Ministry of Labor and Social Affairs (2005).

3.2 Definition of social economy enterprises

3.2.1 The Spanish government does not have a definition for social economy. Nevertheless, according to a government-funded study, the notion of social economy is embedded in the *1978 Spanish Constitution*. Although the Constitution does not have the term "social economy", it contains important references to what is generally considered as social economy. Section 22 of the Constitution recognizes the right of association, including associations for social action. Section 34 recognizes the right of foundation for purposes of general interest. Section 129 requires the public authorities to "effectively promote the various forms of participation in enterprises and facilitate co-operative enterprises [which are considered as a kind of social economy enterprises] by means of appropriate legislation", and "establish the means that will facilitate access by the workers to ownership of the means of production".

3.2.2 According to some Spanish specialists in social economy, a social economy enterprise means activities that "fulfill, in whole or in part, the two sets of undertakings related to its economic and social aspects".²⁸

3.2.3 The economic aspects of social economy enterprises are as follows:

- (a) they are directly and continuously involved in the production of goods and/or services;
- (b) they are created voluntarily and run by a group of people as independent entities, which are not subject to the control of public or private organizations, although they may be subsidized by public grants;
- (c) their financial viability depends on the efforts of its members and workers to guarantee sufficient resources;
- (d) they have an important or growing part of business income from the market or contracts with the public authorities; and
- (e) they have a minimum number of employees.

3.2.4 The social aspects of social economy enterprises are as follows:

- (a) they promote a sense of social responsibility to serve the community or a specific group of people at the local level;
- (b) they are created by a group of people who share certain needs or objectives and want to contribute in one way or another;

²⁸ Vidal (2005) p. 808.

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- (c) their profits are not to be distributed or may only be distributed up to a set limit; and
 - (d) they have a democratic management and their clients or consumers have representation on their governing bodies.

3.2.5 Spain has various types of social economy enterprises, which mainly include:²⁹

- (a) workers' co-operatives,³⁰ which form the bulk of social economy in Spain. They are companies constituted by workers to carry out commercial activities aimed at fulfilling the workers' economic needs and some social goals, with a democratic working and operating structure;
- (b) labour societies/companies (or employee-owned companies), which are share capital companies, usually taking the form of limited liability companies, in which the majority of the share capital is owned by the workers who personally and directly engage in remunerated works in such companies with employment contracts of unlimited duration, and a single shareholder may not possess more than 33% of the share capital;
- (c) mutual provident societies, which are not-for-profit organizations with a democratic structure and management to carry out voluntary insurance activities;
- (d) sheltered employment centres (or special employment centres), which are run by not-for-profit organizations, such as the ONCE Group (The Organización Nacional de Ciegos de España),³¹ to provide jobs for the disabled; and
- (e) social insertion companies,³² which provide jobs for the disadvantaged, who are at risk of permanent exclusion from the labour market.

²⁹ *Summary of the Report on the Social Economy in Spain in the Year 2000*, Vidal and Valls (2003), Vidal and Claver (2005) and Ministry of Labour and Social Affairs (2007).

³⁰ According to the Ministry of Labor and Social Affairs, co-operatives consist of the following categories: co-operatives of working partners; users' and consumers' co-operatives, housing co-operatives, agricultural co-operatives, community farming co-operatives, service co-operatives, maritime associations, transport co-operatives, insurance co-operatives, health associations, teaching associations, and money-lending co-operatives.

³¹ ONCE was founded as a not-for-profit organization in 1938. Initially, it worked exclusively for the welfare of blind people. In the past 20 years, it has extended and directed its activities towards people with all types of handicap through the ONCE Foundation established in 1988. ONCE is granted by the Spanish Government the exclusive management of the state "Cupon" lottery sales and licenses for some lottery games, and therefore securing a source of stable income. Subcommittee to Study the Subject of Combating Poverty (2007) paragraphs 2.44-2.49.

³² Some scholars have grouped co-operatives, labour companies/societies, special employment centres and social insertion companies into a category called work integration social enterprises (WISE).

3.3 Size and fields of activities of social economy

3.3.1 In Spain, about 96% of the social economy enterprises are micro (with less than 10 employees) and small (with 11 to 49 employees) enterprises. In the fourth quarter of 2006, the proportion of production and trading activities of social economy enterprises in the service, industrial, construction and agricultural sectors were 53.6%, 22.6%, 13.5% and 10.3% respectively.

3.4 Problems faced by the social economy sector

3.4.1 According to the government and the academia, the growth of social economy has been hindered by the following major problems:³³

- (a) legal and administrative barriers;
- (b) lack of a specific regulatory framework for social insertion companies;
- (c) financing difficulties;
- (d) insufficient business support; and
- (e) inadequate public understanding of social economy.

Legal and administrative barriers

3.4.2 The growth of social economy has been hindered by a number of legal and administrative barriers. For instance, prior to 1999, the legal requirement for a co-operative to have at least five partners was considered demanding for the unemployed who wanted to form a co-operative. Although this requirement has been relaxed, the administrative procedures for processing an application for starting a business remain time consuming. The government departments' handling of such an application requires 47 days, more than twice the average number of days (20.3 days) required in the other European Union countries.³⁴

³³ *National Action Plan for Employment of the Kingdom of Spain, 1998-2004; Convergence and Employment: The Spanish National Reform Programmes (2005); Spain National Reform Programme: 2006 Progress Report (2006); Assessment of the European Employment Strategy: Spain (2002); Policy measures to promote the use of micro-credit for social inclusion (2005); Vidal (2001); Vidal and Valls (2003); Vidal (2005); Vidal and Claver (2005); and Vidal and Claver (2006).*

³⁴ *Convergence and Employment: The Spanish National Reform Programmes (2005) p.129.*

Lack of a specific regulatory framework for social insertion companies

3.4.3 Since the 1980s, some not-for-profit organizations and neighbourhood organizations have initiated a type of social economy enterprises called social insertion companies, which provide transitory jobs for socially excluded people (e.g. the long-term unemployed) to help them eventually return to the mainstream labour market. Over the years, social insertion companies have been established under various legal forms, such as co-operatives. However, such companies consider that the existing legal forms do not suit their nature because, unlike ordinary social economy enterprises, they only provide transitory instead of permanent jobs for those at risk of being permanently excluded from the labour market. They request a distinct legal identity, which not only differentiates them from profit-making companies and other social economy enterprises but also entitles them to government subsidies and assistance.

Financing difficulties for starting and sustaining social economy enterprises

3.4.4 While the government has encouraged the unemployed to establish micro or small social economy enterprises, the unemployed usually do not have enough capitals to establish such enterprises or sustain them. In addition, the unemployed may not have sufficient financial resources to buy shares to join a co-operative or a worker-owned company. Even when the unemployed have capitals to establish or join social enterprises, these enterprises may have difficulties in obtaining public contracts because of two major reasons. First, such contracts have usually been awarded to big companies, which can manage large packages of services at a lower cost. Second, when awarding public contracts, public authorities do not take sufficient account of the social aspects of social economy enterprises because such contracts do not have compulsory provisions requiring successful tenders to promote social economy. In addition, social economy enterprises often have difficulty in obtaining cheaper and longer-term financing in the financial market because they seldom have a proven track record or assets to be used as collateral.

Insufficient business support

3.4.5 While most of the government's business support available to mainstream businesses is also accessible to social economy enterprises, the particular features and needs of such enterprises, such as being run by the unemployed, young people or women and lacking sufficient funding, have not been clearly recognized by the government and the mainstream business sector. In addition, the government's business support is considered to be fragmented, failing to provide focused support to the social economy sector.

Insufficient understanding of social economy enterprises

3.4.6 Owing to the wide variety of social economy enterprises, the general public is normally not clear about the exact nature of these enterprises. The government has been urged to be more active in raising the profile of the social economy sector and promoting a general understanding of the sector, so as to encourage people, particularly the young generation, to engage in the sector's activities.

3.5 Support measures for social economy enterprises

3.5.1 Since the mid-1990s, the Spanish government has tackled the unemployment problem through the promotion of social economy, especially in areas relating to environment, culture, education, solidarity, health, family, leisure, tourism and sport. To address the problems that hinder the formation and operation of social economy enterprises, the government has announced a series of measures in its national action plans for employment and plans against poverty and social inclusion. Such measures aim to encourage the unemployed to form and sustain social economy enterprises, facilitate the absorption of the disadvantaged by these enterprises, and support representative organizations to promote social economy activities.

Breaking down administrative and legislative barriers to social economy

3.5.2 The government has strengthened its support to SMEs, including social economy enterprises, through certain administrative measures. In particular, the government has expanded the network of the "Points of Access and Start of Procedures" to facilitate the administrative formalities for new companies and strengthen the consultancy services to the disadvantaged, including young people and women, who plan to set up social economy enterprises. The government has sought to reduce the bureaucratic costs of setting up a company, such as expanding the network of "Advice and Paperwork Points" by over 100 offices at which an application for establishing all types of limited company, including social economy enterprises, can be processed on-line. In addition, the government is planning to introduce legislation to establish a common on-line register for companies and expand the electronic data interchange system between government departments and private companies. In collaboration with the Spanish Chambers of Commerce and Industry which are the representative business associations, the government has carried out the "Single Windows for Businesses" project to provide integrated services to social economy enterprises and other SMEs.

3.5.3 Meanwhile, the *Cooperatives Act* enacted in 1999 makes it easier for the incorporation of the unemployed as new members in social economy enterprises by means of the "One-off Payment" scheme, to be discussed in **paragraph 3.5.4**. The Act also reduces the minimum number of partners required for a co-operative from five to three, and promotes the creation of "social initiative cooperatives" to foster the recruitment of the unemployed in caring for dependants (such as the elderly) and "social integration enterprises" to integrate the socially excluded into the labour market.

Financial support to social economy

3.5.4 The government has implemented the "One-off Payment" scheme to encourage the growth of social economy. Under the scheme, which is managed by the National Public Employment Service, an unemployed person can apply for a one-off, lump-sum payment of unemployment benefits, and use the payment to create a social economy enterprise or invest in such an enterprise as a partner. The eligible unemployed person must have the right to the government's unemployment benefits and demonstrate to the National Public Employment Service that he or she will be a member of a co-operative, and has not joined the scheme in the previous four years. Within one month of receiving the payment, the recipient must register with national insurance and produce a certificate from the co-operative stating that his or her job has commenced and the payment has been paid into the co-operative.

3.5.5 The government has schemes to subsidize activities relating to social economy. In particular, any activities, such as media campaigns, training programmes, workshops, conferences and research, that promote social economy, self-employment and CSR, are eligible for a government subsidy of up to €60,000 (HK\$640,000). In addition, the government has subsidized the operational costs of co-operative associations, workers' societies and entities representing social economy at the national level. For instance, a national association of co-operatives or labour societies may apply for a government subsidy of up to €160,000 (HK\$1,700,000) every year to fund its operation, including travel expenses, rents, maintenance, insurance premiums, advertising and public relations, stationery and membership fees of national and international associations.

3.5.6 The government has helped SMEs, including social economy enterprises, access finance through a number of measures, including:

- (a) strengthening the equity of social economy enterprises by making their internal rules more flexible through legislative measures, such as opening up their share capital to external investors by creating associate or collaborating membership, and allowing co-operatives to issue bonds;

- (b) creating a micro credit line to provide a loan of up to €25,000 (HK\$270,000) to any micro business formed by the unemployed, immigrants, young people and women; and
- (c) expanding the Official Credit Institute - Small and Medium-Sized Enterprise Line (ICO-PYME) to finance SMEs' projects of up to €1.5 million (HK\$16 million); and opening a new credit line for financing medium-sized enterprises' investment projects of between €1.5 million (HK\$16 million) and €4 million (HK\$42 million);

Promoting entrepreneurship and raising awareness of social economy

3.5.7 To promote entrepreneurship, which is beneficial to the growth of social economy, the government has implemented the "Mini-company Creation Programme" in compulsory secondary education, strengthened the training of teachers on entrepreneurship, improved the training materials on entrepreneurship in occupational training schools, and encouraged universities to draw up entrepreneurship programmes. The government has also launched the "Creating Businesses Together" campaign and the celebration of "Entrepreneurs' Day" to raise awareness of entrepreneurship, including social economy enterprises.

Promoting corporate social responsibility

3.5.8 To complement the promotion of social economy, the government has implemented a policy to promote CSR since 2005. The policy aims at integrating the principles of CSR in public administration, stimulating social responsibility in not only large enterprises but also SMEs, and disseminating good social and environmental practices. The policy also seeks to ensure equal opportunities for all genders, conciliate work with personal life, enhance workers' employability through the promotion of continuous training, and integrate the disabled and the excluded in the labour market. To align with the stakeholders in the promotion of CSR, the government has created the CSR Expert Forum, being participated by representatives from social economy enterprises, business associations, not-for-profit organizations, consumer and human right organizations, foundations and scholars.

Opportunities in bidding government contracts

3.5.9 According to some organizations relating to social economy in Spain,³⁵ the operation of social economy enterprises has been on a level playing field with other business enterprises in the market. In spite of this, the Spanish government has included a social clause in its tender documents, requiring the contracts to employ a specified percentage of workers who are unemployed or have a disadvantaged background. This arrangement has increased not only the chance of social economy enterprises in bidding government contracts but also the employment opportunities of the unemployed and disadvantaged.

³⁵ Subcommittee to Study the Subject of Combating Poverty (2007) paragraphs 2.37 and 2.55.

Chapter 4 – Hong Kong

4.1 Background

4.1.1 In Hong Kong, the development of social enterprises is a relatively new phenomenon, although a few small social businesses organized by self-help or community groups to provide job and training opportunities for the disabled have been in existence for some time.³⁶ Since the Government launched the "Enhancing Employment of People with Disabilities through Small Enterprise Project" (the Seed Money Project) in 2001³⁷, the number of social enterprises has soared. In particular, many non-governmental organizations (NGOs) use the grants provided by the Seed Money Project to develop social enterprises for the disabled.

4.1.2 It was not until recent years that the Government had introduced measures to promote social enterprises systematically. In September 2005, the Government's Commission on Poverty (the Commission),³⁸ chaired by the Financial Secretary, formally discussed, for the first time, the development of social enterprises. According to the Commission, the Government recognized "the potential benefits of the development of social enterprises in enhancing the employability of the disadvantaged, particularly people with disabilities".³⁹ The Commission considered that such enterprises were not intended to replace the conventional welfare service delivery, but provided "an alternative and supplement to the more conventional welfare approach when rendering employment-related support to the disadvantaged".⁴⁰

³⁶ Hong Kong Council of Social Services (2006).

³⁷ Under the Seed Money Project administered by the Social Welfare Department, NGOs can apply for a maximum grant of HK\$2 million for each business offered in the form of a non-recurrent grant to support the initial capital expenditure and the first-year operation.

³⁸ The Commission was established by the Government in February 2005, and its term ended on 30 June 2007. The Commission aimed to (a) study and identify the needs of the poor; (b) make policy recommendations to prevent and alleviate poverty and promote self-reliance; and (c) encourage community engagement, delineate responsibility between the Government, social welfare sector and community organizations, foster public-private partnerships and mobilize social capital in alleviating poverty. Besides the Financial Secretary, the Commission's membership included Head of the Central Policy Unit, four Principal Officials responsible for health and welfare, home affairs, employment and education, and non-official members comprising Members of the Legislative Council, business people, community leaders, representatives from non-governmental organizations and academics. Since the end of the Commission's term, the Home Affairs Bureau has been responsible for promoting the further development of social enterprises.

³⁹ Commission on Poverty (2005).

⁴⁰ Ibid.

4.1.3 The importance of social enterprises was recognized by the Chief Executive of the Hong Kong Special Administrative Region, who stated in his 2005-2006 Policy Address that the Government would "emphasize helping people capable of work to move from welfare to self-reliance" and "promote co-operation with all parties to further develop social enterprises, enhance the employability of the unemployed and consider how our employment services and training programmes can supplement one another to tie in with this development".⁴¹ In his 2007-2008 Policy Address, the Chief Executive pledges to motivate a tri-partite collaboration among the Government, business and society in the promotion of social enterprises. The Chief Executive will invite non-profit-making organizations and the business community to participate in social enterprise projects, and will convene a summit on social enterprises by the end of 2007.

4.1.4 In June 2007, the Commission published the *Report of the Commission on Poverty*, noting the increasing public acceptance of the potentials and benefits of social enterprises in helping the disadvantaged. The Commission supported the further development of such enterprises "as an innovative approach to promote self-reliance and to provide community employment opportunities for the unemployed to integrate into the job market".⁴²

4.1.5 There are no formal statistics on the social enterprise sector in Hong Kong. According to the Hong Kong Council of Social Service (HKCSS)⁴³ which represents most NGOs with social enterprises in Hong Kong, there were 48 NGOs operating 187 social enterprise units in mid-2006. As at January 2006, some 1 100 people worked in the social enterprise sector.⁴⁴

⁴¹ Paragraph 41, The 2005-2006 Policy Address made by the Chief Executive of the Government of the Hong Kong Special Administrative Region.

⁴² Commission on Poverty (2007) p. V.

⁴³ HKCSS was established in 1947 as a non-governmental organization to co-ordinate refugee relief work. Since its registration as a body corporate in 1951, HKCSS has gradually developed into an umbrella organization for voluntary and community organizations. It currently has 320 Agency Members which provide more than 90% of Hong Kong's social welfare services through their 3 000 service units.

⁴⁴ Social Enterprise Resource Centre (2006). The Social Enterprise Resource Centre is established by HKCSS.

4.2 Definition of social enterprise

4.2.1 There is no common definition of social enterprises because their background and mode of operation are "very diverse".⁴⁵ Some are subsidiaries of for-profit organizations, which are the result of their CSR programmes. Some are run by charities and non-for-profit organizations which have become more entrepreneurial, with some of their welfare programmes being more integrated with market operation. Others stem from businesses supported by the Seed Money Project and the Community Investment and Inclusion Fund.⁴⁶

4.2.2 According to the Government, social enterprises are characterized by:⁴⁷

- (a) "simultaneous pursuit of business and social objectives";
- (b) "engagement in business/trading activities", which are the major source of income of such enterprises; and
- (c) "not-for-profit" nature, with profits or surpluses from their business or trading activities being principally reinvested for these enterprises' social objectives.

4.3 Size and fields of activities of social enterprises

4.3.1 According to HKCSS, most social enterprises in Hong Kong are micro (less than 10 employees) and small (11 to 49 employees) enterprises. As at January 2006, 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%).

⁴⁵ Commission on Poverty (2005).

⁴⁶ Established by the Government in 2001, the HK\$300 million Fund provides seed money to support the collaborative efforts of community organizations and the private sector. The Fund aims to encourage mutual concern and aid among people, promote community participation at the local level, and support cross-sector programmes to develop social capital.

⁴⁷ Commission on Poverty (2007) p. 25.

4.4 Problems faced by the social enterprise sector

4.4.1 Based on information released by the Commission, the Government and HKCSS, the problems faced by the social enterprise sector in Hong Kong can be summarized as follows:

- (a) lack of a clear public understanding of the sector, the development of which is relatively new and not widely understood;
- (b) lack of an appropriate legal framework that facilitates the sector's development;
- (c) insufficient policy support for the sector's development, particularly its participation in the public procurement process;
- (d) insufficient business support for the sector, such as lack of tailor-made training for social entrepreneurs;
- (e) insufficient personnel with business mindset and experience in NGOs and the welfare sector, which operate social enterprises; and
- (f) insufficient funding to start and/or sustain social enterprises.

4.5 Measures for social enterprises

4.5.1 In recent years, based on the advice of the Commission, the Government has launched a series of measures to encourage the development of social enterprises, focusing on the following three areas:⁴⁸

- (a) establishing the value and gaining public acceptance of social enterprises;
- (b) creating an enabling environment; and
- (c) providing business facilitation and support.

⁴⁸ Commission on Poverty (2007) p. 26.

Establishing the value of social enterprises

4.5.2 The Government's measures to promote both the value and public acceptance of social enterprises include:

- (a) working with NGOs and the private sector with experience in social enterprises to map out the overall picture of the development of social enterprises in Hong Kong;
- (b) distilling good practice models of social enterprises and encouraging the adaptation of such models;
- (c) organizing forums to raise awareness of social enterprises and involve the business sector and the wider community in considering the potential of using social enterprises to help the able-bodied unemployed; and
- (d) building the knowledge base on social enterprises through research.

Creating an enabling environment

4.5.3 The Government's measures to create an enabling environment for social enterprises include:

- (a) reducing the administrative or policy barriers that hinder the development of social enterprises, such as relaxing the requirement of the Seed Money Project to employ a certain percentage of disabled people from more than 60% to 50% so as to allow more able-bodied unemployed people to work for social enterprises;
- (b) examining the establishment of an appropriate regulatory framework to cater for the special needs of social enterprises;
- (c) facilitating the participation of social enterprises in public procurement, such as promoting the products and services of social enterprises to those responsible for public procurement at both the central and district levels; and allowing procuring departments to consider giving preferential treatment to social enterprises employing the disabled through the award of additional weighting in open tender exercises⁴⁹ and the use of restricted tender.⁵⁰ For instance, the Hospital Authority has agreed to increase the weighting of employment of disabled people in awarding contracts from 5% to 10% of the total score; and

⁴⁹ This is permissible under the *World Trade Organization Agreement on Government Procurement*.

⁵⁰ Tender invitations are sent to only one or a number of suppliers/contractors approved by the Permanent Secretary for Financial Services and the Treasury or the Director of Government Logistics.

- (d) considering the integration of the development of social enterprises with other social and employment assistance schemes to facilitate the participation of the able-bodied Comprehensive Social Security Assistance recipients in social enterprises.

Business facilitation and support

4.5.4 The Government's measures to strengthen business facilitation and support to social enterprises include:

- (a) considering the provision of a funding source in support of start-ups of social enterprises for disadvantaged groups other than the disabled, such as allocating HK\$150 million to the Home Affairs Department from 2006-2007 for five years to promote poverty prevention and alleviation efforts at the district level, including the Enhancing Self-Reliance Through District Partnership Programme, which provides start-up funding to social enterprise initiatives;
- (b) extending the existing business support, including the SME Mentorship Programme and the "Meet-the-Advisors" Business Advisory Service under the Trade and Industry Department, to social enterprises;
- (c) organizing the first certificate course on social entrepreneurship in collaboration with HKCSS and some local tertiary institutions to equip social enterprise practitioners and NGO or private-sector executives who plan to start social business with essential business knowledge and operational skills in running social enterprises; and
- (d) organizing a business plan competition called "Hong Kong Social Enterprise Challenge", which aims to stimulate university students to create business plans for viable enterprises that are financially sustainable and have social values.

Chapter 5 – Analysis

5.1 Introduction

5.1.1 Based on the findings in the previous chapters, this chapter highlights the following aspects to facilitate Members' deliberation on the development of social enterprises in Hong Kong:

- (a) definition of social enterprises;
- (b) contribution of social enterprises to economy;
- (c) role of government in the development of social enterprises;
- (d) problems faced by the social enterprise sector;
- (e) creating an enabling environment for social enterprises;
- (f) establishing the value and gaining public acceptance of social enterprises; and
- (g) business facilitation and support for social enterprises.

5.1.2 To facilitate Members' discussion, the **Appendix** presents a comparison table of the main features of the social enterprise policies and measures adopted by the governments of the two selected places and Hong Kong.

5.2 Definition of social enterprise

5.2.1 Of the two selected places, only the United Kingdom (UK) provides an official definition of a social enterprise, which has two main components. First, a social enterprise is a business with social objectives. Second, the surpluses of such a business are principally reinvested in the business or community for those social objectives rather than driven by the need to maximize profit for the shareholders or owners of the business. Unlike the UK government, the Spanish government does not provide an official definition of social economy (which is regarded as conceptually equivalent to social enterprise operation). Nevertheless, the Spanish Constitution, where the term "social economy" does not exist, has important references to what is generally understood as social economy. In particular, the Constitution requires the public authorities to "facilitate co-operative enterprises by means of appropriate legislation" and "establish the means that will facilitate access by the workers to ownership of the means of production".

5.2.2 In Hong Kong, the features of social enterprises highlighted by the Commission on Poverty are similar to those recognized by the UK and the Spanish governments. In particular, social enterprises are not-for-profit, pursuing business and social objectives simultaneously. They engage in business or trading activities but the profits or surpluses from such activities should be reinvested principally for their social objectives.

5.3 Importance of social enterprises to economy

5.3.1 Both the UK and the Spanish governments regard social enterprises as a tool to fight against the problems of unemployment, poverty and social exclusion faced by the disadvantaged and underserved areas in their countries. In both the UK and Spain, social enterprises are important to the national economy. The UK has more than 55 000 social enterprises, which account for 5% of all businesses with employees nationwide. They generate a yearly turnover of more than £27 billion (HK\$400 billion), which represents almost 1% of the UK's GDP. Social enterprises' contribution to the national economy is more significant in Spain than in the UK. In 2006, Spain had more than 51 500 social economy enterprises (including the 83 000-employee Mondragon Corporacion Cooperativa, one of the world's biggest social enterprises), which employed more than 2.4 million workers, accounting for 25% of Spain's total working population. In 2004, they generated a yearly turnover of more than €86 billion (HK\$922 billion), which represented more than 7% of Spain's GDP.

5.3.2 In the UK, there has been insufficient proof beyond anecdotal evidence that social enterprises have an impact on the communities, income or job creation, although some findings from not-for-profit research organizations showed that social enterprises had higher turnover and created more jobs than mainstream enterprises. On the other hand, according to the Spanish government, the growth of social economy enterprises was a major factor of the significant fall of the national unemployment rate from 24.2% in 1994 to 8.5% in 2006. From 1996 to 2005, social economy enterprises created a total of 420 000 jobs, representing a 67% increase, which was higher than the corresponding 41% growth in the overall labour market. In addition, according to the Spanish government, social economy enterprises have had a higher survival rate than other small- and medium-sized enterprises (SMEs), with over 51% of them remaining active and generating jobs five years after their establishment.

5.3.3 In Hong Kong, the Government considers the development of social enterprises as an innovative approach to promote self-reliance and to provide community employment opportunities for the unemployed to integrate into the job market. Nevertheless, the share of social enterprises in the economy remains trivial. According to the Hong Kong Council of Social Services (HKCSS), in mid-2006, a total of 48 non-governmental organizations (NGOs) were operating 187 social enterprise units. In early 2006, the social enterprise sector had some 1 100 workers, which were insignificant, compared to the total labour force of 3.6 million.

5.4 Role of government in the development of social enterprises

5.4.1 In recent years, both the UK and the Spanish governments have been taking a leading role in the promotion of social enterprises.

5.4.2 In the UK, the government took the initiative in 2001 to establish the Social Enterprise Unit (SEU) under the Department of Trade and Industry, which aimed to co-ordinate social enterprise stakeholders and government officials to identify and address problems facing social enterprises. With the support from the social enterprise sector, the government launched in 2002 the three-year Social Enterprise Strategy to promote social enterprises. In 2006, the government launched the Social Enterprise Action Plan, setting out further measures for the growth of social enterprises. In the same year, the government incorporated SEU into a new body under the Cabinet Office called the Office of the Third Sector (OTS). OTS is responsible for setting the government's policies on the third sector, including social enterprises. According to the government, the placement of OTS in the Cabinet Office demonstrates the importance of social enterprises being recognized at the decision-making level of the government.

5.4.3 In Spain, the development of social economy has been largely driven by the government. In 1985, the Secretariat-General for Employment of the Ministry of Labour and Social Affairs established a specific division called the Directorate-General for the Promotion of the Social Economy and the European Social Fund. The division aims to promote social economy in collaboration with the 17 Autonomous Regions of Spain and the National Public Employment Service, which takes charge of the public employment services.

5.4.4 In Hong Kong, it was not until recent years that the Government took actions to facilitate the development of social enterprises. In particular, the Government established in 2005 the high-level Commission on Poverty chaired by the Financial Secretary. The Commission, the term of which ended on 30 June 2007, supported the further development of social enterprises as an innovative approach to promote self-reliance and to provide community employment opportunities for the unemployed to integrate into the job market. The responsibility of promoting the further development of such enterprises has been taken over by the Home Affairs Bureau.

5.5 Problems faced by the social enterprise sector

5.5.1 The social enterprise sector in both the UK and Spain has been facing similar problems. Outside the sector, the particular abilities and values of social enterprises have not been properly understood, owing to the wide variety of such enterprises. In addition, the regulatory framework for social enterprises, such as providing them with a distinct legal identity, has not been sufficiently developed. Consequently, business support and finance providers in the private sector have found it difficult, or lacked a strong incentive, to target social enterprises as potential clients. The difficulties in accessing business support or finance surge for some social enterprises, if they do not have a proven track record or assets to use as collateral. Meanwhile, the government's business support to SMEs, though considered relevant to social enterprises, is rather fragmented and may not suit the nature or specific needs of social enterprises, which have been driven by social objectives instead of profit maximization. The governments of the two selected places have been urged to provide more tailor-made business support to social enterprises whose owners or shareholders usually do not have sufficient experiences in running businesses.

5.5.2 In Hong Kong, the problems faced by the social enterprise sector are largely the same as those in the UK and Spain.

5.6 Creating an enabling environment for social enterprises

5.6.1 Both the UK and the Spanish governments have implemented administrative and legislative measures to develop an enabling environment for social enterprises.

5.6.2 In the UK, the government has formed an Inter-departmental Official Group to ensure that social enterprises are being fully considered in policy development and service delivery across government departments and in changes to regulations, administrative practices and fiscal policies. The government has organized training programmes to encourage procurement staff to understand the benefits of contracting with social enterprises. The government has also worked with NGOs to strengthen the ability of social enterprises in public procurement, such as providing advice on bidding public sector contracts and establishing the Procurement Portal to facilitate their access to information on government procurement exercises. Meanwhile, the government has created a new type of companies called community interest companies (CICs), the formation of which not only provides social enterprises with an easily recognized legal identity but also facilitates the pursuit of their social objectives. For instance, CICs must state their social objectives in their constitution and report annually to the government's Regulator of Community Interest Companies on their service delivery to the community and involvement of stakeholders in their activities.

5.6.3 Like the UK government, the Spanish government has encouraged departments to overcome barriers to social economy enterprises. It has sought to reduce the bureaucratic costs of forming a company, such as expanding the network of consultancy services to the disadvantaged who plan to form social economy enterprises. In addition, the *Co-operatives Act* enacted in 1999 reduces the minimum number of partners required for a co-operative from five to three, thus making it easier for the disadvantaged to seek enough partners to form a social economy enterprise.

5.6.4 In Hong Kong, the Government has encouraged its departments and public bodies to consider giving preferential treatment to social enterprises employing the disabled. It has also relaxed the requirement of the Seed Money Project to allow social enterprises to employ more able-bodied unemployed people.

5.7 Establishing the value and gaining public acceptance of social enterprises

5.7.1 Both the UK and the Spanish governments have been trying to foster a culture of social enterprises through both secondary and tertiary education. For instance, in the UK, the government has been working with the Qualifications and Curriculum Authority to better integrate social enterprise business models into the General Certificate of Secondary Education, Advanced-Level and other business syllabuses. In Spain, the government has implemented in compulsory secondary schools the "Mini-company Creation Programme" to promote entrepreneurship, which is beneficial to the growth of social economy.

5.7.2 Besides formal education, the UK and the Spanish governments have launched publicity campaigns to raise awareness and understanding of social enterprises. In the UK, the government has been building an evidence base on the economic, social and environmental values of the social enterprise sector and has appointed 20 social enterprise ambassadors to disseminate the successful stories of social enterprises. In Spain, to complement the development of social economy, the government has developed a policy to promote corporate social responsibility (CSR), such as integrating the CSR principles in public administration and disseminating good social and environmental practices. The implementation of the CSR policy is supported by the government's CSR Expert Forum, which includes representatives from social economy enterprises.

5.7.3 In Hong Kong, the Government also recognizes the importance of education in establishing the value of social enterprises and gaining public acceptance of them. For instance, the Government has organized the first certificate course on social entrepreneurship in collaboration with HKCSS and local tertiary institutions. It has also organized a business plan competition to encourage university students to create viable social enterprises. Nevertheless, unlike the UK and the Spanish governments which start in secondary education to instill the concept of social enterprises in young people, the Government does not have a specific plan to incorporate this concept in secondary school syllabuses to formally and systematically educate students about social enterprises.

5.8 Business facilitation and support for social enterprises

5.8.1 Both the UK and the Spanish governments have carried out some innovative measures to improve social enterprises' access to finance. In the UK, the government has promoted the development of the Community Development Finance Institutions (CDFIs), which provide loans (e.g. start-up and working capitals) and business support (e.g. property and equipment purchase and marketing campaigns) to individuals and organizations aiming to create wealth in disadvantaged communities or underserved markets. CDFIs are supported by the government's Community Investment Tax Relief Scheme, which provides tax relief of up to 25% of the value of the investment made by an investor in a CDFI. In Spain, the government has implemented the "One-off Payment" scheme to encourage the formation of social economy enterprises. Under the scheme, an unemployed person can apply for a one-off, lump-sum payment of unemployment benefits, and use the payment to form a social economy enterprise or invest in such an enterprise as a partner. In addition, the government has legislative measures to strengthen the equity of social economy enterprises, such as opening up their share capital to external investors by creating associate or collaborating membership and allowing co-operatives to issue bonds.

5.8.2 In both the UK and Spain, the governments have funded external organizations to provide business support and training for social enterprises. The UK government has funded the Social Enterprise Training and Support Consortium, which provides training courses on social enterprises and a web-based platform for social enterprises to share information about business support and training. In Spain, the government has schemes to subsidize activities (such as media campaigns, training programmes and research) that promote social economy, and the operational costs of associations representing social economy at the national level.

5.8.3 In Hong Kong, the Government so far does not have any plan to develop an alternative finance provider similar to the UK's CDFI to improve social enterprises' access to finance. Nor does the Government have tax relief schemes to attract investors to support social enterprises in disadvantaged areas. In addition, unlike the Spanish "One-off Payment" scheme, the Government's current funding schemes applicable to social enterprises, such as the Seed Money Project and the Enhancing Self-Reliance through District Partnership Programme, do not directly fund or subsidize the unemployed or disadvantaged to form or invest in social enterprises. Those schemes are primarily designed to fund NGOs, which can use the funding to organize and operate social enterprises for the unemployed and disadvantaged.

Appendix

Social enterprise policies of the United Kingdom, Spain and Hong Kong

	The United Kingdom	Spain	Hong Kong
Definition of social enterprise	The United Kingdom (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 driven by the need to maximize profit for shareholders and owners".	The Spanish government does not provide a definition of social economy (which is regarded as conceptually equivalent to social enterprise operation). Nevertheless, the Spanish Constitution has important references to what is generally understood as social economy. The Constitution requires public authorities to facilitate co-operative enterprises through legislation and promote workers' access to ownership of the means of production.	According to the Government, social enterprises are characterized by simultaneous pursuit of business and social objectives; engagement in business/trading activities, which are the major source of income of such enterprises; and not-for-profit nature, with profits or surpluses from their business or trading activities being principally reinvested for their social objectives.
Objectives of promoting social enterprises	The UK government considers that social enterprises can help tackle social exclusion arising from problems, such as unemployment, discrimination, poor skills, low income, poor housing, high crime, ill health and family breakdown, and promote a strong, sustainable and socially inclusive economy.	The Spanish government regards social economy enterprises as a tool to fight against unemployment, poverty and social exclusion.	According to the Government, the development of social enterprises is an innovative approach to promote self-reliance and to provide community employment opportunities for the unemployed to integrate into the job market.

Appendix (cont'd)

Social enterprise policies of the United Kingdom, Spain and Hong Kong

	The United Kingdom	Spain	Hong Kong
Economic benefits of social enterprises	<p>The UK has more than 55 000 social enterprises, accounting for 5% of all businesses with employees nationwide.</p> <p>In 2006, they generated a total turnover of more than £27 billion (HK\$400 billion) and contributed more than £8 billion (HK\$120 billion) to the national economy, representing almost 1% of the UK's annual Gross Domestic Product (GDP).</p> <p>In the UK, there has been insufficient proof beyond anecdotal evidence that social enterprises have an impact on the communities, income or job creation. Some findings from not-for-profit research organizations did illustrate that social enterprises had higher turnover and created more jobs than mainstream enterprises.</p>	<p>In 2006, Spain had more than 51 500 social economy enterprises. These enterprises employed more than 2.4 million people, accounting for about 25% of Spain's total working population. In 2004, these enterprises generated a yearly turnover of more than €87 billion (HK\$922 billion), accounting for more than 7% of Spain's GDP.</p> <p>From 1996 to 2005, social economy enterprises created a total of 420 000 jobs, representing a 67% increase, which was higher than the corresponding 41% growth in the overall labour market. Meanwhile, the unemployment rate dropped from 18.8% in 1998 to 8.5% in 2006. According to the government, a major reason for the drop was the growth of social economy enterprises. In addition, social economy enterprises have a higher survival rate than other SMEs, with over 51% of them remaining active and generating jobs five years after their establishment.</p>	<p>There are no formal statistics on the social enterprise sector in Hong Kong. According to the Hong Kong Council of Social Service (HKCSS), there were 48 NGOs operating 187 social enterprise units in mid-2006. As of January 2006, some 1 100 people worked in the social enterprise sector.</p>

Appendix (cont'd)

Social enterprise policies of the United Kingdom, Spain and Hong Kong

	The United Kingdom	Spain	Hong Kong
Fields of activities conducted by social enterprises	In the UK, as of 2004, 92% of the production and trading activities of social enterprises were in the service sector.	In Spain, as of the fourth quarter of 2006, the proportion of production and trading activities of social economy enterprises in the service, industrial, construction and agricultural sectors were 53.6%, 22.6%, 13.5% and 10.3% respectively.	According to HKCSS, as of January 2006, the most common businesses operated by social enterprises were product manufacturing and sales (30%), domestic services (29%), catering services (13%), cleansing services (11%) and personal care services (5%).
Size of social enterprises	As of 2004, about 80% of social enterprises were micro (with less than 10 employees) and small (with 11 to 49 employees) enterprises.	About 96% of social economy enterprises are micro and small enterprises.	According to HKCSS, most social enterprises are micro and small enterprises.
Main problems faced by the social enterprise sector	<ul style="list-style-type: none"> (a) Poor understanding of the particular abilities and values of social enterprises by society; (b) Lack of a specific regulatory framework suitable for the nature of social enterprises; (c) Difficulties in raising finance for business purposes; and (d) Insufficient business support for social enterprises. 	<ul style="list-style-type: none"> (a) Insufficient understanding of the exact nature of social economy. (b) Lack of a specific regulatory framework for social insertion companies; (c) Legal and administrative barriers to the growth of social economy; (d) Financing difficulties for starting and sustaining social economy; and (e) Insufficient business support for social economy enterprises. 	<ul style="list-style-type: none"> (a) Lack of a clear public understanding of the social enterprise sector, the development of which is relatively new; (b) Lack of an appropriate legal framework that facilitates the sector's development; (c) Insufficient policy support for the sector, particularly its participation in public procurement; (d) Insufficient business support for the sector, such as lack of tailor-made training for social entrepreneurs; (e) Insufficient personnel with business mindset and experience; and (f) Insufficient funding to start or sustain social enterprises.

Appendix (cont'd)

Social enterprise policies of the United Kingdom, Spain and Hong Kong

	The United Kingdom	Spain	Hong Kong
Authority responsible for promoting social enterprises	The Office of the Third Sector under the Cabinet Office is responsible for setting the government's policies on social enterprises.	The Secretariat-General for Employment under the Ministry of Labor and Social Affairs is responsible for promoting social economy.	The Home Affairs Bureau is responsible for setting the Government's policies on the further development of social enterprises.
Government measures to promote social enterprises			
Creating an enabling environment for social enterprises	<p>(a) Forming an Inter-departmental Official Group to ensure that social enterprises would be fully considered in policy development and service delivery across government departments and in changes to regulations, administrative practices and fiscal policies;</p> <p>(b) Working with non-governmental organizations to strengthen the abilities of social enterprises in public procurement; and</p> <p>(c) Creating a new type of companies called Community Interest Companies to provide social enterprises with a distinct and easily recognized legal identity.</p>	<p>(a) Reducing the bureaucratic costs of forming a company, such as expanding the network of consultancy services to the disadvantaged who plan to set up such enterprises; and</p> <p>(b) Enacting legislation to reduce the minimum number of partners required for co-operatives from five to three.</p>	<p>(a) Reducing the administrative or policy barriers to the development of social enterprises, such as relaxing the requirement of the Seed Money Project to allow social enterprises to employ more able-bodied unemployed people; and</p> <p>(b) Facilitating the participation of social enterprises in public procurement, such as encouraging procuring departments to consider giving preferential treatment to social enterprises employing the disabled.</p>

Appendix (cont'd)

Social enterprise policies of the United Kingdom, Spain and Hong Kong

	The United Kingdom	Spain	Hong Kong
Establishing the value and gaining public acceptance of social enterprises	<ul style="list-style-type: none"> (a) Working with the Qualifications and Curriculum Authority to better integrate social enterprise business models into secondary education and business syllabuses; and (b) Launching publicity campaigns to raise awareness and understanding of social enterprises, such as developing an evidence base on the economic, social and environmental values of social enterprises, and disseminating the successful stories of social enterprises. 	<ul style="list-style-type: none"> (a) Promoting entrepreneurship, which is beneficial to the growth of social economy, in compulsory secondary education; and (b) Integrating the principles of corporate social responsibility in public administration to complement the development of social economy. 	<ul style="list-style-type: none"> (a) Distilling good practice models of social enterprises and encouraging the adaptation of such models; (b) Building the knowledge base on social enterprises through research; and (c) Organizing forums to raise awareness of social enterprises and involve the business sector and community in considering the potential of using social enterprises to help the able-bodied unemployed.
Business facilitation and support for social enterprises	<ul style="list-style-type: none"> (a) Promoting the development of the Community Development Finance Institutions (CDFIs), which provide loans and business support to individuals and organizations aiming to create wealth in disadvantaged or underserved markets; (b) Launching the Community Investment Tax Relief Scheme to provide tax relief of up to 25% of the value of the investment made by an investor in a CDFI; and (c) Funding social enterprise training providers and support agencies to provide training courses for social enterprises. 	<ul style="list-style-type: none"> (a) Launching the "One-off Payment" scheme under which the unemployed can apply for a one-off, lump-sum payment of unemployment benefits for creating social economy enterprises or investing in them; (b) Subsidizing activities relating to the promotion of social economy and the operational costs of entities representing social economy; (c) Helping social economy enterprises access finance, such as opening up their share capital to external investors by creating associate or collaborating membership; allowing co-operatives to issue bonds; and creating credit lines for financing micro-businesses and small and medium enterprises; and (d) Collaborating with business associations to provide integrated support services to social economy enterprises. 	<ul style="list-style-type: none"> (a) Considering the provision of a funding source in support of start-ups of social enterprises for disadvantaged groups other than the disabled; (b) Extending the existing business support for small and medium enterprises to social enterprises; (c) Organizing certificate courses on social entrepreneurship in collaboration with HKCSS and local tertiary institutions; and (d) Organizing a business plan competition to encourage university students to create viable social enterprises.

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