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# Social Entrepreneurs Newsletter

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## Investing through a Social Lens

By Ming Wong



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### Hongkongers in need could do with a big idea August 2, 2011

Not everyone will agree with British Prime Minister David Cameron's ambitious idea of Big Society as an instrument to transform Britain's social sector. Yet we cannot fail to admire the thought and effort behind last Thursday's launch of **Big Society Capital**, an independent investment firm, funded by £400million (HK\$5.1 billion) in unclaimed assets in bank accounts and £200million from four of Britain's largest commercial banks. Hong Kong sorely needs such bold ideas.

If successful, this audacious experiment in applying financial techniques and discipline to the social sector will provide hundreds of civil society organizations with needed capital and advice. London deserves credit for taking a major step towards the creation of a serious social investment market to complement its role as a global financial center.

Besides Britain, initiatives to build social investment markets are also taking shape in countries like Brazil, India, Canada, South Africa, the United States and Singapore. Yet Hong Kong has been content to watch while the rest of the world steams ahead.

We may lead the world in initial public offerings, thanks to China's explosive growth in 2009 and 2010 but we have done little to boost the social investment market. One reason for this lethargy is because our social sector is dominated by non-governmental organizations that are primarily funded by grants rather than investments. As long as our government continues to dole out grants, very little incentive exists for the sector to seek private capital to fund growth.

The recent proposal to set up a charities commission is a welcomed step to invigorate the sector but the government must continue to innovate and learn from other jurisdictions. For Hong Kong to maintain its position at the forefront of financial innovation, the creation of social investment markets is a must.

Hong Kong is China's window to the world; the city is free to experiment with financial innovation, which if proven effective, could be transplanted to the mainland. So if impact investing becomes an established way to put private capital to work for public good in Hong Kong, the ramifications for mainland China, with its billion plus population and myriad of social and environmental issues, would be very positive.

With its talent pool and access to capital, Hong Kong may also serve as a base for young entrepreneurs from the United States and Europe to design products that meet the needs of the poor, not just in China but also the rest of the world. Let us refocus on these natural strengths and embrace our role as an agent for change. An excellent way to start is to create our own Big Society Capital.

### **Chance to innovate the city's charity sector**

**June 27, 2011**

The recently released consultation paper from the Law Reform Commission proposing a regulatory regime for charities, including the setting up of a **charity commission**, is long overdue.

If, however, this charity commission ends up primarily in the role of a regulatory watchdog as proposed, Hong Kong would have missed a great opportunity to catch up with the other major financial centers like London and New York. Hong Kong's new charity commission must instead take the lead to introduce global best practices to local grant-giving organizations and encourage them to work more closely with the other players in the social sector.

The world's leading charitable foundations no longer just award grants to charities and non-governmental organizations; they use all available tools to further their aims. That often involves making grants to intermediaries that provide advisory and training to other charities, NGOs, social enterprises and entrepreneurs. And many foundations also make direct investments, through loans or equity, in for-profit social enterprises. This is known as impact investing.

Consequently, the skills required of effective trustees of a charitable foundation have evolved, as well. It is no longer sufficient for trustees to be just trained in matters relating to the social good. Increasingly they are also expected to be able to invest the assets in their foundation to maximize both social and financial profits.

For the trustees of many Hong Kong charitable organizations, such a transition might be uncomfortable. Hong Kong's future charity commission, therefore, has a responsibility to guide trustees through these uncharted waters. The commission should also actively encourage the charity and private sectors to collaborate, given the growing importance of areas where they overlap, such as corporate social responsibility, social enterprises and impact investing.

Finally, the charity commission has an excellent opportunity to engage with Hong Kong's young people. The so-called Post-1980s generation is no longer just interested in high-paying careers. They care about the problems facing our society and the environment. Many have taken on volunteer work and some have even started social enterprises in their spare time.

### **Following the lead of Britain's innovators**

**May 4, 2011**

As a first time participant in the **Skoll World Forum on Social Entrepreneurship** in Oxford recently, I could not help but be awed and inspired by the stories of courage and resilience as, one by one, social entrepreneurs from all corners of the globe took the stage to share and celebrate stories of how they have worked to overcome some of our world's most pressing social and environmental problems.

Billionaire philanthropist Jeff Skoll chose Oxford to host this annual forum because Britain today is the world leader in social innovation. If Hong Kong were serious about supporting social entrepreneurship, it would do well to emulate the establishment of the ecosystem that Britain has put in place to support this sector.

The National Endowment for Science, Technology and the Arts, funded more than ten years ago by a £250 million (about HK\$3.2 billion at exchange rates then) endowment from Britain's national lottery, now operates

as an independent entity, at no cost to the British taxpayer, to “find ingenious ways to tackle Britain’s biggest challenges, through a blend of practical programmes, research and investment in early stage companies.” Since 1974 the Charities Aid Foundation has operated as an independent body to serve donors and charities while transforming lives and communities around the world. Its Venturesome fund, launched in 2002, offers social enterprises support and debt capital to bridge the gap between grant-makers and traditional banks.

Finally, Britain gave the world its first **Social Impact Bond**, an instrument that provides a positive financial return to investors based on public sector benefits. In this case, the bond issued is aimed at reducing the reoffending rate of a group of prisoners. Such an innovative financial contract could only have been designed with the full cooperation and vision of the appropriate government department, in this case, the Ministry of Justice. The success of the Social Impact Bond has led US President Barack Obama to propose a US\$100 million pilot scheme to study how similar bonds can be used to solve some of America’s social problems.

Hong Kong’s HK\$71.3 billion budget surplus is the envy of every country in the world; yet its government appears to be starved of inspiration as evident by the recent proposal to hand out HK\$6,000 to each Hong Kong permanent resident over the age of 18. For some innovative ideas of what to do with this surplus, Hong Kong should look at its one-time colonial master. After all even the United States believes it can learn from Britain.

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## **A less charitable form of social enterprise**

**February 9, 2011**

On the surface, the Hong Kong government appears to be supporting the development of social enterprises locally. Since 2008 the Home Affairs Bureau has established the “enhancing self-reliance through the district partnership program” to provide grants for eligible social enterprises, sponsored an annual summit and even published a book on business strategies. Despite these efforts, the sector is not flourishing. .

To be eligible for a government grant, an organization needs to be a bona-fide Hong Kong registered non-profit organization and an approved charitable institution involved in creating jobs for disadvantaged social groups like the poor or disabled. This well meaning but myopic approach by the government has, unfortunately, created several unintended consequences.

First, it encouraged the creation of many enterprises that exist primarily to create jobs for disadvantaged social groups. There is nothing wrong with that but if these enterprises do not have sustainable revenue models, in reality they are, in reality, only charities masquerading as social enterprises.

Second, the provision of two-year grants removes the urgency for the enterprises to generate financial returns. After all, if the grants ran out, the enterprise could simply shut down or reapply for another grant, perhaps under a different sponsoring non-profit or charitable organization.

Finally, this narrow qualification means that many enterprises with other innovative ideas to improve the environment or general wellbeing of disadvantaged groups do not qualify for any funding. For the long-term benefit of the sector, the government needs to broaden its eligibility criteria and reconsider its policy of extending grants in favor of a more market-driven and results-oriented approach.

Hong Kong’s success in the global economy has always been driven by the hard work and determination of its private sector aided by the light touch of its government in providing a low tax regime coupled with world class infrastructure and a level playing field for all. In supporting its social enterprise sector Hong Kong needs to adopt the same approach. A government that is serious about developing this sector needs to abandon this narrow mindset about social enterprises and incorporate a holistic approach in its policy formulation. Rather than try to target specific sectors, it should focus its efforts on creating the infrastructure and fostering the right climate to allow the sector as a whole to thrive. **The passion and ingenuity of Hong Kong’s social entrepreneurs will take care of the rest.**