



# MIND THE GAP

Lessons and Findings from **EngageHK**

August 2013

Co-authored By:

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## About P. Ming Wong and Philo Alto, Co-Authors

**P. Ming Wong** is a Hong Kong based independent financial consultant and advises family offices on asset allocation and fund manager selection in both alternative investments and impact investing. In 2010, he co-founded the Social Investors Club to help promising social enterprises achieve sustainability and fulfill their social missions by providing capital, mentorship and access to the club's network of contacts. Ming spent three years building a family office, where he served as Managing Director and Chair of the Investment Committee, for a prominent Singapore-based Chinese family following a 20 year investment banking career that spanned private equity, M&A advisory, capital markets, debt advisory and derivatives in Asia and the United States. He holds dual bachelor degrees with distinction in Economics and Operations Research as well as an MBA, all from Cornell University. He was recently invited to join the Advisory Council of Impact Investing Policy Collaborative, a global network for policy research and innovation in impact investing.

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## About Asia Community Ventures and Asia Value Advisors, Supporting Organizations

### Asia Community Ventures (ACV)

([www.asiacommunityventures.org](http://www.asiacommunityventures.org)) is a Hong Kong-based charitable organization under Section 88 of the Internal Revenue Department of the HKSAR co-founded by Messrs. Philo Alto and P. Ming Wong. ACV seeks to promote collaboration in the social ecosystem to optimize the flow of knowledge and capital towards a better and more sustainable society.

**Asia Value Advisors (AVA)** ([www.value.asia](http://www.value.asia)) is a Hong Kong-based advisory firm founded by Philo Alto in 2011. AVA provides bespoke advisory services to family offices, private banks, intermediaries, and social purpose organizations in Asia.

## About RS Group, Report Sponsor

**RS Group**, the Hong Kong-based family office of Ms. Annie Chen, aims to use its resources to support the creation of a more sustainable and equitable global community. Its mission is to be a catalytic force in creating a paradigm shift in people's values and priorities so economic growth does not jeopardize human development and environmental sustainability. RS Group seeks to maximize impact through a Blended Value approach by utilizing both investment and philanthropic capital to generate positive social, environmental and financial returns. The Group implements responsible investment strategies across the entire investment portfolio—and makes impact investments leading to tangible environmental and social outcomes. RS Group focuses its philanthropic support on transformative ideas that will empower people and communities to be agents of change in creating a more balanced, productive and just society.

## About Jed Emerson, Report Advisor

**Jed Emerson** is strategic advisor to individuals, family offices and foundations seeking to execute impact investment approaches in expanded pursuit of their missions. His engagements include Executive Vice-President of ImpactAssets, a non-profit financial services firm creating impact investing products to bridge the asset owner/impact fund market; Senior Fellow with the Center for Social Investing at Heidelberg University (Germany); Senior Advisor/Team member with RS Group; Senior Advisor with the IML Group (a family office based in Chicago); and Strategic Advisor to The Piton Foundation, an operating foundation based in Denver, Colorado. He is an internationally recognized thought leader, originator of the concept of Blended Value and has presented his work at the World Economic Forum, The Clinton Global Initiative and other global events. Jed is co-author of *Impact Investing: Transforming How We Make Money While Making a Difference*, the first book published on the topic.



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## MESSAGE FROM THE RS GROUP

In late 2011, our team decided it would be useful to map out the social sector landscape in Hong Kong. Having brought on Jed Emerson as a senior advisor to RS Group a year earlier, we were interested in conducting our own version of his Blended Value Map ([www.blendedvalue.org](http://www.blendedvalue.org)) to help us, as a funder and investor, to better understand Hong Kong's social ecosystem.

### We wanted to explore a fundamental set of questions:

*Who are the people trying to do something about Hong Kong's social and environmental issues?*

*How do they do it?*

*What are the main challenges they face, and are there cross-cutting themes as we move along the capital and organizational spectra in which they operate?*

### Our objectives in undertaking this task were two-fold:

Firstly, for our own self-interested purpose, we hoped the resulting "map" would help us make better decisions regarding who and what we fund, and with what type of funding (investment vs. grant).

Secondly, we felt conversations regarding social impact are no longer the exclusive domain of the traditional funders and providers of "social goods" (such as philanthropists/foundations and non-profits), but are increasingly being taken up by those who want to use private capital to achieve positive social change. These actors include impact investors, for-profit social enterprises and socially-responsible businesses. By identifying examples of a variety of "impact actors" and locating them along the capital and organizational spectrum, we aimed to identify like-minded constituents whom we normally would not have thought of as having very much in common, but who in fact constitute a community of people and organizations sharing a common purpose and intent—to create positive social/environmental impact through the intentional management of organizations (non-profit, for-profit or hybrid) and with their capital (public sector, private philanthropy or market-rate investments).

We reached out to Ming Wong and Philo Alto to undertake this mapping project, working with them over a number of months to offer feedback on their process, and this report is the culmination of their efforts over 18 months.

While our goal was to create the "product" that is this report, it is not our most important takeaway from this project. Having participated in some of the workshops convened by Philo and Ming, we came to appreciate how succinctly the title they chose for this initiative, "EngageHK", captured the spirit of the process they created to engage some of Hong Kong's impact actors, individually and in groups, in conversations regarding their aspirations and the challenges they face. Although limited in scope and coverage, this exercise allowed us to see the incredible richness and diversity of human talent actively working in a variety of discrete fields to make Hong Kong a better place.

But the world we live in is getting more complicated, and social and environmental challenges have complex causes that require systemic solutions. This means we need more collaboration among the different sectors, as well as better coordination of resources, both human and financial. For this we need impact leaders who can step outside their silos to see the larger agenda, and who are willing to work with a community of peers to create significant impact. We feel if we as a community focus more on our common challenges of capital, organization, metrics, leadership and policy, we will each be better positioned to execute the specific agendas we seek to advance.

Through the EngageHK project, we have been offered a glimpse of the potential for such collaboration. And it is our hope this report will encourage future dialogue regarding opportunities for action and even greater collaborations to come.

*Annie Chen and team*  
RS Group

# ACKNOWLEDGEMENTS

This report would not have been possible without the collaboration of and contributions by practitioners in the field as well as the support of volunteer consultants.

RS Group for their funding support and guidance – Annie Chen, Katy Yung, and Joan Shang; their advisors, Anna Wang and Bonny Landers; We would like to offer special thanks to Jed Emerson, senior advisor to RS Group, for his inputs to our efforts and perspectives he shared based upon his experience researching The Blended Value Map.

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The Nielsen Company especially to Oliver Rust, Jason Byun, Edward Chan, and Angel Young for providing us with their pro-bono support with the EngageHK online survey.

Venue hosts for our various workshops: Standard Chartered Bank, UBS, Bank of America Merrill Lynch, and Latham and Watkins.

Lastly, in interviews and workshops, participants openly engaged with their perspectives, constructive feedback, and made suggestions as to the pathways forward. Thank you.

Please note that the affiliations listed below reflect the respondents' relevant affiliation at the time of interviews. We apologize for any inadvertent omission or inaccuracies.

Workshop participants (alphabetical), with many having also participated in one-on-one interviews:

Paul Angwin (People and Planet)  
John Burns (HKU)  
Carmen Chan (YES Network)  
Crystal Chan (Make a Difference)

Rachel Chan (Innofoco)  
Christine Chao (Grameen Foundation)  
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Patrick Cheung (Water Drops Foundation)  
Stephanie Cheung (Make a Difference)  
KO Chia (Grace Financial)  
Elsie Chien (HKU)  
Jed Emerson (Blended Value Group)  
Scot Frank (One Earth Designs)  
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Abbie Jung (Synergy Social Ventures)  
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# PREFACE

When Annie Chen from RS Group and her senior advisor Jed Emerson invited us in late 2011 to conduct a mapping exercise of Hong Kong's social ecosystem, they initially wanted to identify existing gaps between providers of capital (both philanthropic funders and investors) and users of capital (non-profits, social enterprises and intermediaries) in Hong Kong so that resources and capital could be more effectively and efficiently allocated.

After doing our own preliminary assessment of the research, we felt it was important for our research to be useful to as broad a stakeholder group as possible. We then decided to widen the definition of our social ecosystem to include the Hong Kong government, academia and private, corporates and SME stakeholders in addition to more obvious stakeholders like non-profits, social enterprises, foundations and intermediaries.

Our EngageHK journey formally started in February 2012. Since then, we have conducted one-on-one interviews with over 100 leaders from more than 80 different organizations in the public, private and civil society sectors, and convened four workshops with over 50 practitioners, policymakers, educators and entrepreneurs to discuss cross-cutting issues, share our findings, brainstorm recommendations and plan our strategies going forward. To encourage broader stakeholder input, we also initiated an on-line survey with the support of the Nielsen Company to further test and validate our propositions and recommendations.

The stakeholders we spoke with were enthusiastic and showed a high willingness to cooperate. Very often our requested 90-minute interview sessions turned into two and sometimes three hours of engaging conversation. The people we met ranged from stalwarts who have been working in their fields for over 30 years to recent college graduates looking for ways to make a difference. All shared a common passion to contribute to the greater good for Hong Kong.

One might think the sheer diversity and number of players addressing Hong Kong's sustainability would be sufficient to lead to new and innovative solutions. However, this has not been the case. In fact, there are many instances where efforts are duplicated, resources wasted, results not achieved and impact dissipated rather than multiplied. While some duplication is healthy for promoting competition and creative destruction often leads to further innovation, we noticed there was not sufficient collaboration overall.

We believe it is time for key stakeholders in Hong Kong to step back and examine the landscape, figure out what is and is not working, and in doing so understand how best to broaden collective impact, whether it be social, economic or environmental in nature. Hong Kong's resources, talent pool and shared motivation uniquely position it to play a leading regional role in finding innovative solutions to pressing sustainability challenges.

For both of us, this report's significance goes well beyond its findings and recommendations. Its greatest value lies in bringing together stakeholders that do not normally talk to one another regularly. As you read through this report, you will probably recognize some of your own views along with those from other players in your own or other sectors. We hope that the recommendations resonate with you on a personal level, and we look forward to working together with you to move them forward. Please share this report with a friend. Better yet, share it with an acquaintance or even a stranger to help break down the silos that are hindering collaboration.

As we complete the first phase of EngageHK, we realize our journey is just beginning. Our findings and recommendations are intended to spur conversations and inspire multi-party dialogue so that we can work together to build a better and more sustainable Hong Kong.

*P. Ming Wong & Philo Alto*



## EXECUTIVE SUMMARY

Persistent environmental challenges along with social ones including our worsening wealth gap, lack of affordable housing, ageing population, and growing discontent among certain sectors of our community represent some of the most pressing issues hindering Hong Kong's pursuit of a better future even as we continue to hold on to top spots in world competitiveness surveys in recent years.

EngageHK is a community-wide initiative to foster a collaborative social ecosystem that facilitates the flow of ideas and capital to build a more sustainable and resilient future for Hong Kong.

### Our goals involve:

1. providing an overview of Hong Kong's current social ecosystem of stakeholders working on social issues,
2. identifying stakeholders' desire to scale and optimize their impact within the context of the broader social ecosystem, and
3. formulating recommendations to help stakeholders build an ecosystem that more effectively meets their needs.

The stakeholder groups covered in this paper include government, academia, corporations, foundations and charitable trusts, non-profits, social enterprises and intermediaries which we collectively refer to as stakeholders in Hong Kong's social ecosystem. We also acknowledge the crucial role media plays in shaping and framing public opinion with regard to Hong Kong's social challenges.

Our research was informed by Jed Emerson's Blended Value Framework and conducted from February 2012 to April 2013, when we interviewed over one hundred individuals from more than 80 Hong Kong-based organizations, completed an online survey with 88 respondents and conducted four workshops involving 20 to 25 participants each.

We then identified and summarized five cross-cutting issues that represented the key drivers impacting the sustainability of Hong Kong's social ecosystem, including the key gaps and opportunities. These cross-cutting issues include:

- Lack of Cross-sector Collaboration - Hong Kong lacks a culture of knowledge sharing and collaboration, and thus is unable to realize the benefits of cross-sector collaboration in developing the social ecosystem.
- Lack of an Enabling Environment for Social Finance - There is no organized "clearinghouse" for ideas and philanthropic funding to NGOs and social businesses, as well as a lack of awareness of the role and importance of the intermediary sector.
- Ambiguous Definitions and Roles of Social Enterprises - Locally-appropriate legal and policy framework to scale social entrepreneurship and enterprises and suitable social impact metrics are two key areas still in need of further development.
- Limited Interest to be Accountable to Shared Sustainability Goals - While all stakeholders recognize the benefit of greater accountability and transparency towards shared sustainability goals, many seem unwilling to take the lead unless compelled.
- Approach and Role of the Government - The government has yet to articulate a shared vision, coherent policy and funding approach. It appears to be guided more by political expediency considerations that may be insufficient to address longer-term structural challenges.



**“HONG KONG IS REGARDED AS ONE OF THE RICHEST CITIES IN THE WORLD; HOWEVER, LURKING BENEATH THIS PROSPERITY IS ALSO EXTREME POVERTY. HUNDREDS OF THOUSANDS OF PEOPLE STILL LIVE IN CAGED HOMES AND WOOD-PARTITIONED CUBICLES, WHILE THE UNEMPLOYED, NEW-ARRIVED FAMILIES FROM CHINA AND CHILDREN IN POVERTY STRUGGLE FOR SURVIVAL”**

*HO HEI-WAH, EXECUTIVE DIRECTOR OF SOCIETY FOR COMMUNITY ORGANIZATION (SOCO)*

To further analyze the cross-cutting issues to come up with findings, identify propositions and possible recommendations, participants in our advisory committee workshops discussed and refined five broad propositions. These were subsequently validated by results from our online survey and discussed at our third and fourth advisory committee workshops. The propositions are:

- Foster Mindset Shifts
- Develop a Vibrant Intermediary Sector
- Create Enabling Public Policies
- Articulate a Shared Vision for Hong Kong’s Future
- Develop Appropriate Impact Metrics

To achieve the propositions, we identified specific recommendations, namely:

1. Foster Cross-sector Dialogue and Collaboration

- (a) Promoting cross-sector careers and leadership opportunities
- (b) Creating a network of co-working spaces
- (c) Developing alternatives to mainstream media in showcasing socially-oriented initiatives addressing target social issues

2. Focus on Both Social and Economic Benefits

- (a) Fostering a mindset shift towards a blended value approach that incorporates social and environmental sustainability considerations in addition to financial goals
- (b) Developing and supporting a hybrid sector that explicitly combines social, environmental and economic impact goals

3. Create Clearinghouses for Ideas and Capital

- (a) Developing a robust intermediary sector that attracts talent and innovation
- (b) Encouraging all sectors to support intermediaries

4. Promote Greater Accountability and Transparency

- (a) Developing user-relevant impact metrics to facilitate sharing and benchmarking of results across sectors
- (b) Establishing a cross-sector platform for government and other sectors to share best practices ideas, data and resources



(c) Engaging with professional services firms and intermediaries to collaborate on research devising an integrated reporting framework suitable for Hong Kong

5. Encourage Enabling Role of Government.

(a) Expanding Hong Kong's financial hub status to include social finance and innovation

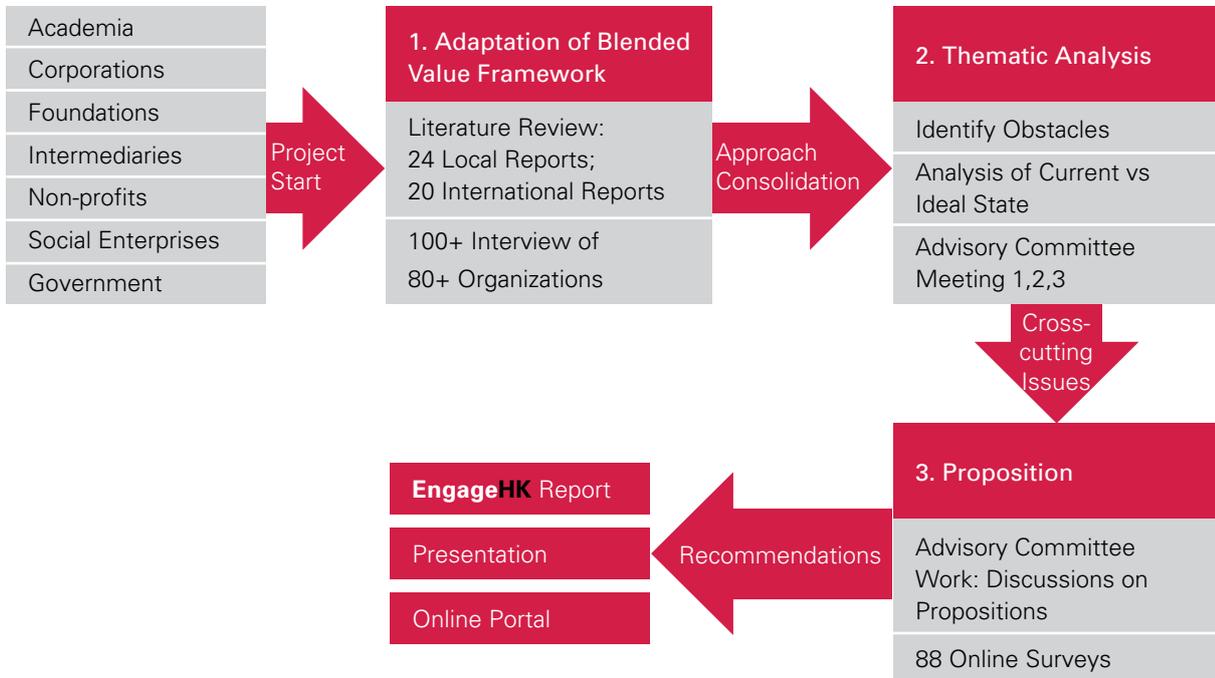
(b) Promoting social innovation and a risk taking mindset within the government

(c) Ensuring internal consistency within various government regulations and policies in supporting social innovation and impact economy

Overall, we are encouraged by the increasing number of people who appreciate the need to approach Hong Kong's sustainability challenges holistically while recognizing our common interests for a better future.

However, we need to move quickly forward, together, or Hong Kong will risk losing its competitiveness, falling behind other global cities.

**Summary of the EngageHK Process**





# **SECTION 1:** INTRODUCTION



## 1.1. OVERVIEW

EngageHK is a community-wide initiative to foster a collaborative social ecosystem to catalyze the flow of ideas and capital to build a more sustainable and resilient future for Hong Kong.

A sustainable future has to incorporate social and environmental in addition to economic elements. It is a journey that all progressive societies embark on in their pursuit of happiness, well-being, success and community cohesion. It needs to include civil liberties, affordable housing, equitable access to quality healthcare, education and other social welfare services that can be financed sensibly, without jeopardizing the financial health of our city. Furthermore, it is one where the most vulnerable members of society are given appropriate assistance to regain their footing and live as a dignified human being. Finally, it is one where society recognizes and celebrates success of all forms, not simply financial ones.

It is becoming increasingly clear that the worsening rich-poor gap, environmental challenges, lack of affordable housing, ageing population, and poverty are not only contributing to the increased social and political tensions as manifested by recent civil demonstrations such as the Occupy Central movement, but they are also sapping our longer-term productivity and economic potential. This makes it everyone's problem.

As a result, and much like a growing number of countries around the world, Hong Kong's social ecosystem has experienced renewed interest from many stakeholders seeking to address these pressing issues. From the

government to individual entrepreneurs, foundations, corporates, non-profit organizations and investors, these stakeholders are examining and tackling these issues with different perspectives, resources and tools.

EngageHK provided leaders and practitioners from government, business, academia and civil society with a forum to reflect on their work as well as those of related stakeholders, express their viewpoints and come together through shared values to find more effective ways to boost their collective impact.

While this initiative is grounded in research and information collection, we believe the mapping process itself ignited a unique opportunity for continued stakeholder engagement towards a shared interest for Hong Kong's longer-term sustainability.

## 1.2. OBJECTIVES

The key objectives of our mapping initiative are:

1. provide an overview of Hong Kong's current ecosystem of stakeholders working on social issues,
2. identify stakeholders' needs to scale and optimize their impact within the context of the broader social ecosystem, and
3. formulate recommendations to help stakeholders build an ecosystem that more effectively meets their needs.

The stakeholder groups covered in our paper include government, academia, corporations, foundations, non-profits, social enterprises and intermediaries in the social

space. Collectively, we refer to them as Hong Kong’s social ecosystem.

EngageHK is not meant to provide prescriptive measures on building a more sustainable future for Hong Kong. Rather, we strive to encourage productive conversation and coordinated action around recurring themes and challenges faced by stakeholders in the social ecosystem.

### 1.3. APPROACH

Achieving sustainability for Hong Kong requires that value be generated, and ideally optimized, along and across all efforts, whether for-profit or non-profit in nature.

The traditional bifurcated mindset that certain types of organizations create only economic value, while others only social value has institutionalized a maximization of private gains whilst externalizing social and environmental costs to people and planet. This mindset has arguably contributed to a number of environmental and social challenges, often resulting in sub-optimal outcomes that could hinder the city’s long-term sustainability.

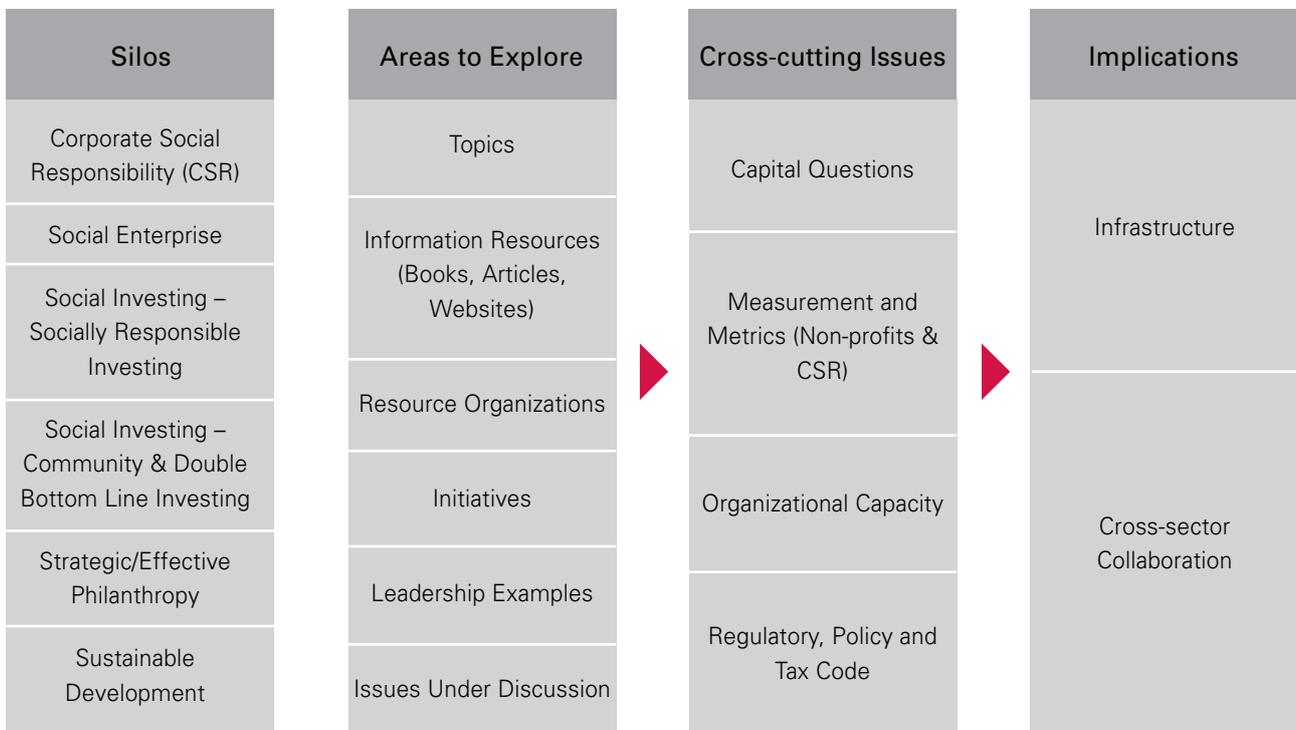
Recognizing that all investments result in various types of returns, EngageHK adapted Jed Emerson’s Blended Value Framework, which “posits that value is generated from the combined interplay between the component parts of economic, social and environmental performance.”<sup>1</sup>

Back in 2003, due to businesses’ growing interest in adapting more socially responsible initiatives, Emerson’s initial research attempted to map the different areas of activity in the United States. In the course of his research, he realized that these different sectors have institutionally organized themselves largely as “silos” that operate rather independently from one another.

In order to understand the situation in the United States better, Emerson identified several challenges that are faced in each sector (Areas to Explore) and across sectors (Cross-cutting issues). Further analysis was then carried out to address the cross-cutting issues and finally more concrete recommendations were formulated to tackle the challenges in the long term, culminating in the Blended Value Map.

Please refer to Figure 1 for an overview of the Blended Value Map.

Figure 1. Overview of the Blended Value Map



Source: Blended Value – Jed Emerson - 2003

1. The Blended Value Map, Jed Emerson, <http://www.hewlett.org/uploads/files/BlendedValueMapFinal.pdf>



Emerson stressed that it was important to break through silos that separated corporate social responsibility (CSR), social enterprise, socially responsible investing (SRI), community and double bottom line investing, strategic/effective philanthropy and sustainable development.

In adapting the framework to Hong Kong, we decided to expand the scope of the study to include government, academia and the non-profit sectors because of their crucial enabling roles in the city’s social ecosystem. Please refer to Figure 2 for the adapted Blended Value Map.

**Figure 2. Blended Value Map – Adapted for Hong Kong**



We included the Hong Kong government because of the significant role it plays via its policies across various departments, funding and provision of social welfare services, either directly or through various subventions to non-profit organizations. The non-profit sector<sup>2</sup> has also recently begun using social enterprise models as complementary service delivery and revenue generation mechanisms. Academia and universities are likewise important given the very close working relationship between government and academia and the fact that all institutions of higher learning in Hong Kong are government-funded.

Next to the government, family and corporate foundations (often in the form of charitable trusts) are the largest providers of grant funding. Providers of capital (whether in the form of grants or investments) as well as services often act through intermediaries such as investment clubs, private banks, fund managers and incubators.

<sup>2</sup> In the Hong Kong context, non-profits are also commonly known as NGOs. For the purposes of this research, we use the term “non-profit” also to refer to NGOs.



## 1.4. RESEARCH DESIGN AND METHODOLOGY

The EngageHK research was conducted from February 2012 to April 2013, when we interviewed over one hundred individuals from more than 80 Hong Kong-based organizations, completed an online survey with 88 respondents and conducted four workshops involving 20 to 25 participants each.

Given that one of the primary objectives of EngageHK was to understand the current state of Hong Kong's social ecosystem and how stakeholders viewed their respective roles, we believe that thematic analysis provided us with the flexibility to examine, review and categorize the qualitative data we gathered.

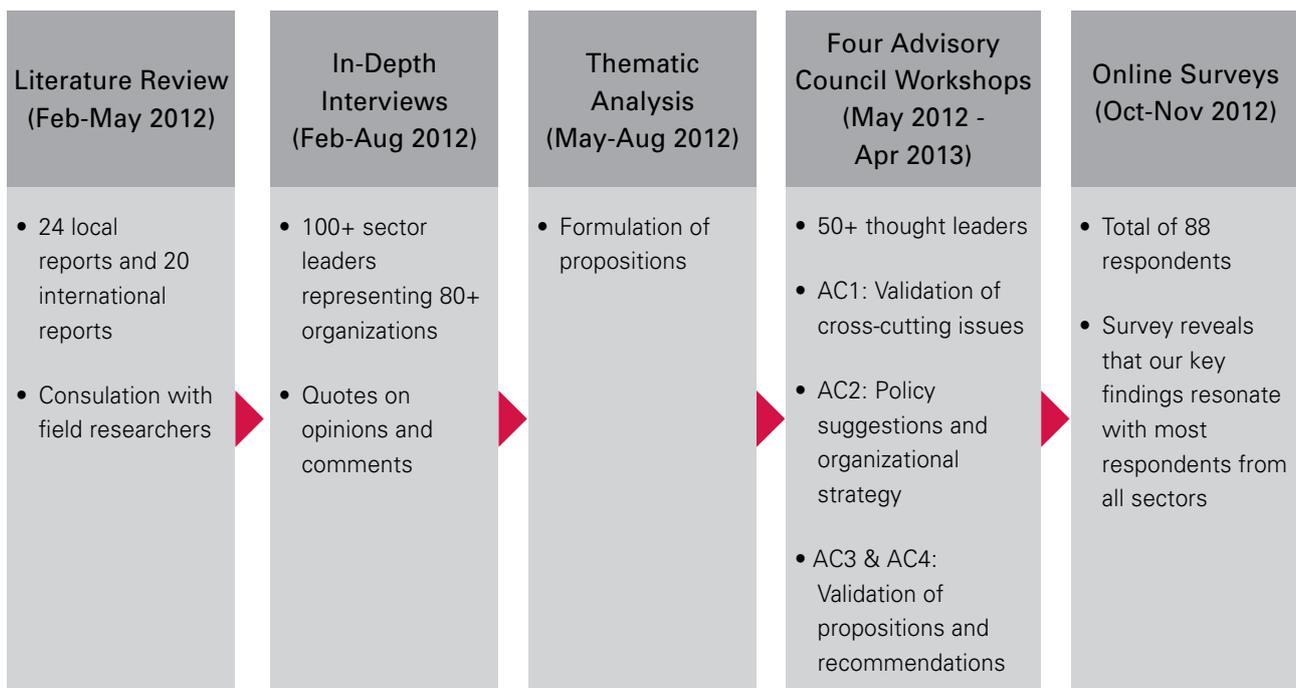
Using this approach, we identified a set of cross-cutting issues or themes that represented the key drivers

of current and future trends, including the gaps and opportunities existing within the social ecosystem in Hong Kong.

Next, we formulated a set of propositions and preliminary recommendations that surfaced from the discussions in our first two workshops. We then validated both the degree and variability of support for these propositions through an online survey with the pro-bono support of Nielsen Company, a global market research company.

Participants in our third workshop examined the summarized findings and preliminary recommendations from the online survey to firm up a set of specific recommendations and next steps. In the fourth and last workshop, we shared the broad set of findings and recommendations as well as sought the views of the government from a policy perspective.

Figure 3. Methodology of EngageHK



### 1.4.1. Desktop Research

The desktop research consisted mainly of a literature review both locally and overseas, including relevant publications in academic journals, reports by think tanks and consultancies, official websites and annual reports. While our research went as far back as in the 1990s, we focused on materials in the last five years for data citation where relevant.

Please refer to the Bibliography for a select list of the reports we reviewed.

### 1.4.2. One-on-one Interviews

We selected an initial group of respondents from our desktop research and our contacts of leaders and practitioners in the various sub-sectors. Through a typical snowball sampling technique, further respondents were suggested to us as a result of initial interviews. The average interview lasted 90 minutes, with the shortest taking an hour and the longest lasting three hours. Our semi-structured interviews followed the basic Theory of Change model (Figure 4) as informed by Emerson's Blended Value framework. Based on that model, we encouraged respondents to elaborate on broad cross-sector issues or themes which they have observed, even if some of these issues were outside of their immediate professional scope. We generally started with broad, open-ended questions to keep the interviews conversational and avoided leading questions towards themes we wanted to focus on, before turning to more targeted questions to glean more specific insights from the respondents. We also encouraged respondents to clarify whether they were speaking from the perspective of their own organization or sub-sector, or their personal view, or both.

Figure 4. The EngageHK Interview Process

Theory of Change Model	Example of Questions (Adapted for Individual Sectors/Organizations)
What is the current state of affairs of the sub-sector, and its strengths and challenges? <b>(status quo – Point A)</b>	How would you describe your sector as well as the broader social ecosystem in Hong Kong today?
How would you envision an ideal state of affairs? <b>(ideal state – Point B)</b>	How would you characterize an ideal state of affairs for your sector within the broader social ecosystem?
What needs to happen to enable the sub-sector to reach this ideal state of affairs? <b>(getting from point A to B)</b>	What conditions need to be met or measures need to be put in place to take the sub-sector to how you hope it would be?
What obstacles are hindering the sector from achieving the ideal state? <b>(obstacles and challenges blocking path towards point B)</b>	What are the current gaps and obstacles facing the sector that are hindering it from achieving full potential?
How would you see the future state of the sector without any intervention? <b>(baseline under do-nothing scenario)</b>	What issues would worsen / remain if there were no proactive attempts for change in the sector?

Figure 5. EngageHK Methodology

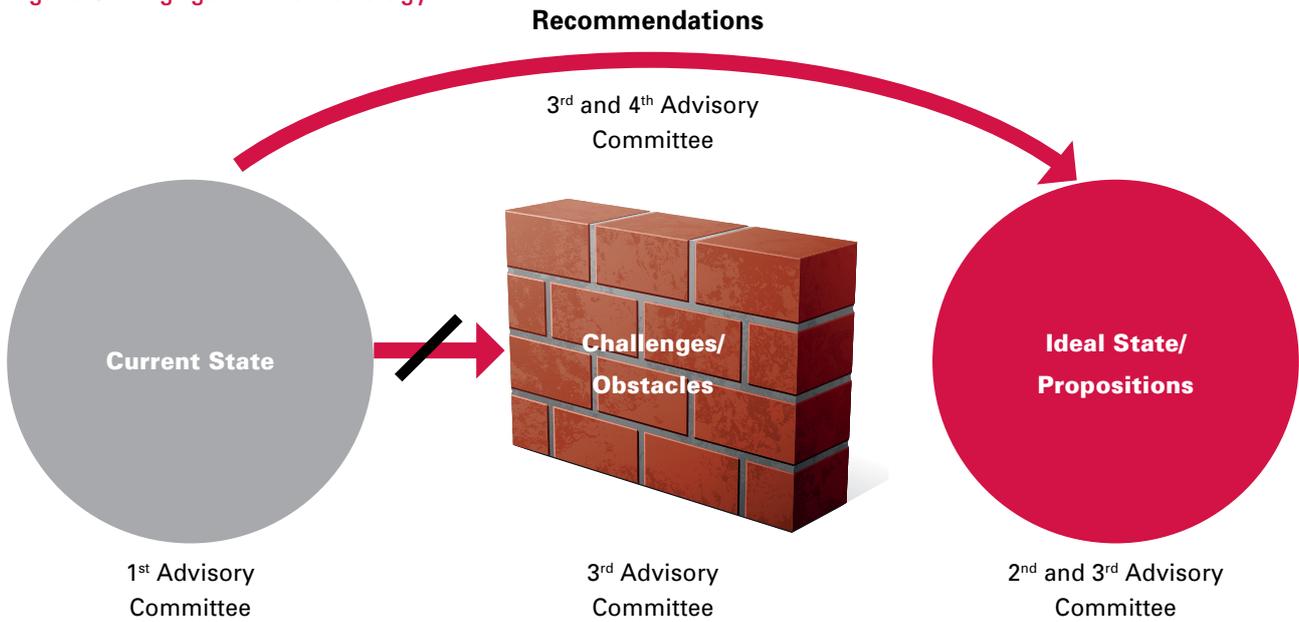
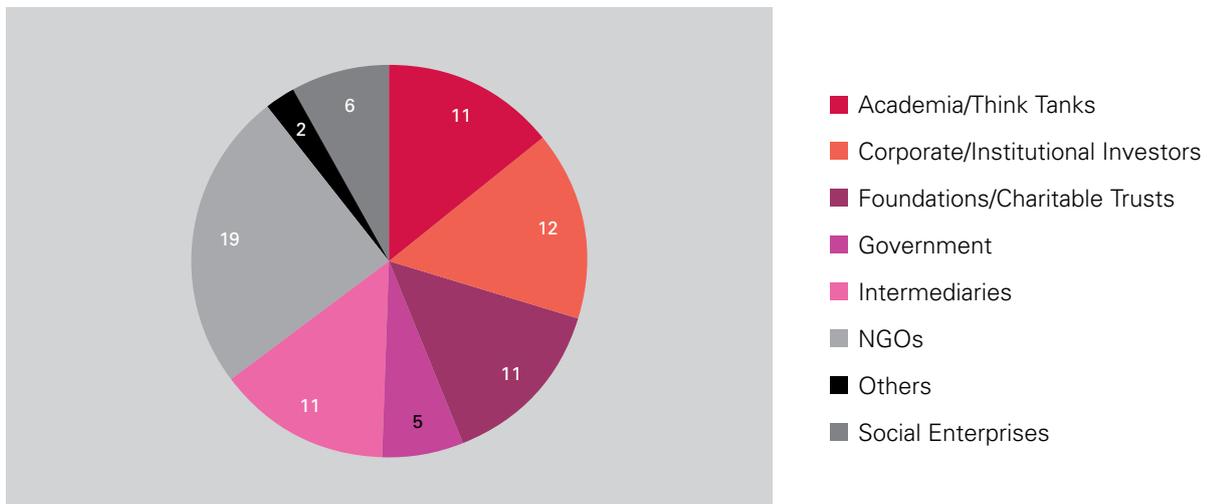


Figure 6. Distribution of One-on-one Interview Respondents

Respondents were selected through a snowballing method which started with a select group of practitioners and leaders in each sub-sector.



\* Number represents the number of interviewees

### 1.4.3. Advisory Committee Workshops

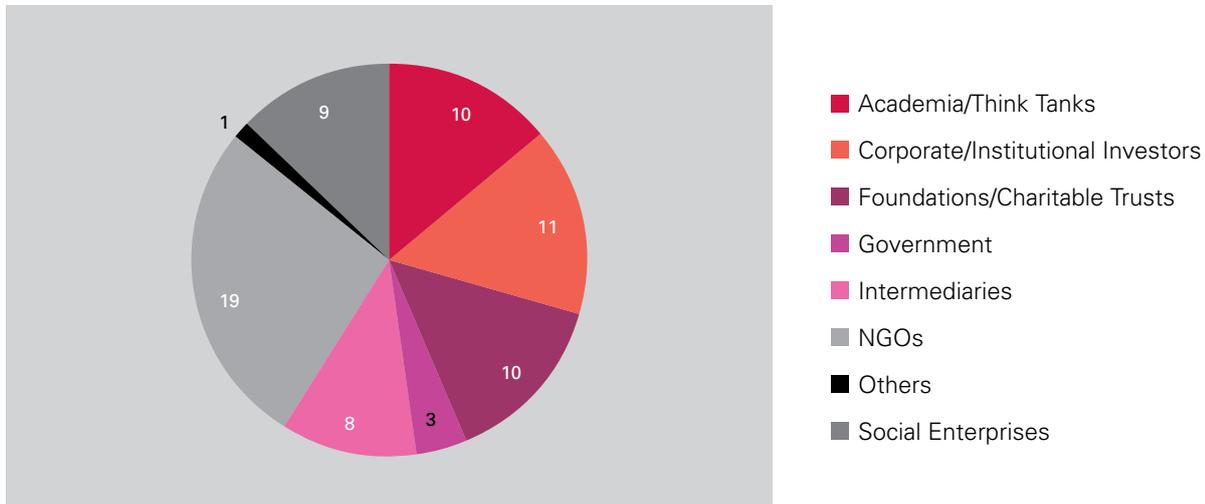
After identifying a set of preliminary cross-cutting issues from our initial 20 one-on-one interviews, we convened our first group workshop comprising a select group of practitioners and leaders based on their level of involvement and interest in the development of Hong Kong’s social ecosystem.

We convened a total of four workshops of 20 to 25 participants at various stages of our study, with the first one (AC1) taking place on May 9, 2012, the second (AC2) on August 7, 2012, the third (AC3) on November 9, 2012 and the fourth and final (AC4) on April 22, 2013. We strived to strike a balance between continuity and diversity of perspectives by inviting new stakeholders across the four workshops, while ensuring that a core group of stakeholders attended at least two workshops.

The workshops were generally conducted in two parts, a presentation of EngageHK’s latest findings followed by a discussion that involved all participants, often in smaller break-out sessions.

## Figure 7. Distribution of Advisory Committee Participants

Participants were selected through purposive sampling from the pool of interviewees in the previous stage based on their commitment and involvement in creating blended value.



\* Number represents the number of interviewees

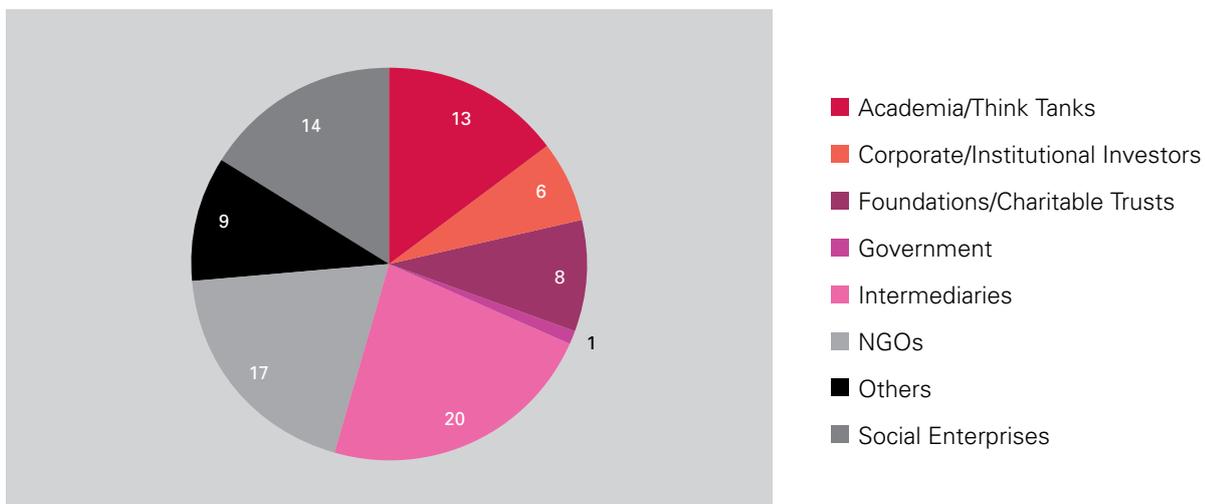
### 1.4.4. Online Survey

With the support of The Nielsen Company, we conducted an online survey beginning October 12, 2012 for four weeks to test both the level and degree of support for recurrent propositions and recommendations among the wider community of stakeholders in Hong Kong.

We then used the online survey findings from the 88 respondents to either reframe, refine or reprioritize the proposition to generate a final set of recommendations that more constructively resonated with stakeholders in the social ecosystem.

## Figure 8. Distribution of Online Survey Respondents

Respondents were selected from the membership lists of a diverse group of umbrella organizations.



\* Number represents the number of interviewees

Please see fix URL: <http://www.asiacommunityventures.org/EngageHK> for the survey template form and Appendix 3 for the survey results.



## **SECTION 2:** SUB-SECTORS AND GAPS

Following the (modified) Blended Value framework and through our one-on-one interviews with key stakeholders in various sub-sectors, we explore the work that has been done by these sectors and reveal the gaps that hinder the development of the social ecosystem. The seven sub-sectors and the types of organizations included for each sub-sector are specified in the chart below.



**Figure 9. Description of Seven Sub-sectors**

<b>Academia</b>	Universities engaged in research in non-profits, social enterprises and social entrepreneurship
<b>Private/Corps/SMEs</b>	Corporations engaged in CSR, community investment, banks offering sustainable/responsible investing, philanthropy services
<b>Foundations/Charitable Trust</b>	Corporate foundations, family foundations, family offices, individual investors and philanthropists
<b>Intermediaries</b>	Services providers to the social sector, involved in funding, incubating, mentoring or consultancy services, membership-based networking organizations, impact investing funds
<b>Non-profits</b>	International NGOs, NGOs funded by the Hong Kong government, NGOs with or without social enterprise units
<b>Social enterprises</b>	Non-profit owned and controlled social enterprises and private social enterprises without government subvention
<b>Government</b>	Policy research, advisory committees, supporting and grant-making units for non-profits and social enterprises
<b>Others*</b>	Media, advocates, individuals not affiliated with any of the above classifications

\* This category is only used in the online surveys.

## 2.1. ACADEMIA

The academic sector broadly consists of higher educational institutions. For the purpose of this research, it pertains to the local universities and to some extent community colleges and vocational training centers. Academia plays an important part in the development of the social ecosystem because of its leadership role in equipping youth with the critical skills necessary to enter into workforce, facilitating knowledge transfer among various sectors and nurturing future leaders and social entrepreneurs. The academic community is also well positioned to enable social innovation and foster an entrepreneurial mindset, as well as to conduct research on social impact metrics and assessment.

### Overview of Initiatives in Academia

Social innovation and entrepreneurship are rapidly gaining attention globally in academic circles as important subject matters, not only for research purposes, but more importantly, for their significant potential to contribute to more sustainable societies. In Hong Kong, a few universities have launched larger scale multi-disciplinary projects that integrate business plan competitions, mentorship schemes, field learning programs, workshops, networking activities, and research programs.

Currently, the Hong Kong Jockey Club is the biggest funder of such projects in academia, including among others: 1) ExCEL3<sup>3</sup> under the Faculty of Social Sciences at the University of Hong Kong, and 2) JCDISI<sup>4</sup> under the School of Design at the Hong Kong Polytechnic University. These projects provide training programs,



workshops, competitions and other activities, allowing students, faculties and NGOs to collaborate and build on organizational, research and teaching capabilities. Other examples of larger scale projects include Project Flame at City University of Hong Kong and the Centre for Entrepreneurship at the Chinese University of Hong Kong.

In addition to courses offered under these larger-scale projects, universities also hold standalone courses on social innovation and sustainability. Courses at the Baptist University, and the Hong Kong University of Science and Technology tend to focus more on corporate social responsibility.

## Cross-sector Collaboration

There has been a boom in cross-sector partnerships between academia and other sectors in recent years. Currently, there are a few intermediaries that are focusing on cross-sector collaboration. For example, YES Network – the People Incubator, is an intermediary platform that enables all actors from different sub-sectors to collaborate and support social entrepreneurs in up-scaling social change. Their current engagements include a two-year project collaboration with the University of Hong Kong (Academia) and the Hong Kong Jockey Club (Foundation), on the ExCEL3 initiative. Another example is the HKUST-China Entrepreneurship Network (HKUST-CEN), which organizes social entrepreneurship forums.

Another local initiative, Education for Good, also contributes to the promotion of social innovation and entrepreneurship by spearheading educational program via collaborative efforts with non-academic sectors to create and sustain a civic movement of social entrepreneurship.

## Gaps

Social innovation remains a nascent subject matter in academia, and efforts are still underway to bring together the resources and talent necessary to overcome some key challenges, including:

- Dearth of courses on social innovation and entrepreneurship – despite growing student demand, local universities have been slow to offer courses on topics such as impact investing, venture philanthropy, social entrepreneurship, and social innovation. Most social science faculties have been focusing more on social welfare and service delivery training rather than social innovation. Some business and entrepreneurship faculties meanwhile organize separate business plan competitions with limited interaction with other faculties.
- Lack of inter- and intra-departmental collaboration – offerings that foster social innovation and cross-disciplinary thinking has not been evolving quickly enough, largely due to the fact that faculties lack experienced social entrepreneurs and mentors who can bring practical field experience to the table.
- Lack of multi-disciplinary training – overemphasis on standardized examination and early specialization has led to narrowly defined training rather than interdisciplinary educational opportunities, which are crucial in advancing critical knowledge surrounding blended value and cross-sector skills development.
- Limited cross-discipline academic research – most research in Hong Kong has thus far been issues-driven and sector specific. Very little funding has been available for researchers looking at how to identify and address cross-sector market gaps and inefficiencies such as better ways to provide capital and training to social enterprises. Furthermore, very few professors, other than adjunct lecturers from the field, currently have the practical social entrepreneurship experience and relevant cross-sectoral networks needed to conduct meaningful research in this area.

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3. *Excellence in Capacity-building on Entrepreneurship and Leadership for the Third Sector*

4. *Jockey Club Design Institute for Social Innovation*



## 2.2. PRIVATE SECTOR/ CORPORATIONS/ SMALL AND MEDIUM ENTERPRISES

Within the context of this research, this sub-sector includes any privately incorporated organizations, publicly-listed corporations, small- and medium-enterprises (SMEs) as well as foundations of corporations such as Swire Trust. The conventional goal of corporations is to maximize shareholder value or private gains. This is often perceived as unrelated or even disruptive to the promotion of sustainability and the creation of social impact. However, in recent years, corporations have begun to acknowledge that their social impact, whether positive or negative, intended or otherwise, is becoming more closely linked to their financial returns with increased expectations from society and its stakeholders. As such, they have begun to integrate corporate social responsibility (CSR) efforts into their operational plans, including corporate donations, staff volunteering and grant-making, among other activities. A Community Business survey revealed that the major motivation for companies to engage in CSR is the positive impact on the financial value of the company (58%), followed by human resource benefits (52%) and good public relations (40%)<sup>5</sup>.

### Practice of CSR in Hong Kong

The practice of corporate social responsibility (CSR), including community investing (CI) or community engagement (CE) has become more prevalent among corporations in Hong Kong since the 1990s.

Among the many potential beneficiary groups, corporations in Hong Kong have a preference for giving to projects related to education, the environment, poverty, children and healthcare.<sup>6</sup> In contrast, heritage, culture and sports receive much less attention in terms of corporate donations.

Among the many components of CSR, corporations in Hong Kong consider community investment (CI) as a priority since it is the most visible way for a corporation to market its commitment to CSR. According to Community Business,<sup>7</sup> CI includes cash donations, in-kind donations of both goods and services and employee volunteering. As the charitable subset of CI, corporate donations contribute to 10% of total giving in Hong Kong. In particular, corporate donations to non-governmental organizations in Hong Kong have increased from HK\$700 million during the fiscal year of 1999-2000 to \$3.7 billion during 2010-2011<sup>8</sup>.

The concept of CSR was largely “imported” by multinational corporations (MNCs) based in Hong Kong. These MNCs are also considered as the main contributors of corporate donations. Despite the generosity of MNCs, the philanthropic resources are concentrated in developing regions like Mainland China and India instead of Hong Kong, which is regarded as a comparatively wealthy city. Since many MNCs have been affected by the global economy, many have cut their philanthropic budgets and staffing in recent years.<sup>9</sup> As a result, MNCs are doing more with less and have tended to concentrate funding to a handful of more established non-profits when partnering to implement their CSR activities. Other initiatives include that of HSBC in 2008, which helped launch the HKCSS-HSBC Social Enterprise Business Centre<sup>10</sup>, one of the first Hong Kong social enterprise incubators. Over the past five years, some 800 corporate volunteers have been trained, contributing around 2,000 consultancy hours and benefiting approximately 50 SEs.

Conversely, smaller or developing non-profits are usually hard-pressed to get their foot in the door of corporations and therefore struggle to gain access to CSR capital and resources.

## Small and Medium Enterprises (SMEs)

SMEs in Hong Kong are defined as “any manufacturing business that employs fewer than 100 people in Hong Kong, or any non-manufacturing business that employs fewer than 50 people in Hong Kong”<sup>11</sup>. There are approximately 300,000 SMEs in Hong Kong (98% of total business units), contributing to 1.2 million jobs (48% of total employment excluding civil service). More than half of Hong Kong’s SMEs engage in import/export, wholesale and retail industries.<sup>12</sup>

Since SMEs seldom publicize their CSR initiatives, there are few public role models, which has led to a limited awareness of their CSR efforts and trends. Due to resource prioritization towards growth, CSR is often a lower priority for SMEs. With the high rental costs in the city, most SMEs do not have the luxury of sustainably operating at lower margins or slower turnover which results in CSR being accorded a lower priority.

For many SMEs, implementing CSR means providing fair salaries and access to job opportunities for marginalized individuals or communities whether or not they call themselves social enterprises. It is not surprising therefore that SME charitable giving is also relatively low given other more pressing priorities. Their commitment tends to take the form of in-kind donations and employee volunteerism that have strategic value to their operations rather than outright cash donations.



## Family-owned Businesses

In the CSR context, family- or privately-owned businesses are generally less constrained by shareholders’ expectations compared to public companies. Family businesses’ philanthropic giving also tends to be proportionally larger than their corporate counterparts and their CSR units have more flexibility and have shown higher risk thresholds. In this regard, family businesses have an advantage in fostering social innovation. The Esquel Group, a family-owned textile manufacturing company, is an example of this trend and has been engaging in initiatives building social enterprises as a means to provide gainful employment for their former staff hit by the shifting economy.

5. *Corporate Social Responsibility (CSR) in Hong Kong – A Survey of Good Practice 2007 (Print).*

6. *The Role of Companies in the Development of a Vibrant Third Sector in Hong Kong, Golin/Harris Forrest 2001, www.cpu.gov.hk/doc/tc/research\_reports/3rd-fullrep.rtf*

7. *A membership based NGO dedicated to advocating for CSR in Asia.*

8. *Annual Report 2000-2001 and Annual Report 2011-2012, Inland Revenue Department*

9. *Liu Youping, deputy director of the China Charity and Donation Information Center, said the global economic downturn forced some foreign companies to cut their spending on charity. He Dan(2012). Charitable donations to Mainland China. China Daily.*

10. *HKCSS- HSBC Social Enterprise Business Centre.*  
<http://www.hsbc.com.hk/1/2/cr/community/projects/sebc>

11. *Trade and Industry Department - Support and Consultation Centre for SMEs (2012).*  
[http://www.success.tid.gov.hk/english/lin\\_sup\\_org/gov\\_dep/service\\_detail\\_6863.html](http://www.success.tid.gov.hk/english/lin_sup_org/gov_dep/service_detail_6863.html)

12. *Ibid.*



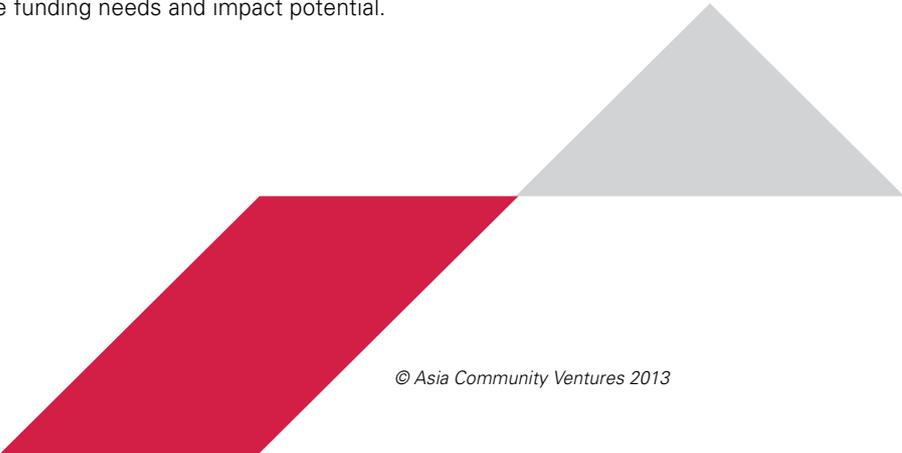
## Gaps and Challenges

Corporations often cite lack of senior management buy-in and financial support towards CSR activities as two of their biggest challenges especially in uncertain economic environments. There is, however, a great deal corporates can do to optimize their contribution amidst reduced CSR budgets, including forming of informal industry networks as well as joining as members of intermediaries such as Community Business. By collaborating with each other and pooling expertise and initiatives of their peers, they maximize their social impact and avoid duplication of efforts in the social ecosystem.

This also means that social purpose organizations (SPOs) – whether they are incorporated as non-profits or social enterprises – should research which specific needs or pockets of vulnerability in the social ecosystem can be most relevantly addressed by the CSR activities of major corporate sponsors. Ensuring such alignment of purpose would be most valuable when, for instance, corporations look to provide pro-bono consulting by offering the specialized skills of their own workforce.

There are other challenges hindering the growth of social innovation in the business sector, namely the observations that:

- CSR activities tend to be box-ticking exercise for many firms – CSR activities are generally not perceived to directly impact financial returns for shareholders, and as such receive little engagement from top management. These activities are usually housed in corporations' marketing and/or human resource departments, designed to raise businesses' visibility and general likeability, among both its employees and customers. As a result, companies are more likely to fund popular projects with greater visibility rather than those with genuine funding needs and impact potential.
- Corporations' innovative CSR ideas lack "one-stop shop" support from the government – companies are seeking a "one-stop" platform to be able to engage in collaborative efforts with the government in scaling their CSR or community investment ideas. They are often discouraged from seeking government support because of the perceived heavy bureaucratic requirements to make things happen.
- Minimal support for non-profit capacity building or "good overhead" – most funding from the corporations focus on non-profits project funding and not on non-profits capacity building. This traditional focus on project funding does not allow non-profits to achieve financial or strategic sustainability necessary for them to sustain their impact in the long-run. The usual practice of giving donations has not made full use of the potentials of the business sector in contributing to poverty alleviation work, as articulated in a research report recently published by the Bauhinia Foundation Research Centre<sup>13</sup>.



## 2.3. FOUNDATIONS/ CHARITABLE TRUSTS

Foundations have historically played an important role in providing supplementary funding sources relative to government subvention and individual charitable donations. There are generally two types of foundations in Hong Kong,<sup>14</sup> grant-making and operating. Grant-making foundations generate income from their endowments, evaluate funding requests and decide to support projects that are aligned with their missions. The Hong Kong Jockey Club Charities Trust, Hong Kong Bank Foundation, and Li Ka Shing Foundation are three prominent examples of grant-making foundations.

In contrast, operating foundations raise their money from the public, mainly through gala and auction events, flag days, and fundraising campaigns to provide goods and services to beneficiaries or social issues directly. As a result, they are under greater public scrutiny and are expected to directly fund projects with specific areas of interest, such as children and youth, ethnic minorities, elderly and the environment.

### Jockey Club Charities Trust and Community Chest

The Community Chest and the Jockey Club Charities Trust are two of the largest grant-making institutions that play indispensable roles in funding social service organizations in Hong Kong.

## JOCKEY CLUB AND COMMUNITY CHEST

	Jockey Club Charities Trust	Community Chest
Areas of Interest	Six main areas of interests: Promoting A Healthy Living, Lending A Hand & Volunteering, Creating Possibilities, Developing Sports, Fun & Games, Cultivating Arts & Culture and Preserving & Creating Jobs	Community services, which include services for elderly, children and youth, family, rehabilitation and aftercare, medical and health, residents of poor living environment. Community development programs are also funded.
Recipients of Funds	Projects and programs	Programs
Major Source of Funding	Appropriations from The Hong Kong Jockey Club Group, financial income of the Charities Trust and forfeited dividend and refunds.	Public fundraising
Agencies Supported	155 non-profits and community projects (2011/2012)	133 charitable organisations (2011/2012)
Funds Allocation (HK\$)	1,729 million (2011/2012)	219 million (2011/2012)

Source: Hong Kong Jockey Club and Community Chest websites, Jockey Club Charities Trust financial statements 2011/2012, and Community Chest financial statements 2011/2012.

13. Executive Summary, *Poverty Alleviation – What Can the Business Sector Do?*, <http://www.bauhinia.org/document/doc154eng.pdf>

14. *Philanthropic Intermediaries, Study on the Third Sector Landscape in Hong Kong*, Eva Liu, released by Central Policy Unit, [http://www.polyu.edu.hk/apss/Third/LSTS/3rd\\_ch13.pdf](http://www.polyu.edu.hk/apss/Third/LSTS/3rd_ch13.pdf)

**Figure 10. Funding Information of the Top Ten Fund Recipients of the Jockey Club Charities Trust and Community Chest**

	Jockey Club Charities Trust (JCCT)	Community Chest (CC)
Top ten funding recipients (as % of total grantees)	6.5% (out of 155)	7.5% (out of 133)
% of funds allocated to the top ten funding recipients	28%	29%
Average size of funds received by the top ten funding recipients (HK\$)	46 million	4.6 million

Source: Jockey Club Charities Trust financial statements 2011/2012, and Community Chest financial statements 2011/2012.

These two grant-making foundations have a tradition of making grants to long-standing non-profits active in the social ecosystem. This historical heritage is reflected in a marked concentration of their funding, whereby around 30% of their total grants go to the top ten funding recipients, comprising of less than 8% of their total grantees.

Furthermore, if we compare the funding allocation of the Jockey Club Charities Trust and the Community Chest with that of the Hong Kong government (data in Appendix 2), the overlap is significant: 8 of the top ten organizations funded by the government are also funded by JCCT (3 of which also rank top ten for funding by JCCT itself); similarly, 5 of the government's top 10 grantees are also funded by CC (3 in top ten for funding by CC itself).

This very similar funding mix between the government's own subvention and those of JCCT and the Community Chest arguably creates a perception of a lack of diversity in funding focus.

### Funding Destination of Private Foundations

A number of private foundations providing funding to projects in mainland China are motivated by an urge to give back to one's hometown, with many individuals tracing their roots in mainland China<sup>15</sup>. According to a survey conducted by the Central Policy Unit (CPU) of the

Hong Kong government<sup>16</sup>, nearly half of the foundations based in Hong Kong target Mainland China as their funding destination. For example, Li Ka Shing Foundation, the largest private foundation in Hong Kong, has granted 60% of its total donations to Mainland China<sup>17</sup>.

Another ongoing phenomenon in Hong Kong is that many international NGOs treat Hong Kong as a fundraising hub rather than a service territory. Notable examples include Grameen Foundation, Room to Read and International Care Ministries, all of which consider Hong Kong as an important fundraising hub in the region.

### Gaps and Challenges

Foundations and charitable trusts, especially family offices of high net-worth individuals, often work discreetly mainly to shun publicity (although there are exceptions). They typically use traditional methods to provide grants to non-profits or specific projects that are deemed too conservative by the younger generation of donors, who usually view finding solutions to social problems more important than the reputation of the organizations that they support. They also traditionally provide grants for non-profits' projects rather than recurrent expenditures.



The social ecosystem would benefit greatly from these institutions' knowledge, experience and support, especially if they were to extend it to also include non-project specific capacity building efforts. Another major trend is represented by the reluctance of foundations to share information on project outcomes. The principal reasons behind this are:

- Lack of benchmarks and impact metrics – reluctant to face the scrutiny of their peers and the media, foundations prefer not to report project outcomes for which they do not have hard and fast metrics. This skews support to and reporting about “brick and mortar” projects, which are generally considered to be safer projects to manage and implement.
- Traditional focus of project-specific funding – similar to the corporates, foundations fund short-term projects

and focus on accessing the short-term impact of projects. This does not allow non-profits to create longer-term impact, as they need to constantly pitch for projects. A large amount of time and effort is also consumed to satisfy the reporting requirements of foundations, which are often based on an expense reimbursement and do not pay for staff costs and other overhead expenses.

- Grant support for non-profits only – there is currently minimal funding for social enterprises, or intermediaries involved in capacity building. There is also a notion that impact investing is separated from grant-making, making it difficult for non-profits and social enterprises to be financially sustainable in the long run as they are mostly funded based on projects.

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15. *The Role of Companies in the Development of a Vibrant Third Sector in Hong Kong*, [http://www.cpu.gov.hk/doc/tc/research\\_reports/3rd-fullrep.rtf](http://www.cpu.gov.hk/doc/tc/research_reports/3rd-fullrep.rtf)

16. *Ibid.*

17. Li Ka Shing Foundation. <http://www.lksf.org/en/other/eventall>





## 2.4. INTERMEDIARIES

Intermediary organizations provide a wide range of services that are central to the sustainability of the social ecosystem, from capacity building to technical assistance, advisory services, research and facilitation. They can also perform an important convening function by putting in place and managing a common platform to engage stakeholders from across sectors in open dialogue.

Like social enterprise, there is no universal or legal definition of an intermediary in Hong Kong's social ecosystem. In this section, we refer to intermediaries as service providers to the social ecosystem, involved in funding, incubating, mentoring and/or consultancy services. They can also include membership-based networking organizations and impact investment funds. Since there are only a few examples of "pure" intermediaries in the social ecosystem, this section will also draw examples from other sectors.

### Incubation and Financial Support

Impact investors seeking to invest in social enterprises (also known as social businesses) oftentimes encounter difficulties because these ventures are rarely at a growth stage where they are investor-ready. Intermediaries can play an important role in bridging this market gap by helping social enterprises to become investor-ready and connect impact investors to such businesses at the right time. In Hong Kong, these intermediaries include organizations such as Social Ventures Hong Kong (SVhk) and SOW Asia Foundation (SOW Asia) that provide financial and non-financial support in addition to potentially investing in social enterprises.

### Precursor to Impact Investment Funds

As demonstrated by the work of SVhk and SOW Asia, it is common for intermediaries to provide both financial and capacity building support. While individuals, family offices and philanthropic foundations currently dominate the supply of capital for the social investment market, impact investment funds that draw their capital from institutional investors and others are also emerging in the

market. Although there tends to be some overlap between intermediaries that offer incubation and financial support, impact investment funds often adopt a more "hands-off" approach to their portfolio companies. They focus instead on providing a common standard and shared back-office infrastructure such as IT, accounting and legal services to assist companies to scale their operations beyond volunteer mentorship programs.

### Consultancy and Networking Organizations

Examples of local consultancy and networking organizations include Asia Community Ventures (ACV), which aims to promote collaboration among key players in the social ecosystem, and Make a Difference (MaD), an organization that fosters cross-disciplinary innovation and creative thinking to instill a "blended value" mindset in the younger generation. Regionally, Association for Sustainable and Responsible Investment in Asia (ASrIA), a Hong Kong based organization, is dedicated to promoting sustainable and responsible investing (SRI) in Asia Pacific.

### Intermediary Activities in Hong Kong

Many organizations in other sub-sectors also perform important intermediary functions to encourage cross-sector collaboration. One such example would be the Hong Kong Social Enterprise Challenge organized by the Chinese University of Hong Kong Center for Entrepreneurship. HKSEC believes all students have the potential to become successful social entrepreneurs. The program consists of both formal and informal trainings where participants can exchange ideas and interact with executives from business, government departments and non-profits.

Think tanks are also frequent organizers of intermediary activities. To conduct, publish and publicize research on certain social issues, think tanks often engage in and promote cross-sector collaboration and partnerships. Since 2008, the Hong Kong Policy Research Institute has been organizing its annual Social Enterprise Summit, raising awareness of social entrepreneurship among members of the ecosystem. The Bauhinia Foundation Research Centre also organizes seminars and workshops on social topics that gather practitioners from different stakeholder groups to formulate well-rounded policy proposals.



## Gaps

Our findings have shown intermediary organizations are by far the most under-developed among the sub-sectors examined in Hong Kong's social ecosystem. The current challenges faced by intermediaries include:

- Low awareness of and support for intermediaries - in general funders in Hong Kong do not rely on intermediaries platforms to find non-profits that suit the funders' objective. In the name of reducing overhead costs, funders conduct the search and due diligence themselves with their limited staff time and budgets. This limitation has the unintended consequence that ultimate target beneficiaries are not adequately identified and served.
- Insufficient number and types of intermediaries to support the Hong Kong ecosystem- a vibrant social ecosystem requires a network of intermediaries to connect non-profits, social enterprises, foundations and the private sector. Hong Kong also needs more intermediary companies to provide services like research, fundraising, ratings, advisory, training and mentorship , and impact measurement to make the ecosystem more efficient.

# INITIATIVES ABROAD TO SUPPORT INTERMEDIARIES IN THE SOCIAL ECOSYSTEM

Governments in the United States and the United Kingdom have a more substantial track record in supporting intermediaries, and could be valuable cases for further examination

Over the past decades, the United States has developed a fairly vibrant ecosystem of intermediaries supporting the social ecosystem. For example, groups such as the Corporation for Supportive Housing, Enterprise, and Living Cities have worked to support the efforts of individual organizations and practitioners. More recently, the Social Innovation Fund was established in 2009 to provide government grants to intermediary grant makers. The design is characterized by a reliance on experienced and knowledgeable grant-making bodies that are well positioned to identify, select and grow the impact of non-profits that can achieve results. In its first three years, the Social Innovation Fund has awarded US\$138 million to 20 grant-making intermediaries, which in turn supported 197 non-profits.

In the United Kingdom, a series of initiatives to grow the social investment market have also relied heavily on intermediaries. The various funding schemes have established clear definitions and functions of different types of intermediaries. Examples are:

- Investment and Contract Readiness Providers: organizations that support, guide and assist social ventures to develop realistic proposals to become investment and contract ready;
- Social Incubators: organizations that offer a period of intensive support to social enterprise start-ups; and
- Social Investment Finance Intermediaries: organizations that connect those interested in investing for social impact with social purpose organizations that need capital to achieve positive social change.



## 2.5. NON-PROFITS

Non-profit organizations (non-profits) are instrumental in civil society as direct social welfare service providers and recipients of donations. They play an important role in the social ecosystem and rely on a collaborative network of public bodies, private donors and the general public. As part of the front-line service providers, they also have a good understanding of the needs and expectations of potential beneficiaries.

### Size of Non-profit Sector in Hong Kong

The non-profit sector includes voluntary, non-governmental and formal organizations whose primary purpose is related to social services and policy advocacy<sup>18</sup>. In Hong Kong, government expenditure on NGOs totaled HK\$ 10.1 billion in 2012-2013<sup>19</sup>.

### Legal Status

As of March 2012, there are 7,194 non-profits in Hong Kong<sup>20</sup>. There are no specific laws that govern the registration of charities except for the recognition they are granted by the Inland Revenue Department for their tax-exempt status.

The legal and regulatory environment for non-profits is fragmented. Most established voluntary organizations are registered companies limited by guarantee for which they need to meet minimal corporate governance requirements, including audit reports and annual general meetings.

### Major Functions and Roles

Over 70% of all social welfare services are currently operated by non-profits, including education, health care and others.<sup>21</sup> As the pioneer of public social service providers since the early colonial era, non-profits have laid down the groundwork and standard in this field.

Donations to non-profits have full social and environmental objectives with no expected financial return. Currently, about 60% of non-profit welfare programs are funded under the Social Welfare Department subvention scheme,

and most of the remaining 40% are funded by either the Hong Kong Jockey Club Charities Trust or the Community Chest Fund. Support from foundations, private donations and other income from fee-charging services or other enterprising programs account for a minimal proportion of revenue generated by social service non-profits.

Since the dramatic expansion of social welfare expenditure in the 1970s, the government has been relying on non-profits for their capacity, reputation, knowledge and experience as social service providers. The sector's relationship with the government had been especially close considering that many rely on public funding for survival. Before the termination of the five-year welfare policy plan in 2002, non-profit organizations had been engaged and consulted for long-term welfare policies for the city, and were seen in close partnership with the government in both devising and delivering essential and timely welfare policies.

### Relationship with the Government

There are three main issues in relation to the funding and operation of non-profits as far as the government is concerned. Firstly, many Hong Kong non-profits disproportionately rely on government funding for their operations. While the generous availability of government funding might not be an issue in itself, the means by which such funding is allocated and its use monitored could limit non-profit's incentive to innovate. The lump sum grant scheme introduced in 2000 that gradually eliminated the subvention system may have exacerbated this condition, given that it resulted in non-profits being increasingly viewed as outsourced social welfare service providers. The government's monitoring system also encourages micro-management, which means program design and scope is very limited by service agreements. Therefore, organizations are less likely to explore new areas of need or to serve needy groups.

The second dimension relates to the introduction of a new market mechanism with the lump sum grant scheme. The bidding for welfare services creates competition among non-profits, which results in a shift to immediate and easily



measurable output of services. Such rigidity and formality leaves little room for innovation and organizational capacity.

The third dimension has to do with the compensation of social workers. The lump sum grant scheme allowed non-profits to set their own payment scale for social workers, as opposed to previous practices of linking salaries to that of civil servants. This trend dramatically reduced compensation for social work as a career and resulted in major challenges related to staff recruitment and retention.

## Gaps and Challenges

As government funding has become unreliable for long-term development, non-profit organizations have been forced to explore alternative sources of income. Unfortunately, many are not well equipped to manage donor constituents, nor do they have the knowledge and skills to take advantage of market operations. These new initiatives divert resources from operations and service provision, putting pressure on existing management. As a result, related challenges for non-profits include a lack of:

- Best Practices and Support for Social Enterprise Development - Government policies to encourage social enterprises are still at the experimental stage and are therefore lacking in very clear guidelines and legal frameworks. Non-profits seeking to develop
- Relevant Skills - Due to the predominance of project funding, non-profits tend to deprioritize investing in their staff's skills and careers, which hinders their ability to scale. This is in stark contrast to international non-profits that are usually more sophisticated in approaching their sustainability with a strong focus on organizational capacity building. In addition, the relatively lower salaries in the non-profit sector make career prospects unattractive, worsening the skills gap.
- Transparency and Weak Board Governance - Relatively little regulation and often no annual review have led to insufficient transparency and accountability in not only the sourcing, but also the use of funding. This has created issues related to mistrust between non-profits and the government and donors.
- Competition in Attracting Talent - Societal norms favor financially more lucrative commercial career paths. Salary levels, staff benefits and career prospects are relatively unattractive for jobs in the non-profit sector. There is also fierce competition in the recruitment of board members and volunteers.

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18. *Hong Kong: The Fact*, [http://www.gov.hk/en/about/abouthk/factsheets/docs/social\\_welfare.pdf](http://www.gov.hk/en/about/abouthk/factsheets/docs/social_welfare.pdf)

19. *Ibid.*

20. *Miscellaneous, Annual Report 2011-12*, Inland Revenue Department, <http://www.ird.gov.hk/dar/2011-12/table/eng/misc.pdf>

21. *Study on the Third Sector Landscape in Hong Kong*, Central Policy Unit, [http://www.cpu.gov.hk/doc/sc/research\\_reports/3rd\\_ch07.pdf](http://www.cpu.gov.hk/doc/sc/research_reports/3rd_ch07.pdf)



## 2.6. SOCIAL ENTERPRISES

Social enterprises are often viewed as a hybrid between traditional non-profits and pure for-profit organizations. Social enterprises are usually established by non-profits to explore revenue generating options rather than traditional fundraising activities. Increasingly however, some are managed by private businesses as an “impact-first” arm or founded by social entrepreneurs. To tackle social issues using business approaches, social enterprises often need to create and execute innovative solutions. Therefore, by nature, social enterprises are instrumental in the development of our social ecosystem.

### Definition of Social Enterprise

There is currently no universal or legal definition of social enterprise in Hong Kong. According to the Hong Kong government, “a social enterprise is a business to achieve specific social objectives ... funding its other social services through the profits earned, etc. Its profits will be principally reinvested in the business for the social objectives that it pursues, rather than distribution to its shareholders.”<sup>22</sup>

For the purposes of this research, we use the term social enterprise to refer to non-profit owned and controlled SEs as well as private SEs that do not receive government subvention subsidy. It also includes SEs that may receive some indirect subsidy via subsidized or free rent.

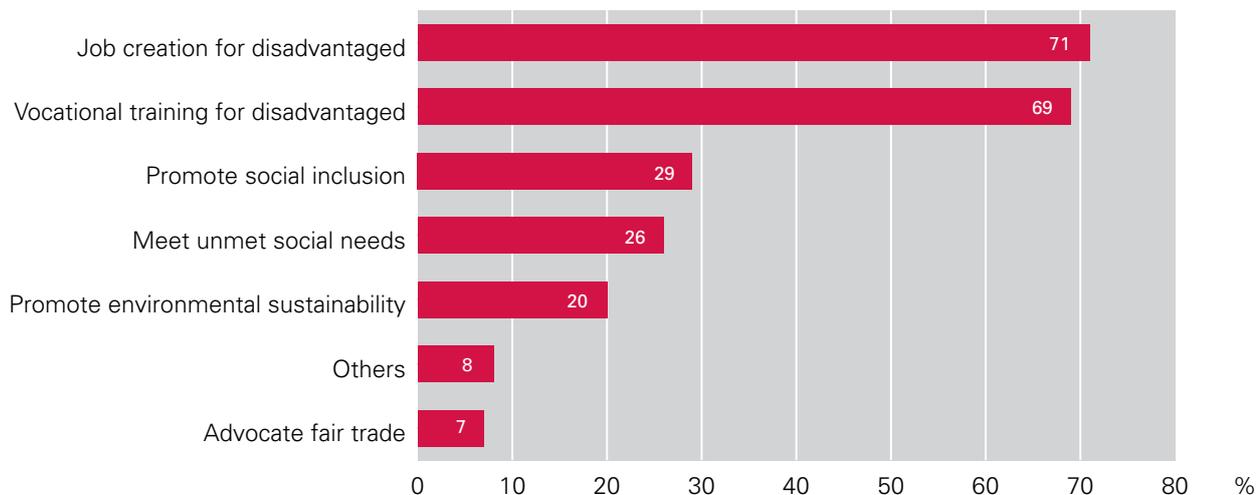
### Social Enterprises in Hong Kong

There are currently around 400 social enterprise units in Hong Kong,<sup>23</sup> almost doubling in the past five years (222 units in 2007)<sup>24</sup>.

Social enterprises in Hong Kong are registered as either companies limited by shares or companies limited by guarantee (the usual legal status for non-profits). There is no specific legal structure for hybrid companies like social enterprises. Currently, 60% of social enterprise units are operated by non-profit organizations, 39% by registered companies and 1% by co-operatives.<sup>25</sup>

As illustrated in the bar charts below, most of Hong Kong’s social enterprises stated job creation (71%) and vocational training for the disadvantaged (69%) as their main social objectives.<sup>26</sup>

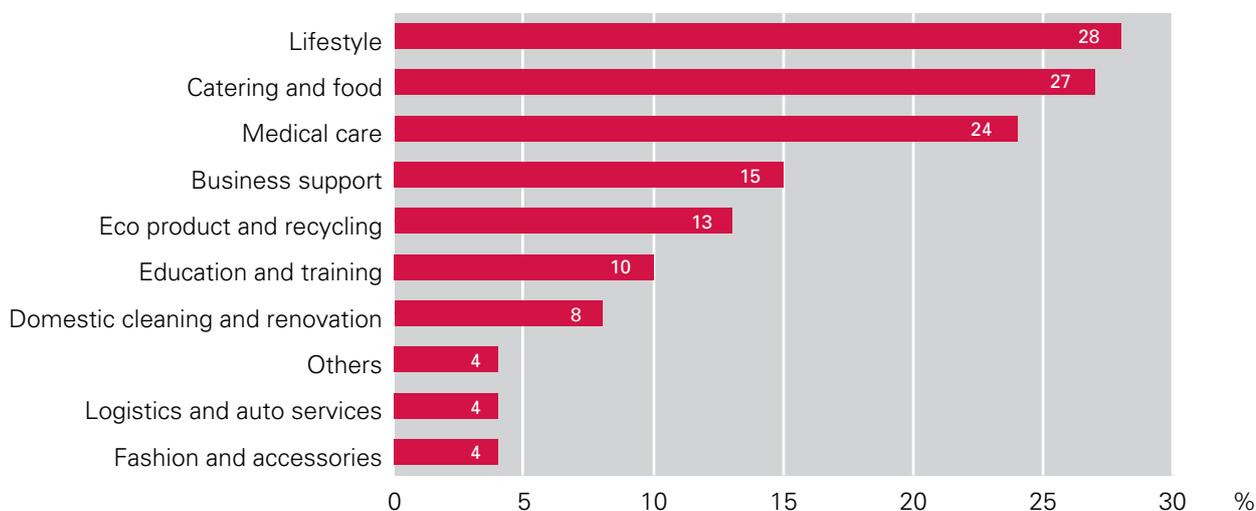
**Figure 11. Social Objectives of Social Enterprises**



Source: Hong Kong Social Enterprise Landscape Study 2012-13

In terms of business nature, social enterprises are the most prevalent among the lifestyle, food and medical care business sectors.<sup>27</sup> (See Figure 12)

**Figure 12. Business Nature of Social Enterprises in Hong Kong**



Source: Hong Kong Social Enterprise Landscape Study 2012-13

22. As defined by the Social Enterprises Support Unit under the Home Affairs Department, see <http://www.social-enterprises.gov.hk/en/introduction/whatis.html>

23. Hong Kong Social Enterprise Landscape Study 2012-13, HKCSS – HSBC SEBC. [http://www.socialenterprise.org.hk/sites/default/files/general/powerofgood\\_72%28dpi%29\\_0.pdf](http://www.socialenterprise.org.hk/sites/default/files/general/powerofgood_72%28dpi%29_0.pdf)

24. *Ibid.*

25. *Ibid.*

26. *Ibid.*

27. *Ibid.*

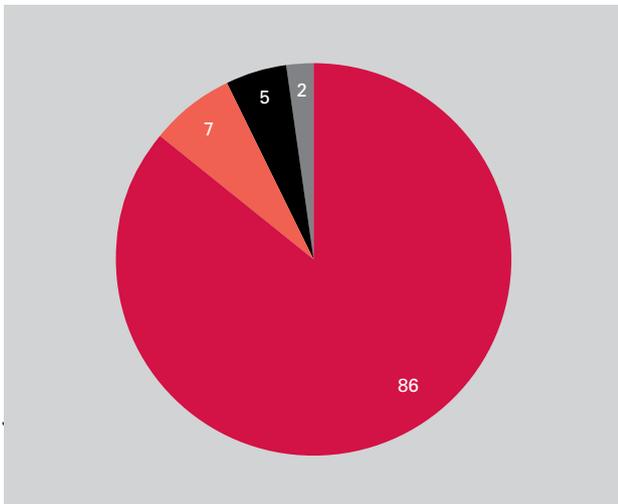


## Financial Support for Social Enterprises

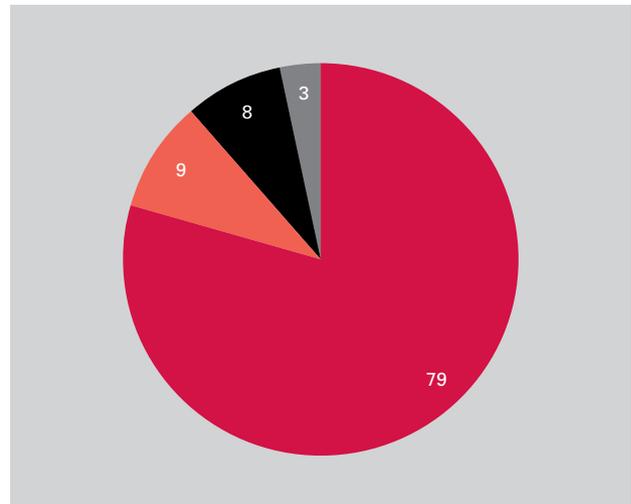
Unlike non-profits, social enterprises achieve financial sustainability through revenue generated from market activities rather than donations. They also differ from traditional businesses that aim to maximize profit. Social enterprises reinvest most of their retained earnings for business development instead of distributing them to shareholders.

**Figure 13. Income Sources and Profit Distribution of Social Enterprises**

### Income Sources



### Profit Distribution



- Sales income
- Subsidy from government or affiliated organization
- Donation
- Others

- Re-investment
- Invest in other SEs
- Support affiliated organization
- Dividend or profit sharing

Source: Hong Kong Social Enterprise Landscape Study 2012-13

There are currently a number of government funding and partnership schemes, of which five are more closely applicable to social enterprises. The government's definition of social enterprise for grant application purposes requires it to be a non-profit organization or project / subsidiary of a non-profit. This requirement has led to public confusion and the misconception that social enterprises are synonymous to non-profits. Moreover, current schemes offer a limited definition of the impact and nature of social enterprises. The HK\$500 million Social Innovation and Entrepreneurship Development Fund (SIEDF) announced in November 2012 is expected to provide support to a more diverse range of intermediaries that provide research, innovative programs and capacity building initiatives.



## Gaps

Increasingly, private foundations, individual investors, family offices and venture philanthropist funds are looking into the adoption of a “blended value” approach in their investment portfolio, aiming to strike a balance between social impact and commercial return. The involvement of these supporters has raised awareness of the potential of social innovation. However, major challenges persist for the sector, including:

- High overhead and transaction costs - the small size of most local social enterprises means that their fixed costs are high relative to the scale of their businesses. Without the appropriate seed and growth funding, it is difficult for these SEs to overcome this hurdle, meaning that many stop operating before reaching the growth stage.
- Business models that are not sufficiently market-driven to be sustainable - the majority of social enterprises in Hong Kong focus on job creation for disadvantaged groups. They often face fierce competition from big players in industries such as retail, catering, and cleaning. The mindset tends to be more product or social service-driven rather than market-driven.

## 2.7. GOVERNMENT

Current government policies regarding the social ecosystem are manifested in four major funding schemes for social enterprises and one partnership program that gives matching grants to projects that engage businesses and non-profits. The five schemes are designed to address different aspects and types of social enterprises (SEs), and are administered under the Home Affairs Bureau, the Labour and Welfare Bureau and the Development Bureau.

These schemes, as detailed below, reflect two key principles driving the government’s approach to social innovation. Firstly, its aim is mainly to create job opportunities for the disadvantaged in order to increase their capacity for self-reliance. While there is no official or legal definition of social enterprise yet, this concept is stated by the government as the major aspiration for the development of the sector.<sup>28</sup> Secondly, the non-profit sector is expected to be the leader in these initiatives, propelled by subsidies through these schemes, either in grant or loan form.

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28. <http://www.social-enterprises.gov.hk/en/introduction/policy.html>



# EXAMPLES OF GOVERNMENT FUNDING SCHEMES FOR SOCIAL ENTERPRISES

1. The “Enhancing Employment of People with Disabilities through Small Enterprise Project” (The 3E’s Project) is a grant to NGOs to carry out programs aiming to create job opportunities and promote self-reliance for the underprivileged in society. The project, announced in 2001, is a one-off provision of HK\$50 million administered by the Social Welfare Department. As of October 2011, over HK\$36 million was granted to create 66 small SEs and 520 employment opportunities for the disadvantaged. A further HK\$100 million is expected to be injected into the project.
2. The “Enhancing Self-Reliance through District Partnership Program” (ESR Program) of the Home Affairs Department supports the creation of small enterprises/ businesses that offer employment opportunities for the disabled. The program started in 2006, and as of October 2010, 52 social enterprise projects were approved creating about 800 jobs.<sup>1</sup> In February 2011, it was decided that non-profits could also be eligible for this scheme on a trial basis.
3. The “Community Investment and Inclusion Fund” (CIIF) under the Welfare and Labour Bureau of the Social Welfare Department supports projects with various objectives, including the empowerment of vulnerable groups, the creation of community capacity through cross-generational, cross-strata and cross-cultural networks and the development of opportunities for more social and economic participation. Eligible organizations, including welfare agencies, education organizations and private companies are encouraged to apply for collaborative projects. The fund was established in 2001 with HK\$300 million in seed capital, and by 2010 it had granted HK\$212 million to support 213 projects.
4. The “Revitalizing Historic Buildings through Partnership Scheme” administered by the Development Bureau under the Commissioner of Heritage’s Office (CHO) aims to encourage non-profits to use selected historic buildings to provide services or business in the form of SEs. As of 2010, the government had granted approximately HK\$557mm under this scheme for six projects to create 285 full time positions.
5. The “Social Enterprise Partnership Program” provides mentoring services and matches funds donated by partnering corporations. Five rounds of funding have been allocated so far, and the last three covered more than 130 projects initiated by 59 NGOs with 299 business partners. An evaluation of the program by the Hong Kong Polytechnic University in 2012 found that it had achieved its overall goals and significantly increased NGOs’ resources. However, the report recommended that smaller sized, community-based NGOs should be engaged for future development, and that a more outcome-based evaluation system be used for future funding schemes.

Sources: Data cited from Background brief prepared by the Legislative Council Secretariat (2011): LC Paper No. CB(2)490/11-12(03) <http://www.legco.gov.hk/yr11-12/english/panels/ws/papers/ws1212cb2-490-3-e.pdf>, Statistics from the reply of Secretary of Home Affairs following a question by Legislative Council: <http://www.info.gov.hk/gia/general/201010/27/P201010270146.htm>



## The Central Policy Unit

To facilitate the government's efforts to promote and develop social entrepreneurship, the CPU carried out a research project in 2008 called "Social Enterprises in Hong Kong: Toward a Conceptual Model."<sup>29</sup> In the report, the CPU analyzed examples from overseas and identified key elements necessary for a successful social enterprise sector. The CPU determined that the "social investment model" would best suit Hong Kong's needs and context. This model emphasizes that social and economic development should go hand-in-hand in order to create sustainable benefits to all Hong Kong citizens. It urges the Hong Kong Government to carry out social welfare policies that are human capital investment-oriented, such that it can enhance human capacity and ultimately increase the quality and quantity of labor participation in the economy<sup>30</sup>.

## The Social Enterprise Support Unit

The Social Enterprise Support Unit was set up in 2008 under the Home Affairs Bureau to oversee the implementation of these schemes and to raise public awareness of the concept of social entrepreneurship. In addition, under the Home Affairs Bureau, a "Social Enterprise Advisory Committee" was set up in 2010 to mainly advise the government on the formulation of policies and strategies for the promotion and development of social enterprises in Hong Kong.

## The Social Innovation and Entrepreneurship Development Fund (SIEDF)

In March 2013 the government announced that it would introduce a HK\$500million "Social Innovation and Entrepreneurship Fund" as part of a cross-departmental

poverty alleviation initiative. The government's primary objective is to develop innovations that build social capital to alleviate poverty by supporting processes in favor of social entrepreneurship in the criteria of research, capacity building, and innovative programs<sup>31</sup>.

## Gaps

As discussed in the previous section on non-profits, the Hong Kong government treats many non-profits as outsourced welfare service providers instead of long-term partners to address root causes. Some respondents felt the current system is outdated and designed for a Hong Kong from 15 to 30 years ago. In addition, there is insufficient research on international benchmarking and exposure to best practices globally to make its policy framework more responsive to current and future social needs.

Some observers have quipped that the government tends to focus on tackling the symptoms of problems instead of their root and systemic causes. Public consultations also take up too much time because of a perceived risk aversion, particularly on any new policies. As a result, there are insufficient investments in resources for pilot programs, which are necessary for promoting social innovation and entrepreneurship.

Lastly, there is a perception of a heavy focus on internal operations and an apparent lack of inter-departmental collaboration, often resulting in inefficiencies and overlap that do not properly address complex, multi-sector issues like public health, ageing, lack of affordable housing and poverty.

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29. [http://www.cpu.gov.hk/doc/en/research\\_reports/20080421%20Social%20Enterprises%20in%20Hong%20Kong.pdf](http://www.cpu.gov.hk/doc/en/research_reports/20080421%20Social%20Enterprises%20in%20Hong%20Kong.pdf)

30. *Social Enterprises in Hong Kong: Toward a Conceptual Model*, *ibid*, p.91

31. *Market Sounding Exercise: Engaging Intermediaries for the Social Innovation and Entrepreneurship Development Fund*, *Commission on Poverty*



## **SECTION 3:** KEY FINDINGS



## 3.1. CROSS-CUTTING ISSUES

Figure 14. Hong Kong Blended Value Map (with Cross-cutting Issues)



Based on the in-depth issues raised during the initial one-on-one interviews with different key players in each sub-sectors, five cross-cutting issues were identified. These cross-cutting issues are prevalent problems or phenomena that are similar across the different sub-sectors. These issues, which are summarized below, were then validated through our first advisory committee meeting. The issues include:

- **More Cross-sector Collaboration**
  - Hong Kong lacks a culture of knowledge sharing and collaboration, and thus is unable to realize the benefits of cross-sector collaboration in developing the social ecosystem. Also, there is a “siloed” mindset in the ecosystem, where for-profit and not-for-profit sectors rarely collaborate due to the different visions of these sectors.
- **Lack of an Enabling Environment for Social Finance**
  - Currently, there is no organized “clearinghouse” for ideas and philanthropic funding to non-profits and social businesses. There is also a dearth of funding platforms at scale for individuals with an innovative social idea to get started<sup>32</sup>. There is a lack of awareness of the role and importance of the intermediary sector that provides a platform for idea exchange in the social ecosystem.
- **Ambiguous Definitions and Roles of Social Enterprises**
  - Government and non-profit funded social enterprises generally focus on social mission with some earned revenues while privately-funded social enterprises are struggling to get seed funding. As a result, the

<sup>32</sup> InvestHK recently launched the StartMeUp Venture (see <http://www.startmeup.hk/>), with potential support for social enterprises.

perceived success of the sector is uneven and the pipeline for financially self-sustainable social enterprises is weak.

- Locally-appropriate policy and support framework for kickstarting social entrepreneurs, scaling social enterprises and the development of suitable social impact metrics are three key areas still in need of further development.
- **Accountability and Transparency**
  - While most stakeholders recognize the benefits of accountability and transparency to enable them to make informed decisions and performance measurement, there is a lack of leadership in the social ecosystem on this front.

- **Approach and Role of the Government**

- Key players from several sub-sectors have mentioned that the government takes on a more reactive and risk-averse role in policy-making, resulting in spending resources and manpower to tackle symptoms instead of the root causes of social problems. Due to this positive non-interventionist mindset, the government has yet to articulate a shared vision and coherent approach to policy and funding. Instead, it appears to be guided more by political expediency considerations that may be insufficient to address longer-term structural challenges.

## 3.2. PROPOSITIONS

Figure 15. Hong Kong Blended Value Map (with Propositions)



In response to the key cross-cutting issues identified in the one-on-one interviews, practitioners and thought leaders convened in our first two advisory committee workshops came up with a number of preliminary propositions with aims to allow the social ecosystem to prosper and develop. These preliminary propositions were refined to the following five and presented to the third advisory committee workshop for their feedback. The propositions were also validated in the online survey and the workshop participants (see results below). Then these

general propositions were developed into more formal recommendations (See Section 4). The propositions<sup>33</sup> are:

- **Foster Mindset Shifts**

Currently, activities in the social ecosystem take place mostly in separate sector-specific "silos". The effectiveness of initiatives within each sub-sector can be improved by fostering mindset shifts through cross-sector careers, media showcase of initiatives and priorities in other sub-sectors.

**“FAMILY FOUNDATIONS SHOULD BE PREPARED TO TAKE MORE RISKS AS THEY HAVE A HIGHER TOLERANCE FOR FAILURE COMPARED TO CSR AND GOVERNMENT.”**

*RESPONDENT FROM THE FOUNDATION SECTOR*

- **Develop a Vibrant Intermediary Sector**

Intermediary activities including research, funding, incubating, mentoring and advisory services and platforms should be developed. A vibrant intermediary sector to fill cross-sectoral and funding gaps is important to the sustainability of the social ecosystem.

**“A STRONG THIRD SECTOR IS MISSING IN OUR SOCIETY. WE NEED A THIRD LEG TO BALANCE BUSINESS AND GOVERNMENT.”**

*RESPONDENT FROM THE INTERMEDIARY SECTOR*

- **Create Enabling Public Policies**

Policy-making should be intentional, rather than siloed or narrowly defined. It should be informed by, and informing, the broader needs of stakeholders within the social ecosystem. It should also be transparent, responsive and reliable, enabling stakeholders to address long-term structural issues and targeting root causes rather than just taking pragmatic directions as dictated by current political and economic realities.

**“AN ACCEPTING SOCIAL CLIMATE IS NEEDED FOR THE DEVELOPMENT OF SOCIAL INNOVATION.”**

*RESPONDENT FROM THE ACADEMIA SECTOR*

- **Articulate a Shared Vision for Hong Kong’s Future**

The government should articulate a clear and consistent vision to serve as guideposts to allow other sub-sectors to better shape their roles in the social impact landscape.

**“HONG KONG DOESN’T KNOW WHERE THE CITY IS HEADING.”**

*RESPONDENT FROM THE INTERMEDIARY/GOVERNMENT SECTOR*

- **Develop Appropriate Impact Metrics**

Efforts to measure and evaluate social impact are currently ad-hoc and inconsistently conducted, if at all. Small-scale pilot initiatives are good starting points for developing locally-appropriate impact metrics in Hong Kong to encourage development of social outcome indicators rather than social output goals.

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33. Note that the summary findings and propositions were formed prior to the SIEDF process and the authors factored in related implications to the extent applicable

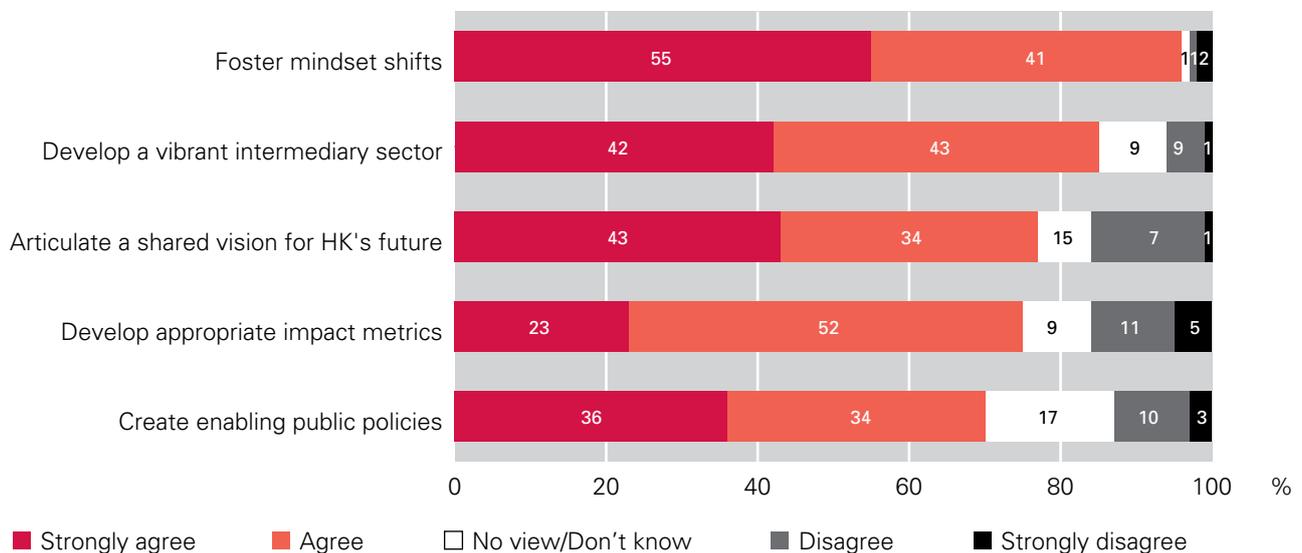
**“UNIVERSITIES AND RESEARCHERS CAN HELP DEVELOP BENCHMARKS WHICH ARE USEFUL FOR DONORS.”**

*RESPONDENT FROM THE FOUNDATION SECTOR*

**“THERE SHOULD BE AN OBJECTIVE WAY TO MEASURE HOW MUCH GOOD [ORGANIZATIONS] ARE ACTUALLY PRODUCING.”**

*RESPONDENT FROM THE PRIVATE SECTOR*

Figure 16. Online Survey Respondents' View on Propositions



The percentage of respondents who agreed with our 5 propositions ranges from 69-96% (those who strongly agree range from 23-55%).

Fostering mindset shifts and creating a vibrant intermediary sector enjoyed the two highest levels of approval.



## **SECTION 4:** RECOMMENDATIONS

We adapted the propositions to make it pragmatic in the local context. To this end, we put forward five specific recommendations to address the gaps in Hong Kong's social ecosystem. Please note that the recommendations listed below do not bear a one-to-one correspondence with the propositions.

Figure 17. Blended Value Map (with Recommendations) – Adapted for Hong Kong

Sub-sectors	Methodology	Cross-cutting Issues	Propositions	Recommendations
Academia	Face-to-face Interviews	Cross-sector Collaboration	Foster Mindset Shifts	Foster Cross-sector Dialogue and Collaboration
Private/Corps/SMEs		Enabling Environment for Social Finance	Develop a Vibrant Intermediary Sector	Focus on Both Social And Economic Benefits
Foundations/Charitable Trust	Thematic Analysis	Definition and Role of Social Enterprises	Create Enabling Public Policies	Create Clearinghouses for Ideas and Capital
Intermediaries	Group Workshops			
Non-Profits	Online Survey	Accountability and Transparency	Articulate a Shared Vision for Hong Kong's Future	Promote Greater Accountability and Transparency
Social Enterprises	Desktop Research	Approach and Role of the Government	Develop Appropriate Impact Metrics	Encourage Enabling Role of Government
Government	Leadership Case Studies			

The recommendations are:

- 1) Foster cross-sector dialogue and collaboration,
- 2) Focus on both social and economic benefits,
- 3) Create clearinghouses for ideas and capital,
- 4) Promote greater accountability and transparency, and
- 5) Encourage enabling role of government.

## 1. FOSTER CROSS-SECTOR DIALOGUE AND COLLABORATION

Stakeholders from all sectors lamented that fragmentation and “siloed” approaches have often resulted in narrowly-defined goals, duplicative efforts, lack of information sharing and missed opportunities to address social issues. They also stressed the importance of giving greater visibility to role models and examples of successful collaborative efforts to catalyze more collaboration.

Even though the long-term benefits of cross-sector partnerships are broadly recognized, most stakeholders do not feel obliged to be “first movers” for fear of being perceived as having self-serving agendas. As a result, they remain focused on achieving their organizational goals within their own silos, while keeping their philanthropic activities private or for public relations use only.

Another impediment to cross-sector collaboration is a shortage of senior leaders who are comfortable working across sectors to enable their organizations to be responsive to future challenges in Hong Kong.

**“THERE IS A LACK OF INTEREST ON OTHERS’ PART IN COLLABORATING AND A LACK OF DIRECTION FOR THE COLLABORATION.”**

*RESPONDENT FROM THE FOUNDATION SECTOR*



## Action Steps for Recommendation #1: Encourage Cross-sector Collaboration by:

### (a) Promoting Cross-sector Careers and Leadership Opportunities

The old paradigm of a linear career path within a chosen sector is becoming increasingly irrelevant in our globalized world. The complex problems faced by Hong Kong require solutions that have to balance multidisciplinary factors that cut across fields like finance, the social sciences, design and urban planning, the environment and public policy to name just a few.

However, the number of professionals with such multidisciplinary training is small. Most of them would have acquired these skills by working extensively across the public, private and other civil society sectors. Hong Kong desperately needs more of such “multi- or tri-sector athletes.”

Universities can help train current and future leaders by developing field-based initiatives within their existing curricula that promote interdisciplinary and

**“WE NEED MORE YOUNG PEOPLE TO JOIN THE ‘CARING’ PROFESSION”**

*RESPONDENT FROM THE NON-PROFIT SECTOR*

on-the-ground cross-sector expertise. Encouraging secondments and externships for civil servants, social workers and corporate employees to experience working in different sectors could be another way to enhance such training.

We also need programs - showcased by appropriate media coverage and preferably endorsed by government - to promote and showcase role models depicting cross-sectoral leadership. Because Hong Kong is such a high-cost city, parents and their children face huge peer and economic pressures to take a “safe” path to make money, which unfortunately reinforces existing silos. Showcasing examples of individuals who are successfully engaging in cross-sectoral career paths can go a long way in broadening young people’s perspectives and revitalizing their “hope” in making a difference in society.

Private foundations and the Hong Kong government should consider introducing fellowships to incentivize Hong Kong’s brightest students to choose careers in public service or in organizations with clear public or social benefit. International programs such as the highly selective Teach-for-All network have proved effective in attracting talent in public or social service.

**“THERE ARE LIMITED WAYS FOR THE VARIOUS SECTORS TO COMMUNICATE AND COLLABORATE - THEY ARE AD HOC.”**

*RESPONDENT FROM THE PRIVATE SECTOR*



Pay is another critical issue that needs to be addressed. Although civil servants in Hong Kong are well paid relative to the private sector, most non-profit salaries are significantly below their private sector counterparts. Similar pay gaps exist in other countries, but in a high-cost city like Hong Kong they systematically keep talent away from the public and non-profit sectors. “Blended” careers that combine financial and social returns could perhaps help to narrow this pay gap.

**(b) Creating a Network of Co-working Spaces**

To foster greater collaboration among individuals across sectors, lessons from overseas suggest that it would be helpful if there were more co-working spaces that could provide such opportunities. However, we find it unfortunate that almost every grant-making body with which we spoke had restrictions from funding rental expenses in a city known for its high real estate costs. In such a context, a network of affordable and conveniently located co-working spaces would be instrumental

**“PARENTS ARE A BIG BARRIER [TO STUDENTS WHO WANT TO START A CAREER IN THE SOCIAL ENTERPRISE SECTOR] BECAUSE OF FEARS THAT IT COULD NOT PROVIDE SUFFICIENT INCOME SECURITY NOR OBSERVABLE CAREER PROSPECTS.”**

*RESPONDENT FROM THE ACADEMIA SECTOR*

in bringing like-minded individuals and organizations from different backgrounds and sectors together to network and exchange ideas, potentially incubating innovative solutions that would otherwise not be possible.

Such a network could conceivably include a consortium of entities from the government, academia, the private and non-profit sectors to offer their under-utilized or off-peak hour premises to host these platforms. Group and individual use of these spaces would of course need to meet certain requirements and be in accordance to shared community goals. The Metropolitan Government of Seoul, for example, has already begun taking steps in this direction by making more of its facilities available for public use on weekends and evenings. Our government could help to facilitate such steps by addressing potential liability and insurance issues under current regulations.

Some specific suggestions could include the use of:

- Government offices and meeting spaces after office hours,
- Under- or unused spaces or premises currently leased to non-profit organizations that provide only limited access to the public,
- Private sector landlords to lease out their under-utilized space,
- Universities and schools in centrally located areas opening up their classrooms for specific events during study weeks and term breaks,
- Restaurants owned or subsidized by the government and non-profits that are only frequented during lunch hours,
- Rooftops of government buildings, including parking lots.



We are certain that there are many more examples of government-controlled space that can be utilized for such purposes. We hope the government considers undertaking a study to explore all potential venues and design viable solutions. Having the government take the lead in finding innovative solution to such a fundamental problem will surely also spur the private sector in examining and coming up with their own contribution.

**(c) Developing Alternatives to Mainstream Media in Showcasing Socially-oriented Initiatives Addressing Target Social Issues**

A recurring theme from our discussions was the role of the media in promoting social innovation and cross-sector collaboration. Too often the mainstream media highlights problems to satiate the public's appetite for sensationalism. Not surprisingly, government actors go out of their way to avoid being the subject of negative reporting, and unfortunately this also means that they are reluctant to try new or innovative approaches to solve social issues for fear of failure.

Although we did not incorporate the media into our seven sub-sectors, it plays an increasingly significant role in shaping the public's awareness and understanding of the "doing good" space. This is why it is essential that organizations across all sectors learn to work with media to raise awareness of what's being done well and what still needs to be addressed in the social ecosystem.

**"THE GOVERNMENT AND SOME NON-PROFITS USE MEDIA PLATFORMS SUCH AS SOCIAL MEDIA, ONLINE PORTALS AND VIDEOS TO PROMOTE PUBLIC AWARENESS AMONG YOUNG PEOPLE BECAUSE THESE TOOLS ARE APPEALING TO THE TARGET GROUP."**

*RESPONDENT FROM THE GOVERNMENT SECTOR*



**“WE NEED A MAINSTREAM PRESS THAT PROVIDES CONSISTENT, BALANCED AND POSITIVE VIEWPOINTS. IT IS VERY POLARIZED/EXTREME AT THE MOMENT, AT LEAST AMONG THE DOMINANT MEDIA SOURCES WHICH THE ‘POST 80S’ GENERATION ACCESSES.”**

*RESPONDENT FROM THE NON-PROFIT SECTOR*

True innovation can only happen if we are willing to take risk and accept that failure is part of the learning process. A recently formed social enterprise called Solution on Wheels is already trying to reshape public discourse through its solution-based approach to journalism by showcasing stories of everyday people who are doing their part to build a better Hong Kong. We urge the mainstream media to play a more socially-responsible role in shaping the words and images that impact our social ecosystem.

## **2. FOCUS ON BOTH SOCIAL AND ECONOMIC BENEFITS**

A majority of stakeholders with whom we spoke believed that most people in Hong Kong perceived the goals and objectives of the for-profit and non-profit sectors to be diametrically opposed. Given this context, respondents agreed that there is an urgent need to adopt a more “blended value” or “double- or triple-bottomline” approach to building the social ecosystem; however, some important challenges persist, including: 1) a generally loose understanding of terms like “social enterprise” and “impact investing”, 2) disjointed legal and policy frameworks governing the non-profit and for-profit sectors, 3) a dearth of relevant education, training and capacity, and 4) the lack of knowledge about impact metrics and performance measurement tools.

The government’s current working definition of social enterprise for purposes of grant applications requires them to be either non-profit organizations or projects/ subsidiaries of non-profits. This has led the public to believe that social enterprises function in the same way as non-profits, a perception that is stifling the development of the social enterprise sector. Prior to the SIEDF launch, the government had insisted that it cannot grant public money to for-profit endeavors. However, such thinking could in fact be myopic. The government should be focusing on appropriately supporting social enterprises that generate positive outcomes meeting their policy goals. If the social enterprise can make a profit while doing this, then it should be hailed as a good role model. We hope both the government and the intermediaries who seek funding from SIEDF will be able to support truly innovative programs and capacity building initiatives as intended by the Fund’s objectives.

Finally, respondents stressed the importance of stepping up educational and capacity-building efforts to promote the growth of the social enterprise sector. It was highlighted that local business schools have been slow in offering courses in impact investing and social entrepreneurship, while most social science faculties have continued to focus only on social welfare. We hope both the government and



the intermediaries seeking funding from SIEDF will be able to support truly innovative programs and capacity building initiatives as intended by the Fund's objectives.

### Action Steps for Recommendation #2: Seek and Identify Both the Social and Economic Impact of Activities across Sectors by:

#### (a) **Fostering a Mindset Shift towards a Blended Value Approach that Incorporates Positive Social, Environmental Impacts in Addition to Financial Sustainability Goals**

In our EngageHK online surveys, fostering a mindset shift was ranked first among five propositions, specifically: nurturing stronger social and environmental values, fostering a culture of risk-taking and a willingness to collaborate across sectors that needs to start with young people through their university and early work experience. Similarly, foundations, corporates, social enterprises and non-profits can partner with schools and intermediaries to integrate service and field-based learning and volunteerism into the mainstream curriculum.

Even though many corporations are focusing more attention on scaling their corporate social responsibility (CSR) initiatives, we find that the norm remains that of maximizing financial returns while complying with the minimum required reporting obligations. As a result, CSR initiatives are often side activities with little engagement from top management, and philanthropic activities are frequently used for branding and public relations purposes. Such mindsets are in urgent need of change. Leading corporations should fund not only projects, but also organizations that generate positive outcomes rather than those that garner the greatest brand visibility. Companies need to explore how they can contribute to solving societal challenges through various avenues including leveraging their own core business skills and practices, utilizing their internal resources and developing their corporate culture.

#### (b) **Developing and Supporting a Hybrid Sector that Explicitly Combines Social, Environmental and Economic Impact Goals**

Respondents overwhelmingly agree that Hong Kong needs to work towards developing new organizational models and establishing a hybrid sector that systematically seeks both economic and social impacts.

For example, the creation of funds and organizations similar to Big Society Capital and NESTA in the United Kingdom could go a long way in facilitating the development of these new models and entities by advocating for new legislation and regulations. To adapt such initiatives to the local Hong Kong context, we recommend that a study be commissioned (by the government or a grant-making foundation) to understand what financial and legal regulations are required in principle, and the possibility of establishing Hong Kong equivalents of benefit corporations, low profit limited liability companies (L3Cs) and community interest companies (CICs).

**“CREATE A CULTURE OF SOCIAL INNOVATION AT DIFFERENT SOCIAL SECTORS TO ADDRESS VARIOUS SOCIAL ISSUES.”**

*RESPONDENT FROM THE INTERMEDIARY/NON-PROFIT SECTOR*

### 3. CREATE CLEARINGHOUSES FOR IDEAS AND CAPITAL

An increasing number of non-profits have begun to diversify their funding streams, including starting social enterprises to buffer against reduced government subventions. Due to their historical dependence on grant funding, many of these organizations have found it challenging to have the necessary human capital and management skills to sustain and scale their operations. Funders, including the government, have to date underestimated the role and importance of the intermediary sector in developing this infrastructure and supporting the ecosystem.

Just like in the broader economy, a vibrant social ecosystem requires a network of collaborative intermediaries to provide various services to non-profits, social enterprises, foundations, businesses, government and investors. Among others, these services include advisory, financing, research, ratings, training and mentorship. Intermediaries can also play an important role in bridging gaps within their sectors, in addition to across sectors, by providing a platform for people to network and exchange ideas.

#### Action Steps for Recommendation #3: Create Platforms to Source Ideas and Resources across Sectors by:

##### (a) Developing a Robust Intermediary Sector that Attracts Cross-sector Talent and Innovation

In general, we observed that there are three types of intermediaries:

1. Organizational capacity building and business development focused, which frequently includes advocacy and policy research.

**“A STRONG THIRD SECTOR IS MISSING IN OUR SOCIETY. WE NEED A THIRD LEG TO BALANCE BUSINESS AND GOVERNMENT.”**

*RESPONDENT FROM THE INTERMEDIARY SECTOR*

2. Education and skills training focused, such as those established by universities that teach social enterprises and entrepreneurship including Project Flame at City University of Hong Kong and ExCEL3 at University of Hong Kong
3. Financing support focused – both philanthropic grants as well as investments such as equity and loans. For grants there are intermediaries for venture philanthropy, which is a highly engaged form of charitable giving, often incorporating principles of venture capital that involve advisory and other capacity-building support in addition to financing. Some intermediaries support start-ups by providing advice and seed capital.

To understand where Hong Kong can aspire towards in building an intermediary ecosystem, we can compare the city’s current landscape with that of the United Kingdom. The reason we chose the UK is the latter’s decades-long track record in developing this space more so than we find in the United States.

As an illustration (see Figure 18), the intermediary sector supporting social enterprises in the UK is mature with funding and other resources available to social enterprises throughout the different stages of development.

In contrast, Hong Kong’s intermediary support for social enterprises (see Figure 19) is highly fragmented and with significant support and funding gaps. To enable organizations to scale, Hong Kong would need a similar combination of intermediary support. We urge the government to commission an in-depth research to identify the types and levels of intermediation and funding gaps along this spectrum. Such an analysis would enable stakeholders identify areas where they can best leverage their resourcing and support.

Figure 18. UK Intermediaries Supporting Social Enterprises

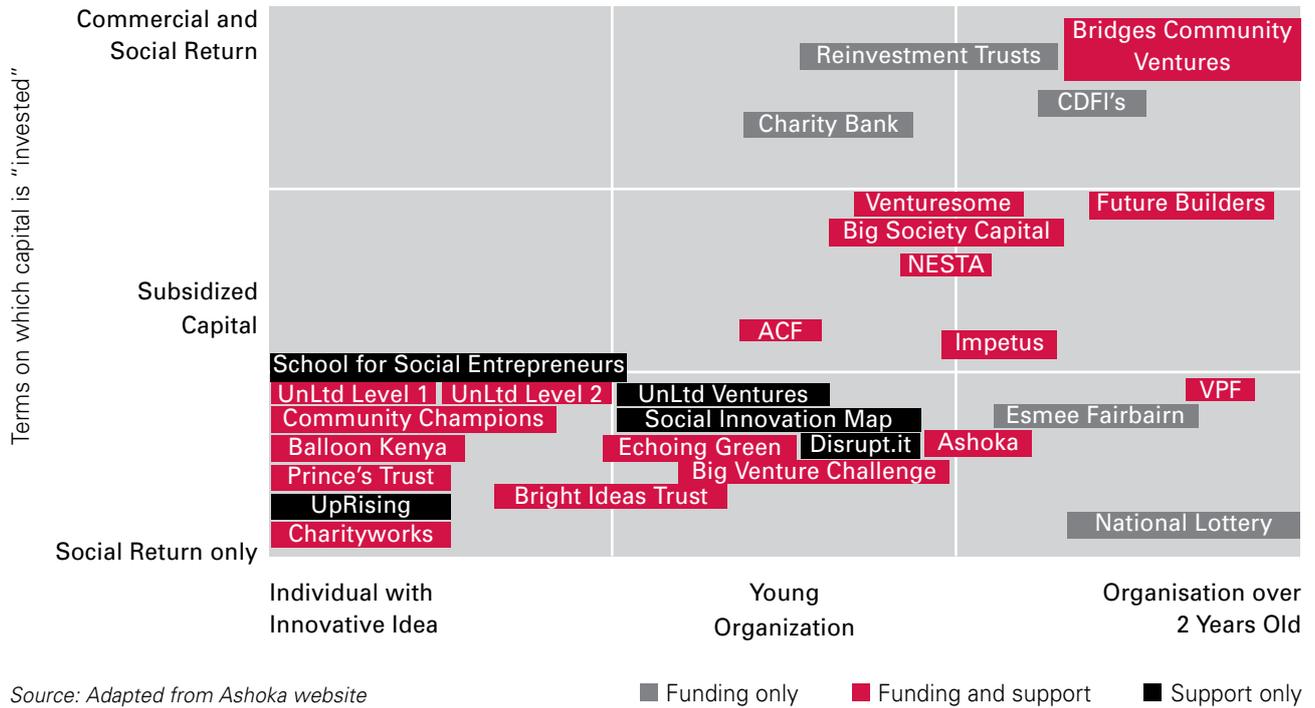
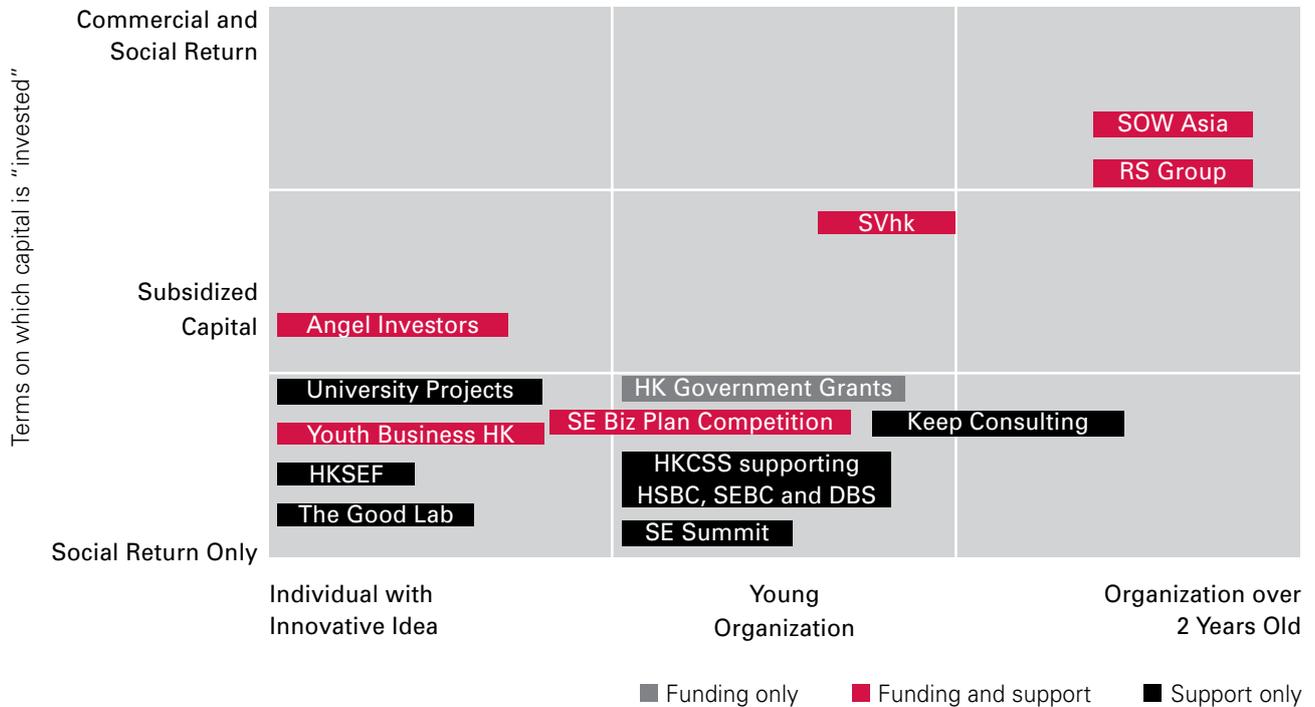


Figure 19. Hong Kong Intermediaries Supporting Social Enterprises\*



## **(b) Encouraging All Sectors to Support Intermediaries**

In November 2012, Mrs Carrie Lam, Hong Kong's Chief Secretary for Administration, announced the creation of a HK\$500million Social Innovation and Entrepreneurship Development Fund (SIEDF) as a first step towards the creation of a vibrant, innovative ecosystem to address Hong Kong's social challenges. At the time of this writing, the task force for the SIEDF has issued a Market Sounding Exercise for organizations interested in serving as intermediaries to define broad terms of engagement for the use of the fund in support of the main objectives.

Though it is outside the scope of this report, there are several possible means by which the SIEDF can move forward based on experiences from other countries. Specifically, we believe that this fund will be best leveraged if used to provide grant or matching funds to establish new or support existing intermediaries. Care should be taken so that initiatives supported by the SIEDF complement, rather than duplicate, other funds that focus more on direct poverty alleviation such as the HK\$15 billion Community Care Fund.

In terms of fund design, the SEIDF can adapt and learn from the efforts of other governments, such as the United Kingdom's Big Society Capital and NESTA, with the goal of providing catalytic capital to fund intermediaries that would then encourage more and new private capital. Using this approach, the HK\$500 million could potentially attract billions more dollars of private capital to fund the growth of innovative companies that are both financially viable and socially impactful.

## **4. PROMOTE GREATER ACCOUNTABILITY AND TRANSPARENCY**

Foundations, charitable trusts and wealthy individual donors tend to give discreetly partly due to cultural reasons and partly to avoid being cold-called by grant-seeking entities. However, our EngageHK respondents in these sectors have also expressed that this unwillingness to share their focus areas and grant-making processes have created duplicative efforts by non-profits in writing grant proposals at the expense of executing their missions.

Moreover, with the funders' historical focus on project funding rather than capacity building support (i.e. overhead is "bad"), non-profits adapted by systematically creating projects. As a result, non-profits and social enterprises tended to focus less on developing talent and their careers progression. Thinking strategically about how the organization can develop and adapt to meet new challenges is a luxury rather than a necessity. This reinforces a vicious cycle of continued dependence on more fundraising as well as hindering these organizations from scaling their capacity and impact.

Among the government-subsidized non-profits, competition for finite government subventions has discouraged information sharing and collaboration among organizations. There is no publicly-accessible data platform that allows different players to share and exchange ideas about their activities and efforts in the sector.

In fact, insufficient transparency and accountability in the use of donated funds, in addition to relatively little regulation and often no annual review, are creating issues of mistrust between non-profits, the government and donors. Approval processes for government subventions often lack transparency and contain many restrictive requirements that tend to disadvantage many small or new non-profits unfamiliar with the unwritten rules.

**"THE GOVERNMENT IS NOT TRANSPARENT IN ITS CALCULATION OF ITS LUMP SUM GRANT BUDGET."**

*RESPONDENT FROM THE NON-PROFIT SECTOR*

Many stakeholders stressed the importance of appropriate impact metrics to facilitate transparency and accountability among the different players.

**“EVERYONE LIKES TO WORK ON THEIR OWN.”**

*RESPONDENT FROM THE INTERMEDIARY/GOVERNMENT SECTOR*

**Action Steps for Recommendation #4: Promote Efforts to Strengthen Accountability and Transparency by:**

**(a) Developing User-relevant Impact Metrics to Facilitate Sharing and Benchmarking of Results across Sectors**

While a number of respondents indicated that the academic sector is best positioned to initiate research in impact metrics, we believe they might not be fully incentivized to conduct this work in a truly cross-sectoral manner on their own. Rather, research should be led by appropriate intermediaries with government support via matching grants to better align incentives towards metrics with stronger cross-sectoral relevance.

We believe impact measurement standardization may not be viable for Hong Kong at this stage given the nascent awareness and dearth of high quality data. Instead, small-scale pilot initiatives focusing on impact metrics research, whether sector- or issues-specific, are good starting points to maintain flexibility and reduce political risk of failure. It is important too for such initiatives to have a rigorous process for gathering evidence of impact across the range of initiatives pursued.

**(b) Establishing a Cross-sector Platform for Government and Other Sectors to Share Best Practice Ideas, Data and Resources**

Our inaugural Impact Investing Forum held in March of this year highlighted the benefits of sharing best practices within government departments and across national boundaries. For the Hong Kong government, such dialogue provides useful case studies and translates to lower risk since we are able to learn from the experience of others. Adapting existing and successful programs from other countries is easier and less risky than embarking on programs that are totally new.

**(c) Engaging with Professional Services Firms and Intermediaries to Collaborate on Research Devising an Integrated Reporting Framework Suitable for Hong Kong**

Intermediaries and professional services firms, especially those providing accounting, legal and ratings services, are best positioned to introduce more inclusive reporting standards that capture the social and environmental impact of companies' activities. This additional layer of reporting should not be viewed as additional costs. Instead, investors will most likely welcome such increased transparency in line with greater accountability expectations by the community, in turn leading to increased shareholder value.





## 5. ENCOURAGE ENABLING ROLE OF GOVERNMENT

While it is natural for incumbent governments to avoid political risks, the Hong Kong situation in recent years has, according to a number of our respondents, become significantly more risk-averse to investing resources in new ideas or untested programs. It is not clear how much of the factors are internally- versus externally- influenced. Some respondents lamented that the government has become more “gun-shy” in introducing bold reforms to address pressing social challenges, perhaps, because of concerns on how the media might portray them.

Our respondents have also noted the government has often focused on addressing the symptoms rather than attacking the root of a social problem. One example is the controversial HK\$6,000 cash handout to the city’s 6.1 million permanent residents aged 18 or above in 2011 after Financial Secretary John Tsang bowed to public pressure amid a large budget surplus. With HK’s budget surplus, the HK\$6,000 is an example of a wasted opportunity for the government to be bold in sticking its neck out to address one or two pressing social issues.

Furthermore, given Hong Kong’s prominence as a global financial hub, there is a perception among our respondents that many government policies are geared towards maintaining this status - favoring economic over social development. One example is a lack of a population policy, which fosters greater uncertainty about adjacent policy roadmaps such as immigration, urban design and poverty indicators in a context of a rapidly aging population and worsening rich-poor divide.

**“THE GOVERNMENT WELFARE POLICY IS LACKING IN LONG TERM PLANNING AND DETAIL. GOVERNMENT IS REACTIVE AND IMPLEMENT AD HOC POLICIES TO TACKLE ISSUES THAT COME UP.”**

*RESPONDENT FROM THE NON-PROFIT SECTOR*

**Action Steps for Recommendation #5: Redefine the Government’s Role as an Enabler and Innovator by:**

**(a) Expanding Hong Kong’s Financial Hub Status to Include Social Finance and Innovation**

Hong Kong is well placed to grow into an international social finance and innovation hub due to its cultural and geographic proximity to Mainland China and to some degree the rest of Asia. For example, expanding the mandate of InvestHK to promote Hong Kong as a regional headquarters for social purpose organizations, including social enterprises and non-profits, could attract global talent focused on social innovation benefiting Hong Kong and the rest of the region.

The government should build on the momentum generated from the recently announced HK\$500million SIEDF to leverage the fund’s design, charter and processes to signal to the broader sector



its strong resolve to innovate and foster an enabling policy environment. This new fund must demonstrate that it is not business as usual by supporting new players and resisting overtures from incumbent players attempting to exert undue control over the fund's mission and scope.

**(b) Promoting Social Innovation and a Risk Taking Mindset within the Government**

Forward-looking agencies within the government such as the Efficiency Unit should perhaps be renamed The Office of Social Innovation, with a mandate to promote social innovation within the government and take on a coordinating role to ensure that all government departments work together with minimal overlap. It should also be informing and informed by developments and priorities of other sectors to encourage the crowding-in of funding and resourcing from other sectors towards social innovation. These agencies should also be encouraged to support and work with credible intermediary partners to support a large number of pilot programs with the understanding that many of them might not work. Those projects that do work can then be provided additional funding with possible matching funds from the private sector to scale their impact.

**(c) Ensuring Internal Consistency within Various Government Regulations and Policies in Supporting Social Innovation and Impact Economy**

Besides the work of SIEDF to promote social innovation and entrepreneurship, the recently shelved Charity Law Reform needs to be revived and a Charities Commission formed. This commission should take an expansive remit beyond its regulatory role to promote best practices, such as harnessing the experience and energy of mid-career professionals who are trying to pursue second



careers at the nexus of business and philanthropy. Another area is to educate foundations on the role of charitable grants to support the growth of early stage social enterprises.

Going forward, a more permanent commission on social innovation and impact economy could provide an enabling policy context where various sectors could collaborate in areas where they overlap, such as corporate social responsibility, social enterprise and impact investing.

**“GOVERNMENT WOULD ONLY  
STEP IN WHEN THEY SEE  
SUCCESS.”**

*RESPONDENT FROM THE  
FOUNDATION SECTOR*



## SECTION 5: GOING FORWARD

Our initial plan was to conduct a mapping exercise of the Hong Kong social space as dispassionate observers, even “outsiders.” But somewhere along the way our EngageHK journey took an unexpected turn. The context shifted because the process of mapping evolved into a deeper course of discovery for both individual players and the social space as a whole. EngageHK encouraged people to leave their silos and share their experiences; a few participants also encouraged us to provide the community with a voice that had been missing. This discovery, along with the encouragement of RS Group and the Rockefeller Foundation, eventually led to the establishment of a new independent, non-profit organization called Asia Community Ventures so that we can continue the work of EngageHK.

In closing we also wish to share five observations:

## 1. CLOSED CULTURE AND RELUCTANCE TO SHARE KNOWLEDGE

Many of the corporations, foundations and family offices we interviewed have done excellent work, but most of them expressed a desire to be discreet. Modesty might be a desired Asian trait but without knowledge sharing (on both good and bad projects), the entire social ecosystem suffers. This reluctance to share unfortunately even extended to a number of institutions claiming to promote social good, which were unwilling to be interviewed or help distribute our online survey.

## 2. ALLOCATION OF FUNDING IS POLITICALLY EXPEDIENT AND DOES NOT ALIGN WITH REAL NEEDS

Recent demands brought on by rapid socio-economic changes, including rising public expectations, deepening income inequality, an ageing population and environmental degradation, do not appear to be adequately addressed by the players in the sector. Allocation of funding does not necessarily align with the real needs in society, especially because most organizations do not really know where the critical needs are. For instance, conversations on how to improve our environment are notably lacking given that the bulk of the efforts we observed relate to social issues. As one participant wryly noted, "People vote; trees don't." More balance is definitely required since Hong Kong needs both social and environmental sustainability to prosper.

## 3. THE MISSING MIDDLE

Social entrepreneurs often complain they are not able to find money to fund their early stage endeavors. Impact investors frequently talk about the challenges of finding enough "investment ready" social enterprises. Researchers refer to this gap as the "missing middle" and creating a network of intermediaries to bridge the divide between entrepreneurs and investors is often cited as the one of the key steps towards building a vibrant social ecosystem. For Hong Kong though, this situation is paradoxically complicated by the fact that our government has no shortage of funds. In countries like the United Kingdom and the United States with their budget deficits, the

government has no choice but to encourage the private sector to join hands in coming up with solutions to solve social and environmental issues. Hong Kong's challenge is how to promote social innovation and entrepreneurship when public funds are earmarked for the various government departments and large non-profits tasked with addressing environmental issues and providing social welfare services. The creation of SIEDF is a first step in the right direction towards this end.

## 4. INERTIA & LACK OF ACTION

Despite its prosperity and high standard of living, Hong Kong's social and environmental engagement still lags behind many advanced cities. People in Hong Kong are self-starters in maximizing private gains but many tend to wait for the government to take the lead to address social and environmental inequities and will follow only when required. This mindset needs to change. Well-written research pieces on various sub-sectors have been produced in the past, but few recommendations have been implemented. We truly hope our current mapping initiative, especially given our multi-sector emphasis on collaboration, will not suffer the same fate.

## 5. NEED FOR MORE NEW PLAYERS

As a community, we need to rethink whether the current culture of primarily having careers with the larger and more established organizations is the way to promote social innovation and entrepreneurship. We are not saying that there is no place for experience and tradition. But we need to be cognizant that innovations, whether in policies, technologies or services almost always come from outsiders challenging the status quo. We need to step out of our silos and look instead at the nexus of government, business, civil society and academia for better ways to collaborate and encourage incumbent and new players alike to work collaboratively for a better Hong Kong.

We are encouraged by the increasing number of people interviewed who understand the need to approach societal challenges holistically with a view to creating, combining and sharing value from every sector that contribute to the progress of Hong Kong.

Time is running out. We must now move quickly beyond discussion to action. The gaps we identified must be bridged or Hong Kong will risk losing its competitiveness and falling behind other global cities.

# APPENDICES

## Appendix 1 – Abbreviations

Abbreviations	Full Name
ACF	Association of Charitable Foundations
ASrIA	Association for Sustainable & Responsible Investment in Asia
CC	Community Chest
CDFIs	Community Development Finance Institutions
CI	Community Investing
CE	Community Engagement
CICs	Community Interest Companies
COP	Commission of Poverty
CPU	Central Policy Unit
CSR	Corporate Social Responsibility
DBS- HKCSS SE Grants	Development Bank of Singapore – Hong Kong Council of Social Service Social Enterprise Grant
EFG	Education for Good
ExCEL3	Excellence in Capacity-building on Entrepreneurship and Leadership of the Third-sector
HKCSS	Hong Kong Council of Social Service
HKCSS-HSBC SE Biz Center	Hong Kong Council of Social Service – The Hongkong Shanghai Banking Corporation Social Enterprise Business Center
HKSEC	Hong Kong Social Enterprise Challenge
HKSEF	Hong Kong Social Entrepreneurship Form
HKUST-CEN	Hong Kong University of Science and Technology China Entrepreneurship Network
JCCT	Jockey Club Charities Trust
JCDISI	Jockey Club Design Institute for Social Innovation
L3Cs	Low Profit Limited Liability Companies
MaD	Make a Difference
MNCs	Multinational Corporations
NESTA	Nesta Operating Company
NGOs	Non-Governmental Organizations
Proj Flame	Project Flame – Social Innovation & Entrepreneurship @ City University
SE Summit	Social Enterprise Summit
SEs	Social Enterprises
SIEDF	Social Innovation and Entrepreneurship Development Fund
SMEs	Small and Medium Enterprises
SOW Asia	SOW Asia Foundation
SPOs	Social Purpose Organizations
SRI	Sustainable and Responsible Investing
SVhk	Social Ventures Hong Kong
UnLtd	UnLtd – The Foundation for Social Entrepreneurs
VPF	Venture Partnership Foundation

## Appendix 2 – Comparison of Funding Recipients of the Hong Kong Government, the Jockey Club Charities Trust and the Community Chest in Annual Year of 2012/2013

	Name of the NGO Recipients	Social Welfare Department Subvention Allocation 2012-2013 (HK\$)	Jockey Club Charities Trust Community Service Donations (Project Based and Others) 2012-2013 (HK\$)	Community Chest Baseline Allocation to Member Agencies 2012-2013 (HK\$)
1.	Tung Wah Group of Hospitals	841,249,561	27,043,000 (#4)	No
2.	Caritas Hong Kong	747,293,194	50,195,000 (#3)	8,269,300 (#1)
3.	Hong Kong Sheng Kung Hui Welfare Council	491,243,842	1,064,000 (outside top 10)	2,388,000 (outside top 10)
4.	Po Leung Kuk	431,323,019	No	No
5.	Salvation Army, The	313,652,284	2,082,000 (outside top 10)	3,096,500 (outside top 10)
6.	Yan Chai Hospital	276,019,158	No	No
7.	Hong Kong Christian Service	265,339,920	1,622,000 (outside top 10)	5,849,100 (#3)
8.	SAHK	255,535,572	14,126,000 (#6)	4,735,500 (#7)
9.	Fu Hong Society	251,436,089	2,620,000 (outside top 10)	No
10.	Boys' & Girls' Clubs Association of Hong Kong, The	237,445,641	2,671,000 (outside top 10)	No

The numbers in parentheses in the columns referring to Jockey Club and Community Chest represent the ranking in terms of magnitude of funding within each organization

Source: HKSAR: Social Welfare Department - Subvention Allocation (Lump Sum) 2012-2013, <http://www.swd.gov.hk/doc/ngo/LSGSC/listngosub2013-14.pdf>; Project Grant 2012/13, Hong Kong Jockey Club, [http://corporate.hkjc.com/corporate/common/chinese/images/operation/HKJC\\_AR2012\\_FullVersion.pdf](http://corporate.hkjc.com/corporate/common/chinese/images/operation/HKJC_AR2012_FullVersion.pdf); Baseline Allocation 2012/13, Community Chest, <http://www.commchest.org/en/about/pdf/annual/1112/17.pdf>

## Appendix 3 – EngageHK Online Survey Results

Respondents were asked their views on our various propositions and recommendations, as well as the obstacles/challenges we would face in implementing these recommendations. A total of 88 people completed the online survey, which was supported on a pro-bono basis by The Nielsen Company, a global market research firm.

### A. Invitational Email

Dear EngageHK supporter,

It has been a while since we last engaged with you either in a one-on-one setting or at one of our advisory committee/focus group meetings. We are writing to you as a key member of the Hong Kong community to participate in a short online survey as well as to help in forwarding on to your corresponding organizations or industry contacts.

To recap, the EngageHK initiative, with funding support from RS Group, a private Hong Kong family office, has embarked on a community-wide initiative to map the social economy\* in Hong Kong by engaging a diverse group of stakeholders to define the range of capital and other resources available. Currently, newer terms such as "social enterprise", "venture philanthropy", and "impact investing" have become buzzwords alongside existing ones like "corporate social responsibility" and "sustainability" to describe a range of activities seeking to address social,

environmental and economic challenges. These are reflected by the number of individuals and organizations in Hong Kong launching initiatives seeking to define these terms, and their associated values and policies. Unfortunately, these initiatives are often fragmented, resulting sometimes in missed opportunities, incomplete public discourse and wasteful activities limiting their overall social impact and success.

How can you help? We would like you and your contacts to take part in an online survey that will be sent to you in a separate email. This survey will be conducted by Nielsen Company\*\*, a market research firm, that has voluntarily agreed to assist in the process to ensure objectivity. This survey will take about 10 to 15 minutes to complete. Any opinions you share will be kept strictly confidential and only reported as part of aggregated results, unless you elect to make personal comments attributable. As a token of our appreciation, a copy of the report will be sent to you upon request.

We hope this survey will allow stakeholders in Hong Kong to validate local approaches, resources, emerging practices and thinking in such areas as social innovation and the use of capital markets for financing the social sector. The survey will also articulate opportunities - and make recommendations - for future work to advise the social sector in Hong Kong.

Thank you in advance for your thoughts and inputs toward creating a better and more sustainable Hong Kong. If you have any questions about the online survey, please contact the Co-Convenors at [convenors@engagehk.org](mailto:convenors@engagehk.org).

Sincerely,

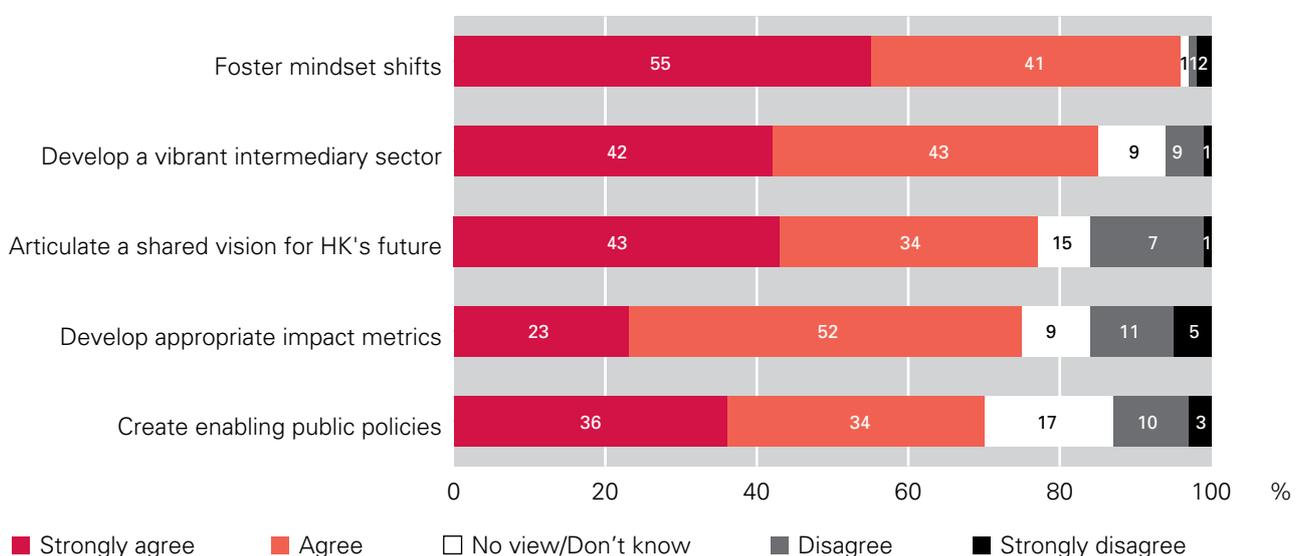
*Philo Alto and Ming Wong*  
Co-Convenors,  
EngageHK

\* "Social economy" is a broad description of the various sectors, its players and institutions, which directly or indirectly address common social and environmental challenges and opportunities within the local political and regulatory context.

\*\* Nielsen is a leading global information and measurement company with presence in approximately 100 countries. It has leading market positions in marketing and consumer information, television and other media measurement, online intelligence, mobile measurement, trade show and related properties. Learn more at [www.nielsen.com](http://www.nielsen.com).

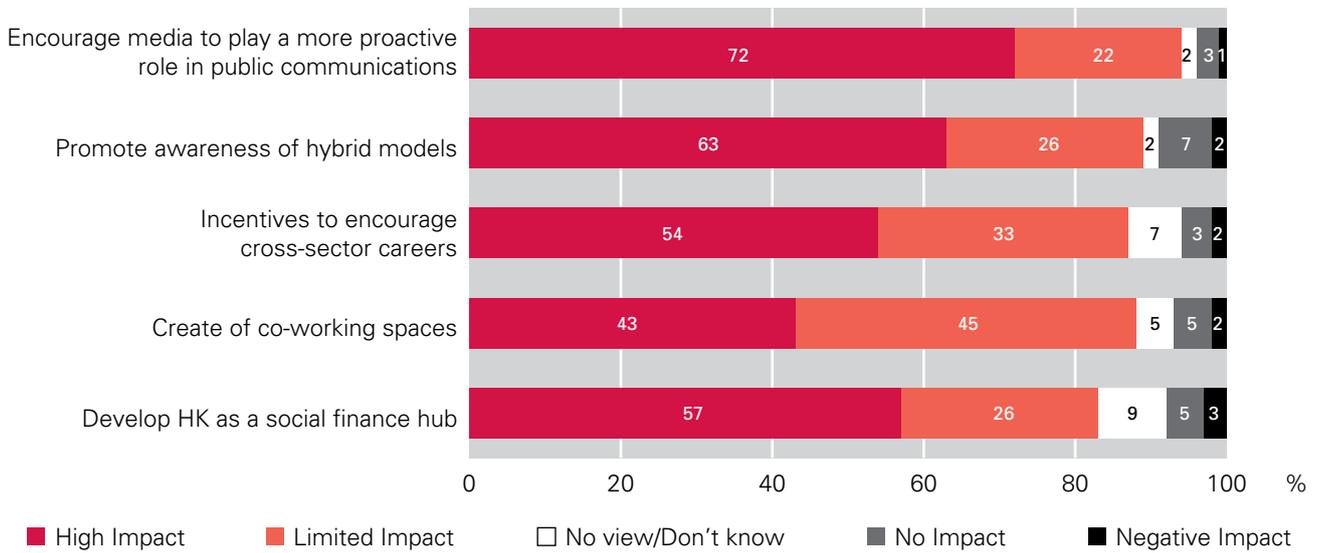
## B. Respondents' Views on Propositions

- The percentage of respondents who agreed with our five propositions range from 69 – 96% (those who strongly agree range from 23 – 55%)
- Fostering mindset shifts and creating a vibrant intermediary sector enjoyed the two highest support levels



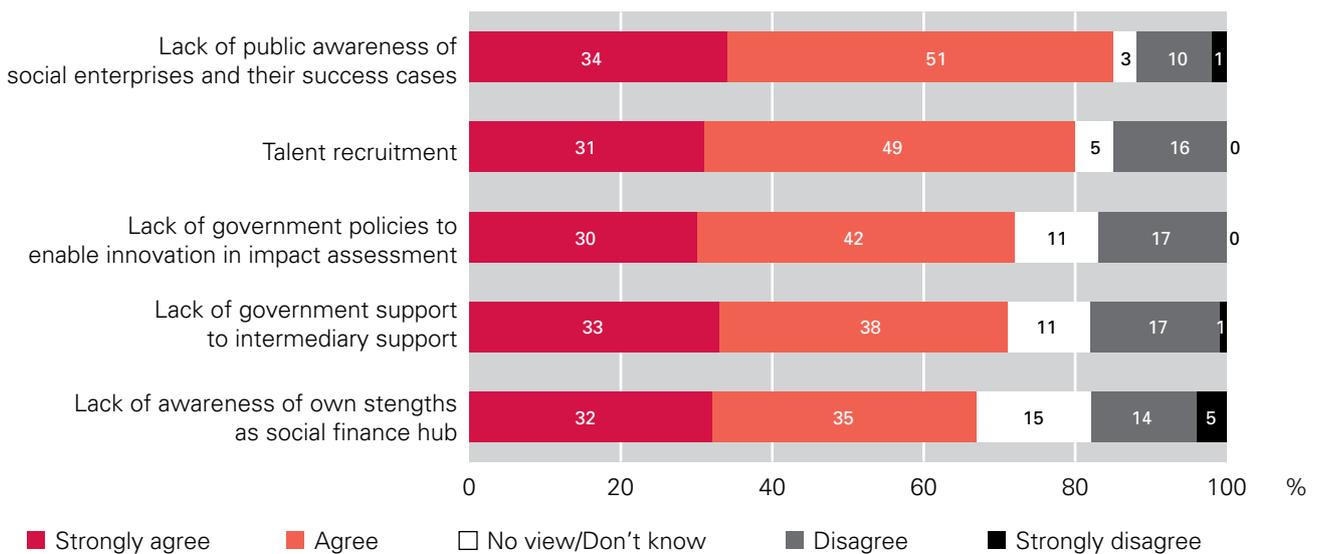
### C. Respondents' Views on Recommendations

- The percentage of respondents who believed that our five recommendations would have an impact on the sector range from 83 to 94% (those who believe our recommendations would have high impact range from 43 to 72%)
- Promoting a greater role for media (to influence mindset shifts) and hybrid models enjoyed the most support



### D. Respondents' Views on Obstacles and Challenges

- The percentage of respondents who agreed with our five obstacles / challenges range from 67 to 85% (those who strongly agree range from 30 to 34%)
- Lack of public awareness of the social enterprise sector and talent recruitment were considered the two toughest challenges.



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