

**Commission on Poverty-Central Policy Unit**  
**Social Enterprise Conference**  
**6 April 2006**  
**“Social Enterprise and Policy Making”**

Thank you very much for inviting me to this conference. I hope this event will succeed in highlighting a very interesting idea that can help alleviate the burden and the misery of unemployment.

Unemployment is connected with poverty. It leads to dependency on welfare, and a decline in self-reliance. It leads to despair, so people give up and stop looking for work. It costs the taxpayer money, simply in terms of welfare payments.

But it costs the economy more than that. There is a loss to GDP from people not doing work. And of course it leads to other social problems, like domestic violence, which have even greater costs on the whole of society. And it adds to the divisions we have in our community.

At the beginning of this year, two-thirds of able-bodied recipients of CSSA – 26,300 people – had been receiving welfare for more than two years. And half of them – 20,000 people – had been on CSSA for three years or more. These figures were around 50 percent higher than they had been three years before.

Not all of these people are middle aged. They include younger people – in many cases, people who have never worked in their lives. Some of these people are disadvantaged in various ways, and in some cases employers would discriminate against them. Social enterprises can particularly offer opportunities to these younger unemployed.

Experience in other countries shows that businesses run for partly social ends can be vibrant and largely self-supporting. They can compete in the open market. They can offer jobless people opportunities to get work, to obtain training, and to gain experience and skills and self-confidence.

A survey last year found that in the UK there are around 15,000 social enterprises with a combined turnover of around 18 billion pounds. They employ over half a million people, which in Hong Kong terms would mean a job for all the able-bodied people currently on CSSA.

The British experience is impressive. Take the ways these companies raise finance. A company involving Oxfam that distributes coffee from ethical producers actually raised finance by issuing shares. A supplier of housing for people with learning difficulties has issued bonds. Others use a variety of bank loans at commercial rates, often secured with physical assets or structured in various ways to minimize the lenders' risks. Typically, loans from public-sector or philanthropic grant-making bodies play a part in gaining access to commercial finance.

And these businesses cover an amazing range of activities. A magazine whose distributors are all homeless people. A chain of restaurants that takes in disadvantaged young people as trainees and turns them into graduates who get jobs with leading restaurants. All sorts of housing, transport, recycling, personal services, small-scale farming and other activities.

And they take many legal forms – cooperatives, incorporated companies, trusts, and others. The UK Government has actually established a new form of limited liability company, called a Community Interest Company. There are specific restrictions on how assets and profits can be used, all overseen by the corporate regulatory authorities.

Is it possible for Hong Kong to build up its social enterprise sector in this way? Social enterprises already exist here, but on a limited scale. I know the Hong Kong Council for Social Service has links with several dozen, covering such areas as cleaning, personal care, domestic help, business services, recycling, catering and other areas.

Looking at the experience overseas, I can see some challenges.

First of all, it has taken the UK over 10 years. It was a bottom-up process, with NGOs, neighbourhood organizations and other groups and individuals slowly developing different enterprises all over the country. Only after that started, did it turn into a movement. It wasn't kick-started by central government. In other words, it wasn't part of an official policy. It was something people started for themselves. If any officials were involved, they were from the local town hall.

In Hong Kong, we don't seem to have that tradition of local, neighbourhood-level initiative. We have come from a very top-down, colonial system of administration. And our people were originally refugees whose instinct was to look after themselves first. So today, there seems to

be an assumption that you can leave all community issues to the Government or somebody else. And we have a large bureaucracy that is happy to put itself in charge.

Also, we don't have different local governments trying their own ideas out. We have uniform standards and rules across the whole territory. The same bureaucracies, regulations and procedures apply in every housing estate, street and neighbourhood. The Government is going to look into the idea of giving more decision-making power to District Councils.

This leads us on to the issue of administrative structures. There is no shortage of programmes in place aimed at helping the disadvantaged in some way. There are retraining courses, and there's a scheme aimed at giving the unemployed work experience, by subsidizing their wages for a while. There are plans for a travel subsidy for low-income earners and job seekers; and several funds and other projects also aimed at encouraging community-level activity.

These programmes are run by different departments and bodies, and I don't think they are coordinated very well. We definitely don't need more centralized, top-down bureaucracy. But we must find ways to avoid overlap and duplication. And in some areas it may be useful to coordinate different activities better. This is something the Poverty Commission might want to think about.

Another issue is seed money and other forms of assistance. The idea is that a social enterprise puts particular social ends before profit but is commercially viable. In theory, these enterprises should be able to get by without seed capital or other start-up subsidies from the public purse.

However, I can see a case for some public funding, where a social company would produce net cost savings in the long term for the taxpayer. And that should be measurable.

Obviously, it would do that by taking people off CSSA, and by providing them with training. And we should look at the big picture here. For example, if a company can provide a service that helps the Government save money, that should be taken into account. Enterprises offering childcare services could free up single mothers and help them get back into the workforce. Enterprises that recycle materials could reduce waste and environmental damage. In cases like that, you could justify a subsidy on the grounds that it pays for itself.

In the UK, major agencies like the National Health Service and local governments have official guidelines on how to look at this big picture when including social enterprises in procurement exercises.

The issue of tendering for public-sector projects is complicated. In the United States, there are national and local rules reserving a percentage of contracts for businesses owned by ethnic minorities. These rules are extremely controversial. They can push up the cost of Government services. They have damaged white-owned businesses. And they have led to abuses, with whites using non-whites as fronts for their companies.

Of course, we can't compare that situation with Hong Kong. But we must be very careful about discriminating in favour of the disadvantaged. We must make sure that social enterprises do not use public subsidies or other assistance to compete unfairly with established commercial operations. If they receive public help, they should use it to chase opportunities in niches that the for-profit sector isn't interested in.

This also probably applies to the 'triple bottom-line' idea. I know many people see this as a way to boost social enterprise. Maybe a social company would have an advantage if we judge it by its environmental and social performance, as well as its financial results. But how do we put a value on those things? How do we measure them? The business community and most of our university economic departments would say that it's alien to our capitalist system.

On the whole, we need to bear in mind that there could be a public backlash if people think we are giving too much help to the able-bodied unemployed. And as a matter of principle, we have to aim to get value for money for the taxpayer.

So the whole issue of Government help is undecided. The Government at the moment does not have any plans to allocate funds or give special favours specifically for social enterprise. For the time being, we should probably think about coordinating and focusing our existing efforts better.

Of course, we want to encourage free enterprise and entrepreneurship on a level playing field. If a social enterprise is privately funded and doesn't want any favours, all bets are off – it can put as many other companies out of business as it likes.

Seed money is not necessarily the biggest hurdle for social enterprise. The Government will continue to look at the regulatory and other barriers to the establishment of small businesses. Despite our reputation as a free economy, there are licensing regimes, restrictions on building use, health and safety rules and dozens of other ways we hinder economic activity. There are often good reasons for them, but we should take a good look at their costs and benefits.

We also have an economic structure that favours bigger companies. Large conglomerates deliver many essential goods and services, and as you know there are concerns about cartel-like behaviour. For that reason, the Government is going to look at competition policy. But the fact is that many business overheads like rents are high. And that's a challenge to all our small and medium enterprises, and some of the big ones.

On balance, I think there is a limit to what Government can do. Social enterprise is about self-reliance. By definition, that means not looking to the Government for help, but doing things for ourselves.

I do hope social enterprise takes off in Hong Kong. But if it does, it probably won't be because of official policy. It will be because of the imagination and dedication of people in NGOs, educational bodies, youth groups, churches and neighbourhood and other groups. And they will need input from other parts of the community.

Social companies must be market-driven. They must look for new opportunities. They must deliver goods and services that customers want. They must therefore have access to business skills. If they are not managed professionally, they will fail. So it is essential that the private sector plays a part if we are to expand social enterprise significantly. Retired businessmen would be an obvious source of such skills. It would also be useful if we could bring the academic sector in as well, to help with training.

Some of you probably know about the Caring Company scheme that the Hong Kong Council for Social Service operates. That sort of mechanism – matching companies with welfare-sector partners – would be very useful in developing social companies.

I believe we should all be enthusiastic about this concept. Anything that can help us tackle unemployment is worth looking at. At the same time, we need to be honest and realistic about the size of the problem we face generally in tackling unemployment.

Our social welfare system does not encourage self-reliance. People who need help are given a subsidized flat, and that's where they have to live. We tell them which doctor to see. We tell them which school to go to. They have little or no freedom of choice over these matters, so they have none of the responsibilities that come with making choices. If they have lost their self-reliance, it is because we have taken it away from them.

Where CSSA is concerned, we might want to consider how we could change the system to encourage the long-term unemployed to work. The current system is inflexible. If you start to earn too much, you lose all your payments. We need to see if there are incentives not to work, that we could remove. Or if there are disincentives to work, which we could compensate for.

We have to be careful about this. Some politicians are extremely sensitive about welfare and will oppose any changes, even if they benefit everybody concerned. At the same time, many of our citizens are hostile towards the whole idea of giving welfare to able-bodied people.

In the long term, we must accept that demographic trends, migration patterns, globalization and other fundamental factors will continue to make it difficult to achieve full employment. Social enterprise will not solve the causes of unemployment. It is not a substitute for structural reform of our economic, fiscal and welfare systems.

But it is a very exciting idea. I must say, from a personal point of view, having been involved in the Caring Company movement, I would be very glad to see social enterprise develop in Hong Kong. It could help bring different sectors together – especially the business community and the disadvantaged groups, who currently live most of the time in different worlds.

I think it has a lot of potential. And I wish everyone the best of luck in developing this idea. I will be following it very closely, and the Government will take a very positive attitude towards it.

Thank you all very much.