The state of social enterprise in Hong Kong

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</table>
The social enterprise landscape in Hong Kong has evolved rapidly since the Social Enterprise Summit (SES) was first established in 2008. The first wave of social enterprises were characterised by organisations that had their roots in providing employment opportunities for disadvantaged communities. They laid the groundwork, and built public awareness about the role that purpose can play when positioned at the centre of a business’s strategy.

More recently social enterprises have diversified away from this initial cross-subsidy model and now deliver a whole range of products and services that tackle some of the major challenges faced by the city, operating in education, elderly services, the arts and mental health, to name just a few. Social enterprises established in the last five years in Hong Kong are more focused on trading directly with the general public or corporates than with government, and a social enterprise established today in Hong Kong is also more likely to adopt a for-profit legal form. These recent trends are encouraging as they highlight that the social enterprise sector in Hong Kong is entering the mainstream of the Hong Kong economy and starting to address social and environmental issues at scale.

At the Hong Kong Social Enterprise Summit (SES), we are delighted to come together with other key sector actors, the General Chamber of Social Enterprises (GCSE) and the Social Enterprise Business Centre (SEBC) to partner with the British Council to present this report. We are also really keen that the data that we have collected in Hong Kong can contribute to regional efforts led by the British Council and social enterprise partners across Asia, to build a picture of the social enterprise landscape across the Asia Pacific region as a whole.

Although great progress has been made in recent years, more needs to be done. Our study reveals that social enterprises still struggle to access finance, which is hampered by a lack of understanding amongst grant makers and investors alike around how to structure funding and finance for a business entity that is set up to achieve social impact. There is also a need for more patient growth capital to complement the numerous start-up funds and programmes that already exist in Hong Kong.

As the social enterprise sector in Hong Kong has innovated, there is also a need to diversify the non-financial support on offer, which should be more targeted and focused on the specific growth stage, or business type as well as sector or issue specific as well. Long term mentoring is required for the emerging leaders within the social enterprise community in Hong Kong to ensure they can survive and thrive in the increasingly uncertain global context.

Covid-19 has impacted social enterprises in Hong Kong in a number of ways. As with other businesses, it has made the operating environment tough, but equally it has led to innovation and adaptation by the sector. Impact driven businesses will be central to the post-pandemic recovery.

I hope this report will stimulate dialogue and lead to action to further strengthen the social enterprise ecosystem in Hong Kong. The SES intends to take the results of these discussions forward through its open knowledge hub and will support action to further develop the social innovation ecosystem in the city.

Mrs Rebecca Choy Yung
Chair, Organising Committee of Social Enterprise Summit
About the British Council

The British Council builds connections, understanding and trust between people in the UK and other countries through arts and culture, education and the English language.

We work in two ways – directly with individuals to transform their lives, and with governments and partners to make a bigger difference for the longer term, creating benefit for millions of people all over the world.

We help young people to gain the skills, confidence and connections they are looking for to realise their potential and to participate in strong and inclusive communities. We support them to learn English, to get a high-quality education and to gain internationally recognised qualifications. Our work in arts and culture stimulates creative expression and exchange and nurtures creative enterprise.

We connect the best of the UK with the world and the best of the world with the UK. These connections lead to an understanding of each other’s strengths and of the challenges and values that we share. This builds trust between people in the UK and other nations which endures even when official relations may be strained.

We work on the ground in more than 100 countries.

In 2019-20 we connected with 80 million people directly and with 791 million overall, including online and through our broadcasts and publications.

The British Council’s global social enterprise programme

We promote the development of social enterprise as a means of addressing entrenched social and environmental problems and delivering positive change to our communities and societies. Our Global Social Enterprise programme draws on UK and global experience and is delivered across more than 30 countries with local and international partners.

More information about our work in supporting social enterprise and building impact economies can be found at www.britishcouncil.org/society/social-enterprise
Acknowledgements

This study is led by the British Council. It was conducted by ELEVATE with input from Social Enterprise UK.

British Council and ELEVATE would like to thank the following strategic partners for their help and support in sharing the survey with their networks and participating in the collaborative workshops:

- Social Enterprise Summit (SES)
- The Social Enterprise Business Centre (SEBC) at the Hong Kong Council of Social Service (HKCSS)
- General Chamber of Social Enterprise (GCSE)
- Dream Impact

We would like to acknowledge the valuable feedback provided by:

- Dan Gregory, Social Enterprise UK
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- Cheryl Chui
- Elsie Tsui
- Mehvesh Mumtaz Ahmed
- Jessica Tam

We would also like to kindly thank all the organisations, entrepreneurs and interviewees who took the time to complete the survey, participate in our workshops and presentation sessions, and interview with us for the research.
Executive summary

The purpose of this study is to provide insights into the social enterprise landscape in Hong Kong. The data collected provides a baseline to track the development of the sector in the future, and demonstrates the reach of social enterprises in Hong Kong and the impact they have in addressing social and environmental needs. Key findings include:

• Social enterprises work across all districts of Hong Kong

• A majority of social enterprises have been founded in the past four years and consider themselves to be at a scaling stage

• They reach a broad range of beneficiary groups:

<table>
<thead>
<tr>
<th>Types of beneficiaries</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisations (NGOs, micro and small businesses, social enterprises, self-help groups, community, and religious groups)</td>
<td>11.7%</td>
</tr>
<tr>
<td>Employees of your organisation</td>
<td>11.1%</td>
</tr>
<tr>
<td>Youth</td>
<td>10.7%</td>
</tr>
<tr>
<td>Senior citizens and the elderly</td>
<td>9.1%</td>
</tr>
<tr>
<td>Urban poor / low-income households</td>
<td>7.0%</td>
</tr>
<tr>
<td>People with disabilities</td>
<td>6.8%</td>
</tr>
<tr>
<td>Children (including children with special needs)</td>
<td>6.6%</td>
</tr>
<tr>
<td>Women</td>
<td>5.6%</td>
</tr>
<tr>
<td>Ethnic minorities</td>
<td>5.3%</td>
</tr>
<tr>
<td>Local artisans</td>
<td>4.5%</td>
</tr>
<tr>
<td>Animals and the environment</td>
<td>3.9%</td>
</tr>
<tr>
<td>Other</td>
<td>3.3%</td>
</tr>
<tr>
<td>People with chronic illnesses</td>
<td>3.1%</td>
</tr>
<tr>
<td>New arrivals from mainland China</td>
<td>2.5%</td>
</tr>
<tr>
<td>Farmers</td>
<td>2.3%</td>
</tr>
<tr>
<td>Refugees and asylum seekers</td>
<td>1.8%</td>
</tr>
<tr>
<td>Ex-offenders</td>
<td>1.8%</td>
</tr>
<tr>
<td>Informal workers</td>
<td>1.6%</td>
</tr>
<tr>
<td>Migrant workers</td>
<td>1.4%</td>
</tr>
</tbody>
</table>
• They are relatively small, with fewer than 10 employees

- Full-time employees of social enterprises

  - More than 100: 3%
  - 30-99: 7%
  - 10-29: 20%
  - 6-9: 27%
  - 1-2: 13%
  - 0: 1%

• Their main sectors of focus include:

  - Social enterprise sectors of operation

    - Education: 15%
    - Business development services and entrepreneurship support: 14%
    - Services for the elderly: 10%
    - Arts, culture and heritage: 9%
    - Medical social services: 6%

• Social enterprises tend to be led by individuals at a mid-point in their career

  - Under 18: 1%
  - 18 - 24 years old: 5%
  - 25 - 34 years old: 19%
  - 35 - 44 years old: 27%
  - 45 - 54 years old: 22%
  - 55 - 60 years old: 13%
  - 61 years old or above: 6%
  - Prefer not to answer: 8%

• Their common sources of revenue include:

  - Trading with the public / general consumers: 37%
  - Trading with corporates: 17%
  - Seed funding and grants from incubators and/or accelerators: 14%
  - Trading with non-profits, and/or social organisations: 13%
  - Government grants and sponsorships: 11%
  - Charity donations, grants and sponsorships: 5%
  - Trading with public sector / government contracts: 4%

• Common challenges they experience include:

  - Building internal capabilities (operations, communications, strategy, etc): 24%
  - Customer acquisition and market development: 20%
  - Talent acquisition and retention: 15%
  - Product / service development and innovation: 11%
  - Access to financial support (grants, sponsorships, donations, etc): 8%
  - Access to government support: 5%
  - Impact assessment: 4%
  - Access to non-financial support (mentorship, business advice, shared office spaces, etc): 1%
  - Other: 1%

• They are breaking even or making a profit, but many continue to rely on other forms of capital for financing

  - Broke even: 11%
  - Profit generated: 31%
  - No: 12%
  - Yes: 26%
  - Don’t know / prefer not to answer: 20%
  - Not applicable, no revenue yet: 4%
Introduction

Hong Kong has a long history of organisations with a social purpose, working to provide employment and solutions to meet social and environmental needs in the city. The roots of social enterprise in the city stretch back to the 1980s and the initial development of social economy projects, continuing to the development of work integration social enterprises (WISE) in the early 2000s, to the diversity of market oriented social enterprises operating today.

Interest in social enterprises continues to increase among entrepreneurs, non-governmental organisations, government, investors, and academics. Social enterprises operating in the city are seeking to tackle diverse social and environmental needs, from support for the elderly, health and wellness activities, and the development of solutions to urban problems, waste and recycling.

This research has sought to map the landscape in Hong Kong, to provide stakeholders with a comprehensive understanding of the profile of social enterprises and the entrepreneurs that lead them, together with the barriers they face. The Covid-19 pandemic and social unrest in Hong Kong have led to new challenges for enterprises that have had to pivot their business models to stay in operation. The findings of this research set out a baseline of evidence and highlight opportunities for interventions to further support the development of a sustainable social enterprise ecosystem in Hong Kong.

This study was commissioned by the British Council. Strategic partners include the Social Enterprise Summit (SES), the Social Enterprise Business Centre (SEBC) at the Hong Kong Council of Social Service (HKCSS) and the General Chamber of Social Enterprise (GCSE). The research has also been supported by Dream Impact as a community engagement partner. It is part of a global series seeking to better understand the state and scale of social enterprise.
Purpose of the study

The primary aim of this study is to provide insights into, and improve understanding of, the social enterprise landscape in Hong Kong. The data collected in this study provides a baseline to track the development of social enterprise in the future. The study also briefly evaluates existing policies relevant to social enterprise in Hong Kong and analyses their implementation and impact. It presents the profiles of relevant stakeholders to provide an understanding of the current ecosystem, and its influences. This research supports the British Council’s Global Social Enterprise Programme.

This study is not exhaustive, and there are limitations to the work presented here. However, it is hoped that the findings provide a picture of the social enterprise landscape in Hong Kong, and allows actors to understand the scope of activities undertaken by social enterprises and identify intervention points to support future development.

Research overview

The research for this study was conducted between September and November 2020. Data was collected from a structured online questionnaire, available in both English and Chinese, along with interviews and workshops.

A total of 146 valid responses were collected from the online survey. Of these, 113 organisations completed the full survey and 33 partially completed the survey. The partial responses were evaluated in detail and found to be credible. As such their responses for the data points completed have been included.

The survey of social enterprises sought the following information:

- Location and sphere of operations (regional, national, international)
- Social enterprise sector and objectives
- Year of establishment and form of legal registration
- Revenue, and profit generation and use
- Profit / impact focus
- Employees, by gender and type of contract (i.e. full-time or part-time), and compared to the previous year
- Number and type of beneficiaries reached
- Gender and age of leadership
- Growth expectations and plans, and barriers faced
- Sources of finance and funding
- Financing constraints
- Whether respondents would self-identify as a social enterprise

Methodology

Rooftop Republic builds and manages urban farms to transform under-utilised areas into vibrant natural spaces, create sources of organic food, and engage and empower communities to lead sustainable lifestyles.
Data collection process

The primary method of data collection was an online survey of organisations with a social or environmental purpose, carried out over a ten-week period between September and November 2020.

Methodology development workshops were held with relevant stakeholders and academics in Hong Kong, to test the intended methodology and receive feedback on cultural and contextual nuances that should be reflected within the data collection methods used.

The sample selection method was non-randomised, as the study targeted organisations that appeared likely to identify as or be recognised as social enterprises. This study took an inclusive approach to gathering responses from any organisations that may have a social or environmental purpose to reach as large a sample size as possible. Social media partners supported this effort in distributing the survey through existing databases of social enterprises, non-profit organisations and commercial start-ups. The research team also reached out directly to social enterprises on the Social Enterprise Business Centre (SEBC) Directory through telephone calls and emails to encourage responses.

Detailed telephone interviews were held with selected social enterprises to gather qualitative, contextual data in order to develop an understanding of their perspectives on the landscape in Hong Kong, constraints or barriers they may face, and support they may require. The Covid-19 pandemic restrictions to gatherings and meetings, limited the ability of the research team to schedule in-person workshops and focus group sessions.

Classifying social enterprises

Classifying and identifying social enterprises was a critical part of this study. Both globally and in Hong Kong, there is no single definition of social enterprise. Nevertheless, the Legislative Council of Hong Kong states that in the perspective of the government, a social enterprise ‘is a business to achieve specific social ‘objectives…. Its profits will be principally reinvested in the business for the social objectives that it pursues’; however, this is not a binding definition.

Due to the lack of consensus on the definition, and to include the results of organisations that may not self-identify as being a social enterprise in this work, the research team used an inclusive filtering approach. Three principal criteria were used to evaluate survey responses to identify an organisation as a social enterprise for the purposes of this research:

1. whether the organisation prioritises profit, social / environmental mission, or both equally
2. the proportion of annual revenue that derives from either grants or endowments
3. how profit / surplus is used if it is generated.

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1. whether the organisation prioritises profit, social / environmental mission, or both equally
2. the proportion of annual revenue that derives from either grants or endowments
3. how profit / surplus is used if it is generated.

These criteria broadly reflect the government perspective while allowing an inclusive sampling approach. Organisations reporting that their core priority is ‘profit first’ did not meet the threshold for inclusion unless the majority of their profits were directed/reinvested to a social/environmental purpose. Organisations reporting 75-100 per cent revenue from grants were excluded, as this indicates that trading is not a significant part of their business. Exceptions were made for early-stage organisations established within the past three years and relying on grant funding at the start-up stage.

Eight organisations were excluded from the analysis based on these three criteria. Therefore, from our initial total of 146 respondents, 138 organisations remained and were classed as social enterprises for the purposes of this survey (94.5 per cent).

Figure 1: Priorities of social enterprises

The mission and purpose of the organisation was used as one of the inclusion criteria for social enterprises in the survey. However, social enterprises described the balance between their purposes in different ways. The majority of social enterprises surveyed reported that they place an equal emphasis on both generating profit and their respective social and environmental missions (62 per cent). A smaller proportion, 34 per cent, placed their primary focus on the social/environmental mission. Just one per cent of social enterprises reported that profit was their priority, while reporting that the majority of their profits are directed or reinvested into their mission, while self-identifying as a social enterprise.

29 per cent of social enterprises reported that their commitment to a social / environmental purpose is formalised through publicly stated commitments, and 21 per cent reported that they did this through internal documentation. Governing documents were used by 18 per cent, while 11 per cent had not formally stated this commitment.
Caveats/limitations to this research

While the research team sought to be inclusive in its gathering of respondents, we recognise that representation from some groups may be relatively low. This includes those that may not self-identify as an organisation with a social or environmental purpose. Survival bias is likely present in the research, as those social enterprises that have ceased operating in the recent past are not likely to complete this survey. Therefore, the research selection may inadvertently favour those that are faring better, particularly within the context of Covid-19.

Estimating the number of social enterprises in Hong Kong

One component of this research was to estimate the likely number of social enterprises operating in Hong Kong. It is important to note that the figure provided here should only be viewed as a rough estimate, and as a basis for further investigation and research.

To produce an estimate of the size of the sector, the research team evaluated three broader categories of organisations that include social enterprises in Hong Kong: micro, small and medium enterprises (MSMEs), co-operatives, and non-governmental organisations. The prevalence rate for organisations that meet the criteria of social enterprise characteristics was then estimated for each category.

### Table 1: Classification and number of MSMEs in Hong Kong

<table>
<thead>
<tr>
<th>Category</th>
<th>Criteria</th>
<th>Business units (2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing enterprises</td>
<td>Less than 100 employees</td>
<td>8,166</td>
</tr>
<tr>
<td>Non-manufacturing enterprises</td>
<td>Less than 50 employees</td>
<td>333,223</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>341,389</strong></td>
</tr>
</tbody>
</table>

### Table 2: Prevalence rate and estimated number of social enterprises from MSMEs

<table>
<thead>
<tr>
<th>Source</th>
<th>Number</th>
<th>Social enterprise prevalence rate</th>
<th>Estimated number of social enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSME</td>
<td>341,389</td>
<td>0.5-1.0%</td>
<td>1,707 - 3,414</td>
</tr>
</tbody>
</table>
The prevalence rate of social enterprises across NGOs / charitable institutions in Hong Kong is not directly available. To estimate the prevalence, the assumption was taken that the ratio of social enterprises across the SME, co-operative and charitable categories that took part in this research, mirrors that of the actual prevalence in the Hong Kong market. Among the respondents to the survey, 59 per cent could be broadly grouped as SMEs, two per cent as co-operatives, and 39 per cent as charitable institutions or NGOs. Based on this, the social enterprise prevalence rate among charitable institutions is as estimated below.

### Estimated number of co-operatives among social enterprises

The Agricultural, Fisheries and Conservation Department’s definition of co-operative societies show significant similarities to the definition of social enterprises adopted by this research. Similarity with the definition used by this research is particularly evident in the two principles of ‘promoting economic activities’ and ‘concern for the social and ecological environment’. Co-operatives globally tend to conduct trading activities and have a social and environmental mission.

Co-operatives that provide a convening point for groups of co-operatives and those that are focused on loan-provision were excluded from this analysis, as they do not generate revenue and rather serve primarily as membership groups for policy and strategic decision making. This process of exclusion eliminated 93 societies from the original 173, giving a prevalence rate of 46.2 per cent.

#### Table 3: Estimated number of social enterprises from co-operatives

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of cooperatives</th>
<th>Number of social enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>54</td>
<td>51</td>
</tr>
<tr>
<td>Fisheries</td>
<td>55</td>
<td>15</td>
</tr>
<tr>
<td>Non-producers</td>
<td>64</td>
<td>14</td>
</tr>
<tr>
<td>Grand total</td>
<td>173</td>
<td>80</td>
</tr>
</tbody>
</table>

### Estimated number of social enterprises from NGOs / charitable institutions

The prevalence rate of social enterprises across NGOs / charitable institutions in Hong Kong is not directly available. To estimate the prevalence, the assumption was taken that the ratio of social enterprises across the SME, co-operative and charitable categories that took part in this research, mirrors that of the actual prevalence in the Hong Kong market. Among the respondents to the survey, 59 per cent could be broadly grouped as SMEs, two per cent as co-operatives, and 39 per cent as charitable institutions or NGOs. Based on this, the social enterprise prevalence rate among charitable institutions is as estimated below.

#### Table 4: Estimated number of social enterprises from NGOs / charitable institutions

<table>
<thead>
<tr>
<th>Source</th>
<th>Number</th>
<th>Social enterprise prevalence rate</th>
<th>Estimated number of social enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable Institutions</td>
<td>8,998</td>
<td>13 – 25%</td>
<td>1,149 - 2,246</td>
</tr>
</tbody>
</table>

Based on the criteria and assumptions above, it is possible to make a provisional estimate of the number of social enterprises operating in Hong Kong. We suggest a range of between 2,936 – 5,740 social enterprises. This calculation is a rough estimation and would require further research to validate this and develop a robust calculation.

However, this methodology does highlight that the number of social enterprises in Hong Kong may be considerably higher than existing estimates, such as the number of social enterprises registered on the SEBC database which is approximately 600.

#### Table 5: Estimated number of social enterprises

<table>
<thead>
<tr>
<th>Entity</th>
<th>Number</th>
<th>Social enterprise prevalence rate</th>
<th>Estimated number of social enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs</td>
<td>341, 389</td>
<td>0.5 - 1.0%</td>
<td>1,707 - 3,414</td>
</tr>
<tr>
<td>Charitable Institutions</td>
<td>8,998</td>
<td>13 - 25%</td>
<td>1,149 - 2,246</td>
</tr>
<tr>
<td>Co-operatives</td>
<td>173</td>
<td>46.24%</td>
<td>80</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>2,936 - 5,740</td>
</tr>
</tbody>
</table>
Local context and existing research

Eldage integrates traditional wisdom, modern knowledge and digital marketing through an online to offline business model, with the aim of promoting traditional culture through craftsmanship, curating stories and workshops for handicrafts, and selling handicraft products.

Local context

Quick facts

- 3.97 million economically active in 2019\(^\text{10}\)
  - 2.9 per cent unemployed and 1.1 per cent underemployed

- 3.89 million economically active in August 2020\(^\text{10}\)
  - 6.4 per cent unemployed, 3.8 per cent underemployed

GDP in 2019: 2,868 billion HKD\(^\text{12}\)

Real Growth Rate of GDP in 2018\(^\text{12}\): +2.8%

Real Growth Rate of GDP in 2019\(^\text{12}\): -1.2%

Main economic sectors (% GDP) in 2018\(^\text{12}\):

- Trading and logistics: 21%
- Financial services: 19%
- Professional services and other producer services: 12%
- Tourism: 4.5%
- Other: 42.7%
Hong Kong is considered one of the Four Asian Tigers, economies which have demonstrated high growth rates since the 1960s, experienced rapid industrialisation and relied heavily on exports[1][2]. In the past five decades, Hong Kong’s GDP per capita rose from 429 dollars in 1960 to 48,756 dollars in 2019[3]. The real GDP growth rate also remained positive with the exception of years marked by severe economic crises such as the Asian Financial Crisis in 1998 and around the Global Financial Crisis in 2008, as well as social unrest in 2019[4].

For 20 years, the city was rated as the world’s freest economy until this year, when it dropped to second place after the investment freedom score was affected by social unrest in 2019[5][6]. Its economy is defined by minimal government intervention, low taxation, no tariffs and few excise duties[7]. Alongside Singapore, it is considered one of the most well-established financial centres in the world[8]. Today 90 per cent of the economy is dominated by the services sector[9].

Alongside the city’s economic success, income inequality has increased[10]. The Gini coefficient, a metric for income inequality that ranges between zero (perfectly equal) and one, rose from 0.430 in 1971 to 0.539 in 2016, the highest in 45 years[11]. When the metric is focused on post-tax and post-transfer monthly household income, the coefficient is lower, at 0.473 but remains higher than Singapore (0.356), the United Kingdom (0.351) and other developed economies[12].

According to Oxfam, approximately 15 per cent of Hong Kong’s population lives in poverty[13]. Among this population are those living in subdivided flats (over 200,000 people), low-income workers (920,000 people), women, children, the elderly and ethnic minorities[14]. Increasing property and rent prices as well as limited public housing have forced poorer households to resort to subdivided flats[15]. Despite the rise in wages over the years, the minimum wage has been considered insufficient by some and its purchasing power has only increased incrementally — a roughly 12 per cent increase between 2006 and 2016[16]. Participation of women in the labour force has been restricted by familial obligations and a shortage in childcare services[17]. Meanwhile, approximately one third of elderly and 23 per cent of South Asians — the largest ethnic minority group in Hong Kong — live in poverty, with the poverty rate the highest among older adults[18].

In June 2019, social unrest struck the city after the government proposed the Fugitive Offenders amendment bill with China which ignited worry about Hong Kong’s freedoms - during its handover in 1997 to China, the former British Colony was granted fifty years of freedom of speech, press and assembly[19]. Although the bill was withdrawn, the social unrest grew into a pro-democracy movement[20]. In June 2020, the Law of the People’s republic of China on safeguarding National Security in the Hong Kong Special Administrative Region was passed. The public have also expressed frustration with property prices and inadequate social welfare[21].

In October 2019, Hong Kong entered its first recession since the Global Financial Crisis[22]. The economy continued to see a rise in unemployment in 2020 as a result of the Covid-19 pandemic[23]. The city implemented stringent measures to contain the outbreak — testing procedures for travellers, mandated quarantines, limits on public gatherings and dine-in bans after certain hours. The unemployment rate continued to climb throughout the year. Between December 2019 and January 2020, right before the onset of the pandemic, the unemployment rate was 3.4 per cent (with seasonal adjustment)[24]. As of October 2020, the rate had risen to 6.4 per cent, the highest in sixteen years[25].
The first phase occurred between the 1980s and early 2000s, a time when organisations resembling social enterprises started to appear. HKSE divides these businesses into three categories: the ‘shelter workshops’ or ‘Work Integration Schemes’ which provided employment opportunities for socially disadvantaged groups; de facto social enterprises; and NGOs who had created income-generating units, such as Hong Kong Mental Health Association’s ‘MentalCare Connect’.

The second phase began shortly after the economic recession in 2002 and 2003, where social enterprises were perceived as outlets for poverty and unemployment alleviation. Around this time, the government created the Commission on Poverty and subsequently set up two funding schemes for social enterprises associated with NGOs. The scheme, ‘Enhancing Self-Reliance Through District Partnership Programme’ aimed to provide seed-grants for new social enterprises while ‘Enhancing Employment of People with Disabilities through Small Enterprises’ supported enterprises that created employment opportunities for socially disadvantaged people.

In 2008, three infrastructure organisations were established: The Social Entrepreneurship Forum (SEF), Hong Kong General Chamber of Social Enterprises and Social Ventures Hong Kong (HKGCSE). The Social Enterprise Summit (SES) was founded as a collective platform with the view that social entrepreneurship and social innovation can effectively drive positive social development. The first summit was held later that year, where social enterprise leaders gathered to discuss the impact of social enterprises in the city and to share best practices. Today, these summits enable the exchange of ideas through workshops, exhibitions and competitions.

The article, Fashioning New Values in Hong Kong, explains how public policy and civil society have driven the development of the social sector in the past decade. After continuous exchange of ideas and best practices at Summit events, summit leaders started to note the responsibility of multiple sectors in fostering social entrepreneurship stating ‘doing good as well as doing well should be a core value for everybody in Hong Kong’.

Hong Kong is now in its third phase of social enterprise development and is seeing growing involvement from the government, impact investors and higher education institutions. This includes the establishment of the Social Innovation and Entrepreneurship Development Fund (SIE Fund).

In 2014, the GCSE launched the first accreditation scheme for social enterprises in Hong Kong, the ‘Enterprise Endorsement (SEE) Mark’. The aim of the scheme is to enhance public knowledge and recognition of the value of social enterprises, and increase trust in the quality of products and services provided. The assessment and accreditation process are designed to raise the confidence of investors in social enterprises.

The Chinese University of Hong Kong (CUHK) and the HKCSS’s Research Study on the Social Enterprise Sector in Hong Kong, commissioned by the Home Affairs Bureau, conducted a survey with 174 social enterprises and found that 83.3 per cent of the respondents tackle work integration — these organisations are known as ‘work integration social enterprises’ (WISE). However, the report states that social enterprises’ social purposes are starting to diversify, encompassing other problems such as environmental protection and elderly care.

The state of social enterprise in Hong Kong

Social enterprises remain broadly defined in Hong Kong, cultivating a sector of diverse business models that range from non-profit organisations to private limited companies. Early research on the sector titled, An Overview of Social Enterprise Development in China and Hong Kong, classifies social enterprises into five distinct types:

1. social enterprise as business undertakings for revenue generation with limited direct service impact
2. social enterprise as a strategy for employment-related services in the rehabilitation field
3. social enterprise as a vehicle for promoting community economy and tackling unemployment
4. social enterprise as moves followed by NGOs to commercialise existing fee-charging activities
5. social enterprise as cause-related commercial undertakings with the expressed purpose of making significant direct service impact.

The Centre for Asian Philanthropy and Society (CAPS) conducted a survey, Business for Good – Maximizing the Value of Social Enterprises in Asia, on social enterprises in six economies including Hong Kong, Japan, Pakistan and surrounding regions, receiving 80 responses and interviewing 32 experts in Hong Kong. Of the 584 enterprises surveyed in Asia, 70 per cent were classified as ‘for profit’ businesses, 25 per cent were non-profit, while four per cent were unsure. Within Hong Kong, 66 per cent labelled themselves as for-profit businesses, 26 per cent as non-profit while the remaining eight per cent were unsure.

Similar numbers of the social enterprise sector are found in the CUHK report, Research Study on the Social Enterprise Sector in Hong Kong, which states that 60 per cent of social enterprises are either registered as or part of charitable organisations.

The government deliberately maintained a flexible definition with the view that a legal definition would hinder innovation and development of the sector. They adopted a more liberal approach instead, encouraging self-regulation over government intervention, while supporting on the sidelines through funding programmes and capacity building initiatives.

Both the General Chamber of Social Enterprises (HKGCSE) and SEBC have registration processes to list and recognise social enterprises.

To register on the SEBC SE Directory, organisations have to be registered under the laws of HKSAR and be in operation for one year or longer, with one or more social objectives. If the enterprise does not have Section 88 status, entrepreneurs must declare that:

- no less than 50 per cent of annual revenue is generated from direct sales
- 35 per cent or less profit is distributed to shareholders
- asset’s purchased/possessed are not transferred to other companies.

The SEE Mark framework by HKGCSE has three categories of eligibility: incubating, intermediate and advanced. All three categories require having a social mission; however, the required years of operation and number of full-time staff differ. The ‘Advanced’ category requires that at least 50 per cent of revenue is generated from business operations, and no less than 65 per cent of profits are reinvested in the business for the social purpose.
The state of social enterprise in Hong Kong

Government support

The report, *Business for Good* suggests that the government is the ‘ultimate facilitator’, whose action or inaction is most consequential in shaping the social sector. According to CAPS, grant funding is the most significant form of support the government can offer to social enterprises. In practice, the Hong Kong government has played an integral role in funding social enterprise, as CAPS states, ‘In Korea and Hong Kong, governments are more actively engaged in social enterprise development and tend to be the dominant grantmaker’.

The government has operated through three main funds, as follows:

Launched in 2001, the ‘Enhancing Employment of People with Disabilities through Small Enterprise Project’ provided funds to promote employment for people with disabilities. Organisations who received funding were required to have at least fifty per cent of their workforce represented by people with disabilities. The Enhancing Self-Reliance Through District Partnership Programme was first launched in 2006 to provide seed grants to social enterprises with special emphasis on poverty alleviation initiatives and social inclusion. In 2013, the government introduced the Social Innovation and Entrepreneurship Development Fund (SIE Fund) and allocated 500 million HKD to support social innovation initiatives.

Chan et al’s review of the impact of public policy on fostering social innovation in Hong Kong, found that the establishment of government schemes focused on fostering innovation, such as the SIE Fund, have created a more innovative and inclusive social entrepreneurship environment. The research found that a large number of applications and projects that received funding through the scheme were not affiliated with non-profit organisations, reflecting interest from broader stakeholders in engaging in social enterprise as well as highlighting the government’s action towards diversifying the ecosystem.

The Bauhinia Foundation’s report, *Social Enterprises in Hong Kong*, outlines additional roles the government has played in fostering cross-sector partnerships, strengthening public awareness and assisting social enterprises. In 2008, the government launched the Social Enterprises Partnership Programme (SEPP), with a Mentorship Scheme which allows government launched the Social Enterprises Partnership Programme (SEPP), with a Mentorship Scheme which allows connections with business resources, such as concessionary rental or businesses’ client networks. The government has also offered support through the creation of the Social Enterprise Award Scheme, producing social enterprise television programmes and various other initiatives.

Higher education institutions

One example of cross sector collaboration is seen in Higher Education Institutions’ (HEIs) efforts to promote social entrepreneurship. The *Social Enterprise in a Global Context: The Role of Higher Educations* identifies HEIs as the primary developers and promoters in this area. According to the British Council, HEIs enable capacity building, cross-disciplinary exposure and business ideation by partnering with up to 15 social enterprises; hosting business pitch challenges such as CUHK’s ‘Hong Kong Social Enterprise Challenge’; participating in social enterprise networks and embedding social enterprises into course modules. These actions allow students to actively participate in social enterprises, fashion social awareness and provide universities with opportunities to fund social enterprises. The funding for social enterprises under these programmes is provided by the Home Affairs Bureau and the SIE Fund.

Social enterprise policy findings

Hong Kong does not have specific legislation targeting social enterprises in particular. However, there are a range of laws and regulations that apply to social enterprises depending upon the legal form that they register under. This overarching policy framework has significant implications for social enterprises, for example, affecting the finance for which they are able to apply.

Inland Revenue Ordinance Section 88 (Cap. 112)

Hong Kong’s corporation tax system taxes businesses whose profits are sourced from Hong Kong. Legal persons (corporations, unincorporated organisations) are responsible for paying taxes on profits earned from trading activities or business operations in Hong Kong. However, charitable institutions and trusts that conduct trading activities are exempt from tax on profits under the following conditions: the profits are used for charitable purposes; profits are not spent outside of Hong Kong; and either the business activity meets the mission of the organisation or the activity carried out by beneficiaries of the organisation.

‘Section 88’ status, as it is commonly referred to by stakeholders within the social enterprise ecosystem, has significant implications for how social enterprises are perceived within the public context and also determines which forms of financing and funding they are able to apply for.

Co-operative Societies Ordinance (Cap.33)

This law regulates the establishment and operations of co-operative societies. The law stipulates that no single member can hold over 20 per cent of the share capital. It additionally states that 25 per cent of net profits must go towards a ‘reserve fund’. The remainder of profits can be redistributed to members in the form of dividends or funds or be allocated towards funds created by the cooperative society. Up to ten per cent of profits may be contributed to charitable purposes or funds.

The total number of registered co-operatives in Hong Kong remains relatively small as of December 2020, with 173 registered across producer categories of agriculture and fisheries, and non-producers (including building and worker co-operatives). The principles under which co-operative societies are formed are similar to the mission and operating structure of social enterprises, and may offer an alternative means of registration for social enterprises in the city.

The international co-operative principles adopted in Hong Kong are:

1. voluntary and open membership
2. democratic control, one member one vote
3. autonomy and independence
4. promoting economic activities
5. promoting education and information technology
6. co-operation between co-operatives
7. concern for the social and ecological environment.

Source: Agriculture and Fisheries and Conservation Department, Government of the Hong Kong Special Administrative Region (2020)
Overview of main actors in Hong Kong

The social enterprise ecosystem in Hong Kong involves a number of different stakeholder groups that shape the operating environment for social enterprises and support their development. This includes enablers and capacity builders (including incubators and accelerators), investors and financiers, business support organisations, policymakers, and higher education institutions.

Enablers: ecosystem builders, incubators, accelerators, capacity builders and workspaces in Hong Kong

Hong Kong Social Entrepreneurship Forum (HKSEF) and Social Enterprise Summit (SES)

Hong Kong Social Entrepreneurship Forum is a membership-based organisation committed to promoting social entrepreneurship. The organisation runs the B Market Builder, an initiative with B Lab Company to help companies become Certified B Corporations.

HKSEF additionally publishes social entrepreneurship news and hosts its flagship conference Social Enterprise Summit every year, where academia, government and sector leaders exchange ideas and best practices, and participate in community activities surrounding social entrepreneurship and social innovation.

Hong Kong General Chamber of Social Enterprise (GCSE)

Founded in 2009, the Hong Kong General Chamber of Social Enterprise is a membership organisation that aims to strengthen partnerships between enterprises, government and academia and increase public awareness.

Social Enterprise Hong Kong

Created by the Home Affairs Department, Social Enterprise Hong Kong strives to increase public awareness of social enterprise and provides social enterprises with guides important players in the ecosystem as well as different funding schemes available to social start-ups.

Social Enterprise Business Centre (SEBC)

The Social Enterprise Business Centre strives to increase social entrepreneurship through business consultation services and programmes to improve public awareness. Their directory tracks and documents social enterprises in Hong Kong. SEBC partners with twelve corporations who are willing to provide business support to social enterprises often at discounted prices or for free.

Dream Impact

Dream Impact offers event spaces and co-working space for social entrepreneurs, NGOs and start-ups as well as expand the social entrepreneur ecosystem by connecting start-ups to investors and corporations.

Good Seed

Good Seed is a social innovation training and funding programme that is jointly developed by the Institute for Entrepreneurship (IfE) and the Hong Kong Polytechnic University. It is funded by the SIE Fund, and aims to drive social innovation to support the underprivileged with a focus on Design, Technology and Business.

Education for Good

Education for Good provides consulting services and workshops such as design thinking training and social innovation workshops. Education for Good additionally funds social activities such as the publishing of books on social enterprises, supporting startups and holding conferences.

Social Ventures Hong Kong

Social Ventures Hong Kong is divided into two entities: its foundation and its venture philanthropy fund to incubate and invest in social enterprises.

The Good Lab

Good Lab is a social innovation consultancy, working on government funded projects among others, while also providing training on design thinking for social innovation for entrepreneurs. It also hosts public workshops, offers mentorships and connects start-ups to other sectors.
There are a range of institutions and individuals that seek to create positive social and environmental impact through finance, by investing in enterprises with a purpose while also generating financial gain.

RS Group
RS Group’s investment strategy incorporates a total portfolio and ‘blended value’ approach to generate social and environmental value, offering capital to varied business types: social enterprises, for- and not-for-profit businesses. RS Group has established the Sustainable Finance Initiative (SFI) in 2018 to improve knowledge concerning impact investment.

Social Impact Partners
As a venture philanthropy firm, Social Impact Partners finances and provides capacity building services for social enterprises with additional help from their professional partners, who provide strategic, managerial and communications assistance.

SOW Asia
SOW Asia was founded in 2009 as an impact investing organisation for early-stage social enterprises. It has since established its acceleratpr programme, the (I2) (‘Incubation to Investment’), which provides networking opportunities, mentorship and consultation to social enterprises. Social enterprises who have completed the programme become eligible for investment from SOW Asia.

Commission on Poverty
The government’s Commission on Poverty is dedicated to poverty alleviation in Hong Kong. The taskforce oversees the Social Innovation and Entrepreneurship Fund, which was allocated 500 million Hong Kong dollars by the government in 2012.

Home Affairs Bureau
The Home Affairs Bureau’s Social Enterprise Advisory Committee pools together representatives from various governmental departments — Home Affairs Department, Labour and Welfare Bureau, Commerce and Economic Development Bureau — to discuss policies and programmes that support the development of social enterprise in Hong Kong.

Efficiency Office
The Efficiency Office is under the Innovation and Technology Bureau, and works in partnership with public agencies to enhance the efficiency and effectiveness of public services through management consultancy and supporting innovation. The Efficiency Office supports the Social Innovation and Entrepreneurship Development Fund (SIE Fund) programme and the Fund’s Task Force.

Labour and Welfare Bureau
The Labour and Welfare Bureau is responsible for policy surrounding vulnerable communities. Their efforts are concentrated on increasing employment, alleviating poverty, supporting Hong Kong’s aging population as well as people with disabilities, and protecting women’s rights.

The University of Hong Kong
The University of Hong Kong is the oldest higher education institution in the city and has engaged students in the social sector through their ‘HKU Social Entrepreneurs’ network and offers courses to strengthen social entrepreneurship. Their module, Management for Social Enterprises, helps students cultivate the skills and knowledge needed to run sustainable social enterprises. In 2019, the university launched a three-year programme, Social Innovations for Sustainable Communities, to foster connection and knowledge-sharing in the social entrepreneurship ecosystem. The university’s Impact Lab programme allows students to work directly with social enterprises.

The Chinese University of Hong Kong
The Chinese University of Hong Kong (CUHK) runs a social enterprise start-up competition named Hong Kong Social Enterprise Challenge. CUHK participates in the Woflo Leaders’ Network, a network dedicated to connecting higher education students to professionals. The university offers social entrepreneurship courses for both undergraduates and postgraduates. CUHK also offers funding and incubation supports to help the professors translate their research into social ventures.

The Hong Kong Polytechnic University (PolyU)
Founded by the Hong Kong Polytechnic University and Hong Kong Jockey Club Charities Trust, the Jockey Club Design Institute encourages the use of design, technology and business in social innovation. In 2018, they launched ‘Operation Solano’, a three-year programme that engages NGOs, academia, professionals and students in knowledge-sharing activities and the development of solutions to Hong Kong’s deep-seated problems. PolyU additionally offers a major and minor programme in Social Policy and Social Entrepreneurship.

City University
City University promotes social entrepreneurship by integrating it into the school curriculum. Course such as ‘Social Innovation and Entrepreneurial Venture Exploration’, ‘Changing Our Society: Turning Problems into Business Opportunities’ and ‘Corporate Social Responsibility: A New Paradigm for Sustainability’ appear in multiple departments throughout the university. It additionally facilitates social innovation through its platform, ‘Project Flame,’ which provides incubation spaces, scholarships and hosts seminars by social entrepreneurs in residence.
Hong Kong Baptist University

Hong Kong Baptist University enables students to participate in the social entrepreneurship sector through social entrepreneurship classes, their Business Entrepreneurship Support and Training program, research and more.

Hong Kong University of Science and Technology (HKUST)

Hong Kong University of Science and Technology offers 11 courses in social innovation and entrepreneurship. Their Entrepreneurship Centre also runs seminar series, such as the ‘Successful Social Entrepreneurship Partnerships Centre’, and organises competitions for students to pitch their ideas. The Business school offers a credit-bearing Social Enterprise Internship program to its undergraduate students.

Lingnan University

Lingnan University’s Office of Service-Learning creates opportunities for students to participate in social innovation projects through design-thinking courses, entrepreneurship trainings and summer innovation camps, such as ‘Service Leadership Practicum’ and their six-week ‘Humanitarian Innovation Challenge’ programme.

Education University Hong Kong

Education University Hong Kong runs the Education And Social Entrepreneurs, ‘EASE’, seed funding programme, which provides seed funding to projects led by students, alumni and staff of the university.

Shared Value Project Hong Kong (SVPHK) is a membership organisation advocating for the adoption of Creating Shared Value (CSV). Corporate membership offers a range of benefits, including participation in trainings, roundtables, ideation workshops and more, all striving to help businesses incorporate social innovation and purpose in their strategy, as applied to products, services and value chain. The network aims to build capacity for its members by empowering employees and catalysing impactful business opportunities. Leveraging their diverse expertise, members also come together to explore innovative business solutions to Hong Kong’s pressing problems, including mental well-being, ageing society, youth development and climate change.

At the crux of Shared Value Project Hong Kong is the aim to connect players from different industries and sectors toward addressing the Sustainable Development Goals, leveraging strengths of social innovators and corporates to design and scale sustainable, inclusive business models.

While social enterprises bring the ability to disrupt and pilot human-centred solution models, corporate partners can draw inspiration and amplify opportunities for business integration, scaling, funding and evolution. For instance, social enterprises have specialised expertise that can be valuable for corporates as they work at the frontline and deeply understand underlying problems such as unemployment among minority youth. These enterprises can benefit from the professional resources, networks and expertise big businesses offer to jointly ‘solve these bigger issues profitably’. Trading with social enterprises and integrating them into their supply chains is a key example of the way that shared value can be generated, with 17 per cent of survey respondents stating that is their most common revenue stream. Shared Value Project Hong Kong sees its role as ‘catalyst and convener, not consultant’, promoting an ecosystem that is self-run and collaborative.

As this capacity building and collaboration is facilitated through a peer community and tri-sector design thinking journeys, plus a diverse network of tri-sector partnerships, SVPHK emphasises the need for equalised dialogue and co-creation between sectors of society. There can often be a lack of trust between civil society and the private and public sectors, complicated by market fragmentation and siloed thinking. SVPHK creates a safe space for strategic collaboration, and helps stakeholders exchange with experts and users to understand more deeply the unmet needs before designing business solutions with measurable impact.
This section details the findings from our survey of social enterprises in Hong Kong.

Social enterprise leadership

Age

Social enterprises in Hong Kong are led by a wide range of people. The survey findings tell us that 80 per cent of the leaders of social enterprises are between 25 and 60 years old. The largest proportion fall between 35 and 44 years old (27 per cent). This is followed by 45 to 54 years old at 22 per cent, and 25 to 34 years old at 19 per cent.

41 per cent are over the age of 45 years old. This correlates with the age demographics of Hong Kong overall, where 37 per cent of the population is between the ages of 45 and 65.

The Global Entrepreneurship Monitor’s 2016 study found the largest group of commercial entrepreneurs to be between the ages of 35 to 44 years old, which mirrors the findings of this research.

Figure 3: Age of social enterprise leadership

<table>
<thead>
<tr>
<th>Age</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 18</td>
<td>1%</td>
</tr>
<tr>
<td>18 - 24 years old</td>
<td>5%</td>
</tr>
<tr>
<td>25 - 34 years old</td>
<td>19%</td>
</tr>
<tr>
<td>35 - 44 years old</td>
<td>27%</td>
</tr>
<tr>
<td>45 - 54 years old</td>
<td>22%</td>
</tr>
<tr>
<td>55 - 60 years old</td>
<td>13%</td>
</tr>
<tr>
<td>61 years old or above</td>
<td>6%</td>
</tr>
<tr>
<td>Prefer not to answer</td>
<td>8%</td>
</tr>
</tbody>
</table>

Fair Ladies Food Factory provides food processing and packaging services, and organic food for the local market. The enterprise aims to promote sustainability and aims to provide flexible working opportunities for underprivileged women.
Social enterprises in Hong Kong are more often led by women than businesses more widely. Leadership includes those acting as Chief Executive Officers (CEOs), Managing Directors (MDs), founders, or Chairperson. When joint female and male leadership (22 per cent) and female leadership (32 per cent) of social enterprises is taken together, over half (54 per cent) of all social enterprises in Hong Kong are led by a woman.

This stands in comparison to commercial entrepreneurship in Hong Kong more widely, where the ratio of male to female business owners is 2.6 to 1\(^\text{st}\). Government statistics show that there remains a gender gap overall between male and female commercial leadership representation or employers in Hong Kong. Women represented just 21.8 per cent of employers in Hong Kong in 2019, at 22,100 out of 101,300\(^\text{st}\). Social enterprises therefore have greater representation of women in leadership positions compared to the wider business environment in Hong Kong.

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Leadership – vulnerable/marginalised group representation

Beneficiary groups are not particularly well represented within the leadership of social enterprises in Hong Kong. 65 per cent of social enterprises do not have any representation of beneficiary groups or vulnerable/marginalised/most minority groups within their leadership teams, while 22 per cent of enterprises reported having leadership representation of vulnerable groups. These groups include ethnic minorities, ex-offenders, people with disabilities, migrant workers, and senior citizens.

Stakeholders interviewed expressed concern that some social enterprises in Hong Kong are distanced from their direct beneficiary groups. They suggested that if there is no leadership representation of beneficiary groups within a social enterprise, it will limit the impact that an enterprise can ultimately have. This may hold back their ability to develop user-centric design and operations, along with the ability to pivot business models while still maintaining core purpose and values. Some stakeholders argued that as the language and discourse concerning social enterprise shifts to prioritising business and commercial mindsets, there is a risk of neglecting social change and focus on impact.

However, this was not a unified consensus among main stakeholders, with others asserting that social enterprises are still able to meet the social and environmental gaps they target without necessarily having leadership representation from among these groups.

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Gender

Figure 4: Gender of social enterprise leadership

<table>
<thead>
<tr>
<th>Gender</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>44%</td>
</tr>
<tr>
<td>Female</td>
<td>32%</td>
</tr>
<tr>
<td>Prefer not to answer</td>
<td>2%</td>
</tr>
<tr>
<td>We have female and male leaders</td>
<td>22%</td>
</tr>
</tbody>
</table>

Board of directors

The majority of social enterprises in Hong Kong adopt formal governance structures. 57 per cent of social enterprises in Hong Kong have a board of directors, while 41 per cent do not have such a structure in place. Of those enterprises that stated they do have boards of directors, 97 per cent have fewer than 50 employees.

Comparable figures for the broader SME sector in Hong Kong are not available; however the Hong Kong Institute of Directors in their ‘Guidelines on Corporate Governance for SMEs in Hong Kong’\(^\text{st}\) note that in the majority of SMEs, ownership and corporate governance controls are in the hands of single individuals or within family companies and they do not have boards. Comparatively, more social enterprises in Hong Kong are seeking guidance and advisory from board representatives than SMEs more widely. Of the social enterprises who have a board of directors, the majority have boards of directors that are male dominated, with 25 per cent showing little female representation (0-19 per cent female). Yet 32 per cent of social enterprises have a fairly gender-equal composition in their board, where 40 to 59 per cent of the board positions are filled by women and 16 per cent of social enterprises have boards with over 60 per cent women. The average gender composition of the boards of social enterprises is 37 per cent female and 63 per cent male.

This compares favourably to business more widely, where Community Business’s annual report on ‘Women on Boards’ in Hong Kong evaluating the gender composition of the boards of listed companies, found that just 13.6 per cent of board positions were held by women compared to 86.4 per cent for men\(^\text{st}\). Only 40 per cent of listed companies have multiple female directors. This stands in contrast with social enterprises, where there is significantly larger representation of female directors.

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However, this was not a unified consensus among main stakeholders, with others asserting that social enterprises are still able to meet the social and environmental gaps they target without necessarily having leadership representation from among these groups.
Background

Years of operation/age of entity

Social enterprises in Hong Kong are relatively young, with 49 per cent operating for four years or less. A significant rise in social enterprise start-ups from 2013 onwards coincides with the establishment of the SIE Fund and the Fund’s allocation of government funding to social innovation initiatives outside traditional social welfare/charitable organisations through the Impact Incubator and to other intermediaries.

From 2019 onwards, however, there have been fewer social enterprises formed, although this may be distorted by bias in the survey respondents. But these findings do corroborate interview results, where stakeholders suggested that the social unrest in the city, along with the unfolding impacts of Covid-19 have likely led to fewer entrepreneurs willing to form a social enterprise particularly with movement and operating hour restrictions. Despite this, there is a longer-term upward trajectory in social enterprise formation in the city.

Geography

Social enterprises work in districts across Hong Kong, and do not appear to have their activities concentrated in any one particular area. 17 per cent of social enterprises are headquartered in the Central and Western district of Hong Kong Island, representing the highest proportion. 29 per cent are based in Hong Kong Island overall whereas 45 per cent are based in Kowloon districts, and 27 per cent are based across those in the New Territories.

The majority of social enterprises (59 per cent) operate at a city-level, while 23 per cent operate locally within their districts and 15 per cent are international in their scale. Historically, and to date, the majority of social enterprises in Hong Kong are focused on solving the needs of their immediate communities where they operate and target local problems. This may change with a growing focus on the development of technological solutions that could support the regional and international operations of social enterprises in Hong Kong. Of those social enterprises currently operating internationally, 67 per cent were established between 2011 and 2018 (as compared to 75 per cent of all social enterprises which were established between 2011 and 2018).

Cost of premises and rent are likely to play a significant role in determining headquarters of social enterprises in the city, with high rents in Hong Kong Island linked to the greater number of registrations in Kowloon and New Territories. This correlates with stakeholder engagement findings which suggested that social enterprises that operate retail locations struggle to find suitable premises in commercial districts.
Legal registration of social enterprises

Hong Kong does not have a specific legal registration for social enterprises. As a result, organisations formally register their businesses in a range of legal forms. The survey findings tell us that the largest proportion of organisations choose to register as a private company limited by shares, representing 37 per cent. The second most popular form of registration is company limited by guarantee (16 per cent), a form regularly chosen by non-profit entities in Hong Kong, and non-profit organisation at 13 per cent.

Interviewees expressed the view that the legal form adopted by a social enterprise in Hong Kong is a critical decision for founders. Organisations that register themselves as charities, companies limited by guarantee, non-profits and receive ‘Section 88’ status find it easier to access government and family foundation funding and sources of capital. However, they also report being stigmatised as ‘charities’ and lacking business acumen, which then makes it harder to access investment capital. Whereas the inverse is experienced by those that register under other ‘for-profit’ forms, despite the significant policy shift by the SIE Fund to extend grants to these entities. Stakeholders expressed the view that continued support from government entities for social enterprises registered under ‘for-profit’ forms will support in changing the discourse from other funders in the ecosystem. Designation as a ‘Section 88’ entity also impacts how a social enterprise can use its profits particularly if they aim to expand overseas, as those with that status are unable to use profits outside of Hong Kong.

Self-identification

Self-identification is an important point for social entrepreneurs in Hong Kong. The problem of legal form and registration, and sentiment concerning this distinction becomes more apparent when it comes to how these organisations with a social or environmental purpose self-identify.

We asked survey respondents how they identify themselves. The largest proportion, 45 per cent, of organisations self-identified as a social enterprise. 39 per cent of organisations self-identified under multiple types, the most common of which were social enterprise, non-profit organisation, and social enterprise project. A deep dive into how legal form impacts the self-identification of social enterprises later in this report notes significant differences in how ‘for-profit’ entities identify as compared to ‘non-profits’.

The term and identification as a ‘social enterprise project’ is specific to the Hong Kong context, and applies to social enterprises that fall under the umbrella of larger NGOs or charities. One larger organisation can run multiple social enterprise projects at a time. The social enterprise projects evaluated by this research operated across sectors and core beneficiary groups, with no particular trends distinct from the wider findings. 43 per cent of the social enterprise projects identified in the study state that their primary beneficiaries are employees of their own organisation, in line with the WISE roots of social enterprise in the city. The main groups targeted include people with disabilities, ethnic minorities, senior citizens and the elderly, and young people.

Although there are multiple legal forms under which social enterprises register in Hong Kong, the majority (at 57 per cent) consider themselves to be social enterprises (including social enterprise projects).
Social enterprises in Hong Kong are at various stages in their development but many are at the stage of seeking to scale. Of course, not all social enterprises aim to scale but many do look to scale within Hong Kong.

Ideation stage can be understood as when entrepreneurs have a proposed idea and business model for their enterprise. Prototype is the second stage when a working prototype, or product/service is developed. Testing market stage involves the trialling of these prototypes to gauge market demand and consumer response. Validation involves continuing to test and refine the product/service offering before it is sold at a full scale. The scaling stage involves growing the established business through either horizontal or vertical scaling, which can include expanding geographical reach and market access, or expanding product offering.

The highest proportion of social enterprises reported that they are at the ‘scaling stage’ of operations, at 46 per cent. The smallest proportion are in the ‘ideation’ stage at three per cent. Our sample suggests that a large proportion of enterprises in Hong Kong have tested and validated their product or service offerings and social/environmental impact and are seeking to grow their operations further.

Stakeholders reported that in Hong Kong there is a common tendency for social enterprises to get stuck or confined to certain stages if they attempt to scale. Entrepreneurs may progress through a cycle of an incubation programme, through an accelerator programme, but then lack the skills and resources to advance further. Intermediary organisations play a critical role in building capacity in this regard, to support social enterprises in scaling and defining what scaling means to them. Our survey findings suggest that the majority of social enterprises in Hong Kong are seeking to scale and grow their operations and impact.

It is important to note that not all social enterprises conform to these ‘scaling stages’. Aims and organisational objectives for social enterprises differ, with not all prioritising growth and scaling. Several stakeholders interviewed expressed that in Hong Kong, social entrepreneurs should not feel pressured to adopt ‘scaling’ objectives. Stakeholders suggested that increasing impact may not necessarily have to be linked to scaling and acceleration from a commercial perspective, such as increasing business presence or increasing revenue/customer base. Collaboration and partnerships, social franchising, and consolidation of resources may be an effective way to scale impact for certain social enterprises in Hong Kong, as elsewhere.
Figure 15: Social enterprise sectors of operation

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business development services and entrepreneurship support</td>
<td>14%</td>
</tr>
<tr>
<td>Services for the elderly</td>
<td>10%</td>
</tr>
<tr>
<td>Arts, culture and heritage</td>
<td>9%</td>
</tr>
<tr>
<td>Medical social services</td>
<td>6%</td>
</tr>
<tr>
<td>Services for young people</td>
<td>5%</td>
</tr>
<tr>
<td>Retail</td>
<td>5%</td>
</tr>
<tr>
<td>Environmental protection</td>
<td>4%</td>
</tr>
<tr>
<td>Services with persons with disabilities</td>
<td>3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3%</td>
</tr>
<tr>
<td>Food and nutrition</td>
<td>3%</td>
</tr>
<tr>
<td>Energy and clean technology</td>
<td>3%</td>
</tr>
<tr>
<td>Waste and recycling</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
<tr>
<td>Mental health services</td>
<td>2%</td>
</tr>
<tr>
<td>ICT</td>
<td>2%</td>
</tr>
<tr>
<td>Agriculture and fisheries</td>
<td>2%</td>
</tr>
<tr>
<td>Media and communications</td>
<td>1%</td>
</tr>
<tr>
<td>Tourism</td>
<td>1%</td>
</tr>
<tr>
<td>Mobility and transport</td>
<td>1%</td>
</tr>
<tr>
<td>Livelihoods and employment creation</td>
<td>1%</td>
</tr>
<tr>
<td>Family and child welfare</td>
<td>1%</td>
</tr>
<tr>
<td>Justice and rehabilitation</td>
<td>1%</td>
</tr>
<tr>
<td>Infrastructure development and maintenance</td>
<td>1%</td>
</tr>
<tr>
<td>Forestry</td>
<td>1%</td>
</tr>
</tbody>
</table>

Social enterprises operate across a wide variety of sectors in Hong Kong, targeting a range of social and environmental problems in the city.

When social enterprises were asked about the outcomes they aimed to achieve, the most prominent Sustainable Development Goals (SDG) that emerged were Good Health and Well-being (14 per cent), followed by Sustainable Cities and Communities (12 per cent) and Quality Education (ten per cent). 15 per cent of social enterprises are engaged in education related activities, followed closely by those involved in business development services and entrepreneurship for NGOs.

Other than responsible consumption and production, social enterprises were less active in pursuing environmental outcomes, as goals such as Clean Water and Sanitation, Affordable and Clean Energy, Life Below Water and Life on Land featured for between one or two per cent of respondents and Climate Action among five per cent. Within Hong Kong where practically 100 per cent of the population has access to clean water and to reliable electricity, there is a relatively low identified societal need in this respect than in some other countries.

Good health and well-being is a priority for many social enterprises, which is linked to Hong Kong’s ageing population, and the city’s advancements in Med-Tech and Health-Tech. Social enterprises working on this objective also include those providing education and youth-related services on healthy living, and technology development for people with disabilities. It also includes those developing solutions and services for the elderly and medical social services. Stakeholders suggested that social enterprises working on health and well-being related objectives, are likely to see greater opportunities for growth and increased consumer demand given the ageing population and the societal and government focus on well-being as a result of the Covid-19 pandemic.

Sustainable Cities and Communities is the second highest focus area for social enterprises in Hong Kong, with 12 per cent of social enterprises tackling urban problems. The largest proportion of social enterprises operating in this sector include those working on recycling and urban waste problems, those providing business support to other organisations and enterprises, and those working on arts, culture and heritage promotion.

**CASE STUDY: Diamond Cab**

When Founder Doris Leung’s mother became permanently disabled in 2007, Leung searched for transport solutions that would accommodate her mother’s new needs. However, the options available were costly, illegal or inaccessible — lacking space or ramps for wheelchairs. One of the few options was an illegal van service that was double or triple the price of taxis. It operated with no insurance protection and failed to meet requisite safety conditions. Leung’s mother was not the only one in need of wheelchair transportation, she adds, “transportation is looking for public safety, and (is) a public problem.” Leung notes that public hospitals in Hong Kong have the highest number of elderly wheelchair users, who resort to private car services and illegal welcabs out of necessity.

After struggling to find services that could safely and legally transport wheelchair users, Doris Leung joined Social Ventures Hong Kong to create Diamond Cab, an affordable taxi service with wheelchair ramps installed in the vehicles. Since their founding, the company had made over 160,000 barrier-free trips in 2020. But they are still faced with several challenges. The supply of drivers has been a challenge for the company and is now being tackled via online recruitment and advertisements. Hardware that is both wheelchair accessible and family-friendly has been difficult to locate, as the latest type of approved cabs can only accommodate one wheelchair user and one carer, and also place barrier-free loading mechanisms on the side of the car, a design which drivers may find challenging to use. The relatively small market poses economic barriers as well, where manufacturers find the market too small or unprofitable to supply. This combination of resistance and resource shortage has limited the scale of Diamond Cab’s operations.

The project is, however, growing and gaining support from the private sector players, like insurers, and charity programmes which have come together to help with cab advertising. Medical groups are also getting involved with marketing and charity, while family foundations such as Lee Hysan Foundation are providing sponsorship to develop new schemes such as Diamond Leisure, transport for the elderly to access leisure activities. Increasingly, the taxi landscape in Hong Kong is characterised by larger, more accessible vehicles. Diamond Cab has contributed at a systems level to highlighting the need for improved access to transport across the city.

The state of social enterprise in Hong Kong
Impact measurement is often seen as a challenge for social enterprises globally. It is increasingly emerging as a requirement for customers and grant-makers alike. Stakeholders are eager to understand whether social enterprises are actually creating the impact that they say they are. This can be a challenge for social enterprises due to the cost and complexity involved. Nevertheless, it can also help leadership teams understand whether they are meeting the needs of their beneficiary groups and contributing to their intended outcomes. 62 per cent of social enterprises reported measuring their social impact, with the majority (54 per cent) measuring it themselves and 8 per cent using independent verification with external parties. Over a quarter of social enterprises (29 per cent) stated that they do not measure their social impact.

More recently established social enterprises were found to be more likely to be measuring their social impact, be it through self-evaluation and monitoring or external measurement. Social enterprises reaching over 1000 beneficiaries a year were the largest group measuring their social impact, at 26 per cent.

Interviewed stakeholders suggested that measuring and monitoring impact is important for social enterprises in Hong Kong, and this does affect their ability to access investor and venture philanthropist capital. Despite the majority of social enterprises completing impact measurements (whether themselves or using an independent verifier) most stakeholders stated that there are few social enterprises completing robust impact assessments, and that capacity building and tools are needed to support leadership teams in this area.

Social enterprises in Hong Kong are working for a diverse range of beneficiaries, with other organisations a frequent target group. Social enterprises were asked about their primary beneficiaries, to understand which groups or environmental concerns they are engaging with to tackle a market gap and meet a societal need.

Organisations (NGOs, micro and small businesses, social enterprises, self-help groups, community, and religious groups) 11.7%
Employees of your organisation 11.1%
Youth 10.7%
Senior citizens and the elderly 9.1%
Urban poor / low-income households 7.0%
People with disabilities 6.8%
Children (including children with special needs) 6.6%
Women 5.6%
Ethnic minorities 5.3%
Local artisans 4.5%
Animals and the environment 3.9%
Other 3.3%
People with chronic illnesses 3.1%
New arrivals from mainland China 2.5%
Farmers 2.3%
Refugees and asylum seekers 1.8%
Ex-offenders 1.8%
Informal workers 1.6%
Migrant workers 1.4%

Elderly people and senior citizens are another core beneficiary group for social enterprises in Hong Kong. As a result of the ageing population, stakeholders reported that targeting this beneficiary group and investing in technology related solutions for elderly people poses an opportunity for social enterprises in the near future.
Social enterprises operate at different scales. The largest proportion of social enterprises in Hong Kong are reaching over 1000 beneficiaries, at 23 per cent. This is followed by 21 per cent of social enterprises reaching 101 to 500 beneficiaries. The third largest proportion of social enterprises (19 per cent) are reaching a much smaller beneficiary group of 1 to 20 beneficiaries.

41 per cent of social enterprises reported that the number of direct beneficiaries they support has increased in the past year. The sectors in which these social enterprises operate is diverse, with the largest proportion operating in education, and business development services and entrepreneurship support. 13 per cent of social enterprises stated that the number of beneficiaries they support has remained the same in the past year, and 22 per cent reported a decrease.

We hope this provides a valuable baseline from which to measure and track how many beneficiaries are reached by social enterprises in future, particularly in the context of Covid-19.

The majority of social enterprises have small teams, with 70 per cent having less than 10 people on their staff. This mirrors the SME sector, where micro-enterprises, defined as those having fewer than 10 people, represent the majority of SMEs. 20 per cent of social enterprises have a workforce of between 10 and 29 people, followed by 6 per cent with 30 to 99 full-time staff.

There are a few outliers in the responses, of social enterprises with larger teams of over 100 full-time staff. These social enterprises are all large healthcare providers. Six of the social enterprises surveyed had smaller teams of full-time staff, between 1 and 35, but significant numbers of volunteers from between 100 to 1000.

Apart from the newly formed social enterprises in 2020, there was a negligible change in the size of the full-time workforce of social enterprises between 2019 and 2020. Overall, the size of the full-time social enterprise workforce has marginally increased from last year to this year, from 832 employees to 848, representing an increase of 1.8 per cent. This demonstrates that employment in the social enterprise sector has remained largely consistent, despite the initial impacts of the Covid-19 outbreak.

For those enterprises reporting employees of their organisations as their primary beneficiary group, the largest proportions of these included young people, women, low-income individuals, people with disabilities and ethnic minorities.
Gender diversity of employees

Social enterprises are playing a significant role in the important job of gender equality and representation of women in the workplace.

67 per cent of social enterprises have 50 per cent or more women employed on their staff. Female representation in the social enterprise workforce has decreased marginally between 2019 and 2020, dropping from 59 per cent to 57 per cent. As compared to the broader Hong Kong labour force context, social enterprises have slightly higher female representation where overall female labour force participation was recorded at 55 per cent in 2019.

In terms of distribution, 71 per cent of social enterprises have 50 per cent or more women employed full-time in 2019 as compared to 67 per cent in 2020. However, this change is considered minimal especially in light of the fact that the majority of social enterprises have very small teams, where a small change in workforce composition can affect the gender breakdown considerably.

Financial profile

The following financial profile findings apply to social enterprises in Hong Kong prior to onset of the Covid-19 pandemic.

Annual revenue (amount)

Social enterprises can mostly be characterised as small businesses but this is not true for all. Social enterprises surveyed generated an average revenue of HKD 1,611,429. The median revenue for social enterprises is in the range of HKD 100,000 to HKD 500,000. The average revenue is higher than the median revenue range, demonstrating that there are a small number of outliers that have considerably higher revenues than the average.

The highest proportion of social enterprises were generating an annual revenue of between HKD 100,000 to HKD 500,000 at 22 per cent. This is closely followed by those generating between HKD 1 million to HKD 5 million at 20 per cent. 10 per cent of social enterprises reported that they are not generating revenue yet, but are receiving seed funding from incubators and accelerators, or are at the early stages of ideation or prototyping.

Hong Kong social enterprises are positive about their prospects for revenue generation in the next year, with 49 per cent expecting their revenue to increase to some degree. A further ten per cent expect their revenue to remain about the same in the next year. A significant proportion at 36 per cent expect a decrease in revenue to some degree in the next year, likely as a result of continuous uncertainty resulting from Covid-19 and impacts on movement and in-person gathering restricts, and retail hours.

Note: Our estimate uses the mean of the annual revenue range whereas survey respondents were provided with range estimates for revenue to avoid them having to provide absolute values, which they may not wish to or may not have had to hand. The maximum band of HKD 10 million, is capped at the minimum of that range (HKD 10,000,000). Those organisations that did not disclose their revenue were not included in the average calculation.
Social enterprises are viable businesses, breaking even or generating profit from their operations. 46 per cent of social enterprises reported making a profit or breaking even in the last year, while 31 per cent stated they have yet to reach a break-even point in their operations. 12 per cent of those surveyed stated that this was not yet applicable to their operations, as they have yet to generate revenue.

Of those organisations that reported making a profit, 52 per cent reinvested this back into their social or environmental mission, including growth. 17 per cent used their profit to subsidise other charitable projects.

In Hong Kong where social enterprise projects are often branches of larger non-profits or charities, using surplus to subsidise these projects is common and in line with our other survey findings. 15 per cent distributed profit/surplus to their employees, and a further ten per cent distributed some profits to shareholders.

As 31 per cent of social enterprises are yet to reach a break-even point, this highlights the need for further targeted support and measures to help entrepreneurs to understand their needs.
The Hong Kong landscape is characterised by a significant number of seed funding sources for social enterprises, both from government agencies and funds, along with funders such as the Hong Kong Jockey Club. These seed funding sources are important sources of finance for early-stage social enterprises.

The largest proportion of social enterprises received funding from the SIE Fund, at 32 per cent. This demonstrates the continuous impact that the SIE Fund has in particular, in shaping and supporting the development of the social enterprise landscape.

‘Other’ sources represented the second highest proportion at 27 per cent. This included the Hong Kong Jockey Club, the Community Resilience Fund, Sustainable Development Fund, Hong Kong Science Park, INCO Education Accelerator, the Design Incubation Programme (DIP), PolyU Micro Fund, Hong Kong Social Enterprise Challenge and University Start-up Fund. This information provides a baseline understanding of the most commonly accessed sources of seed funding by entrepreneurs.

Social enterprises were asked about the sources of funding and finance that they have received to date, apart from revenue generated through sales. This provides an understanding of the other forms of finance that social enterprises have had to access to support their operations.

The most common source of funding was personal income from another job or source at 21 per cent allocating personal finances towards the development of a new company – known as bootstrapping. This is similar to the SME sector, where the majority of SMEs rely on self-financing as their primary source for raising capital. However, SMEs’ second largest source of finance is secured loans from commercial banks, which social enterprises appear to have greater challenges accessing.

Following personal finances, 17 per cent of social enterprises have also received donations of cash and also in-kind contributions and support such as equipment or volunteering time. 17 per cent of social enterprises also received grant funding from governments. Only one per cent of organisations received commercial loans, and two per cent concessional loans. This reflects stakeholder consensus from interviews that it remains difficult for social enterprises in Hong Kong to access repayable finance such as commercial loans to build their businesses.

For those organisations that received grant funding from government, 36 per cent used these funds to cover operating costs including rent. Another 23 per cent used this for targeting organisational expansion or growth, and 18 per cent used the funds for purchasing or maintenance of necessary equipment. Capacity building of staff and of marginalised stakeholders linked to the social enterprise followed at 14 per cent and seven per cent respectively.
Social enterprises in Hong Kong have long faced difficulties in accessing finance and funding. The government’s Commission on Poverty has set up two public funding initiatives, the ‘Enhancing Employment of People with Disabilities through Small Enterprise’ in 2001 and ‘Enhancing Self-Reliance through District Partnership Program (ESR)’ in 2006.

Aiming to encourage social innovation, the government allocated 500 million HKD to the newly launched Social Innovation and Entrepreneurship Development Fund in 2013. Both private and non-profit organisations could apply for funding social entrepreneurship and innovation pursuits that would promote social integration and alleviate poverty.

In the past seven years, 230 projects have received funding from SIE. The bulk of projects fall under the Innovative Programme funding category, which supports projects at different levels of development from prototyping to scaling up. To enhance the Innovative Programme, the SIE Fund additionally partnered with experts in the social sector to jointly design and implement programs for social entrepreneurs. For instance, Good Seed, a programme created in partnership with Poly UTechnology and Consultancy, intends to equip students at higher education institutions to channel design and technology into innovative solutions. During their Ideas Competition, project teams with the most creative ideas are awarded 200,000 HKD. Projects have also been funded for capacity building or research purposes, where projects were given the financial assistance needed to promote cross-sector collaboration, nurture young social entrepreneurs and identify best practices and solutions.

Social enterprises face a number of constraints in accessing financing. 18.4 per cent and 18.1 per cent of social enterprises respectively reported that the top financing constraints they face include a lack of refinement in their business models and a limited supply of capital. These are followed by a lack of access to investors and a limited track/performance record required to access financing, at 16.8 per cent and 16.3 per cent respectively. These financing constraints strongly align with the interview insights received from social enterprises and other stakeholders in the ecosystem.

Impact investors, venture capitalists and philanthropists suggest that there continues to be a lack of refinement and maturity in the business models of social enterprises, particularly those in initial stages of ideation and development. They asserted that more needs to be done in terms of building investment readiness in these organisations to prepare them for receiving external capital. Understanding the impact model and value chain, and theory of change for social enterprises, along with systematic approaches to impact measurement are also identified as gaps by investors.

38 per cent of social enterprises reported not applying for external financing (including investments, loans and grants) over the past three years. Seven per cent succeeded in applying for investments and loans, and 26 per cent succeeded in applying for grants. Six per cent attempted to apply for investments and loans but did not succeed, and 13 per cent attempted to apply for grants but were not successful.
In 2017, co-founders Ms. Dorothy Lam, Mr. YS Lam, Dr KK Tse, Ms. Rebecca Yung and Ms. HW Chan repurposed a commercial warehouse into a hub for entrepreneurs and innovators. It has since become a co-working and event space with an aim to house ideas, foster collaboration and scale impact. But beyond a space, Dream Impact plays a crucial role in expanding the social enterprise ecosystem. Together with their Chief of Strategy and Growth, Ms. Cintia Nunes, Dream Impact now nurtures and equips the socially oriented community with professional skills and financial support by connecting start-ups to investors and corporations.

The Dream Impact team has observed changes in the objectives of social enterprises, whose original purpose was often to create employment opportunities and has now shifted towards the delivery of products and services. The evolution of the sector has been matched by the entry of people of different professional backgrounds. Dorothy adds, ‘they started from the social work background, now there are lawyers, professionals, investment bankers starting their own start-ups,’ an expansion that helps meet the need for professional talent in the sector.

Dorothy notes that many social enterprises encounter difficulty with funding. Despite the government’s Community Investment and Inclusion Fund (CIIF Fund), the Enhancing Self-Reliance Through District Partnership Programme, the Enhancing Employment of People with Disabilities and Social Innovation and Entrepreneurship Development Fund (SIE Fund), widely popular funds for social enterprises, the criteria of these funds has not evolved with the sector, limiting start-up purposes to poverty alleviation and social inclusion for the marginalised groups and excluding start-ups that are dedicated to other objectives. More and more investors are becoming interested in responsible investment, but the sustainable finance sector is still emerging: What types of funding are available? How does one receive funding? What is the best way to measure value for both investors and investees?

Social enterprises have a diverse set of priorities for their growth and operations. Improving business models to achieve financial stability (18 per cent), networking and forming partnerships (14 per cent), and customer acquisition (13 per cent) are the top three growth priorities for social enterprises. This is followed by identifying funding and finance (12 per cent) and improving the quality of the product or service (11 per cent).

These findings are aligned with interview findings with social enterprises and other stakeholders in the ecosystem, which demonstrated that these problems are often barriers and challenges for organisations in the Hong Kong context.

Far fewer enterprises were interested in impact assessment, training, and mentoring or coaching. Stakeholders identified impact assessment as an important area for social enterprises to prioritise if they are seeking to engage with investors.
Social enterprises face a number of challenges that affect their ability to grow and expand their impact. Customer acquisition and market development (24 per cent), access to financial support (20 per cent) and product/service development and innovation (15 per cent) are the top ranked challenges reported by social enterprises. 44 per cent of social enterprises ranked customer acquisition as the single most significant challenge that they face. Far fewer social enterprises reported access to public services and government support, impact assessment, and access to non-financial support as main challenges they face at four per cent.

Social enterprises shared examples of actions they have undertaken to overcome these challenges.

These included:

- Reviewing and developing a mission statement and a resourcing strategy, as well as evaluating subsidies available and marketing and exposure opportunities
- Investing in product development
- Actively recruiting new members
- Developing impact assessment models
- Engaging with distributors to expand channels
- Networking and exchange with other groups
- Collaboration with NGOs and other partners
- Renovation of production facilities to stabilise capacity and improve quality
- Accessed the advice of mentors who helped greatly in improving presentations to impact investors and others
- Building internal capabilities (operations, communications, strategy, etc)
- Talent acquisition and retention
- Achieving social objectives
- Access to public services and government support
- Impact assessment
- Access to non-financial support (mentorship, business advice, shared office spaces, etc)
- Achieving social objectives
- Access to financial support (grants, sponsorships, donations, etc)
- Customer acquisition and market development

Barriers to growth

Figure 30: Top challenges faced by social enterprises
Figure 31: Major barriers faced in the last three years

<table>
<thead>
<tr>
<th>Barriers</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow</td>
<td>12%</td>
</tr>
<tr>
<td>Recruiting other staff</td>
<td>10%</td>
</tr>
<tr>
<td>Obtaining grant funding</td>
<td>9%</td>
</tr>
<tr>
<td>Availability or cost of suitable premises</td>
<td>9%</td>
</tr>
<tr>
<td>Understanding / awareness of social enterprise among general public / customers</td>
<td>9%</td>
</tr>
<tr>
<td>Lack of demand for product or service - low sales</td>
<td>7%</td>
</tr>
<tr>
<td>Shortage of technical skills</td>
<td>6%</td>
</tr>
<tr>
<td>Capital (debt / equity)</td>
<td>5%</td>
</tr>
<tr>
<td>Economic climate (fiscal regulations, prohibitive commissioning, exchange rate losses)</td>
<td>5%</td>
</tr>
<tr>
<td>Shortage of managerial skills</td>
<td>5%</td>
</tr>
<tr>
<td>Production capacity</td>
<td>4%</td>
</tr>
<tr>
<td>Expensive transportation / logistics or distribution of product</td>
<td>4%</td>
</tr>
<tr>
<td>Access to market / access to distribution channel</td>
<td>4%</td>
</tr>
<tr>
<td>Lack of access to support and advisory services</td>
<td>3%</td>
</tr>
<tr>
<td>Understanding / awareness of social enterprise among banks and support organisations</td>
<td>3%</td>
</tr>
<tr>
<td>Others</td>
<td>3%</td>
</tr>
<tr>
<td>Regulations / red tape</td>
<td>2%</td>
</tr>
<tr>
<td>Late payment</td>
<td>2%</td>
</tr>
</tbody>
</table>

Other main barriers are cash flow (12 per cent), staff recruitment (ten per cent), obtaining grant funding (nine per cent), availability/cost of suitable premises (nine per cent), and understanding/awareness of social enterprise (nine per cent). Social enterprises face similar challenges to SMEs in Hong Kong more widely. A 2019 survey of SMEs found that rising overheads and costs, and cashflow are the two greatest challenges they face\(^1\).

Interviewed stakeholders reported that there are some common barriers that they see social enterprises facing in the market. A lack of understanding and market research, on their beneficiaries, competitors and general landscape was repeatedly mentioned as a suggested focus area particularly for social entrepreneurs that believe they are ‘stagnating’ to refresh and align with market demand. A need to build business/commercial acumen and ability to conduct cost-benefit analyses was also mentioned, particularly for recent graduates and young social entrepreneurs.

Founded in 2015, Urban Spring limits single-use plastic consumption by offering customers a safe and fun water refilling experience. Their water refilling machine, Well井, aims to relieve environmental impacts of single-use plastic by curbing plastic bottle numbers, which stands at roughly 5 million bottles every day and places an enormous burden on Hong Kong landfills. Installed in 300 locations around Hong Kong, Well井 has saved more than 5 million bottles and 7.9 million kg of CO\(_2\) emissions to date. Well井’s sleek design optimises features that ensure the supply of water is safe to drink. It has a contactless nozzle, autoflushes to prevent bacteria growth, and is installed with an international NSF Certified Filtration system which can remove lead.

While water stations are Yip’s vehicle for behavioural change, branding and education are considered the catalyst for it. Co-Founder Ada Yip recognises a need to emphasise ‘cool’ and ‘stylish’ rather than just another ‘green option’ to persuade people to use water refilling stations. The machine employs a weather responsive temperature regulator to maintain refreshing taste and uses an Interactive Screen to display content communications as well as the accumulative number of bottles saved.

But Yip adds, ‘when there is a viable good alternative, why are people still using bottled water?’ She notes the importance of marketing and education in challenging public perception on water refilling stations. Common myths include the safety of tap water and the cleanliness of the machines, as water foundations commissioned by the government have nozzles that incite worry about spreading germs. Although Urban Spring’s design avoids these problems with touchless nozzles, driving down education and engaging players across sectors are crucial to generate impact. Urban Spring has engaged with schools and universities, but Yip believes there needs to be more involvement from students. She states, ‘going into schools and doing one talk is not enough. How can younger groups be part of designing the message to change?’

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\(^1\) Source: Hong Kong Small and Medium Enterprises Development Service Centre (SMEC) 2019, "The State of the Social Enterprise in Hong Kong: 2019 Survey of Social Enterprises in Hong Kong," Hong Kong Small and Medium Enterprises Development Service Centre (SMEC)
Social enterprises access a wide range of non-financial support measures from different stakeholders in the ecosystem. The largest proportion (12 per cent) have received mentoring or coaching, followed by peer support, exchanges and visits, and training at 11 per cent each. Nine per cent of enterprises accessed support from incubators and accelerator services. Ten per cent of social enterprises reported that they have not accessed any non-financial support.

Stakeholders suggested that there needs to be increased provision and use of commercial business modules and courses in accounting, marketing and distribution, communications and product design for social entrepreneurs and founding teams before beginning operations. In reference to mentors and coaches, stakeholders also expressed that this can be beneficial for entrepreneurs, particularly if those mentors are from the private sector or from experienced social entrepreneurs.

Registered non-profits and charities operating as social enterprises have a long history in Hong Kong, even before the 1900s. Significant increases in the number of private limited companies occurred from 2006 onwards, coinciding with government promotion of social enterprises more broadly, and accelerating from 2012 with the launch of the SIE Fund.
Significant differences emerge as regards self-identification between these two groups. The majority of private limited companies self-identify as social enterprises or social enterprise projects at 73 per cent of those surveyed. In contrast, only eight per cent of the non-profit related entities self-identify as a social enterprise or social enterprise project. Instead they overwhelmingly declare as community organisations or non-profits (60 per cent).

The average annual revenue of the non-profit group of entities is HKD 2,116,666 and the median revenue is between HKD 500,000 and HKD 1,000,000. Conversely, for the private limited group of entities, the average annual revenue is significantly lower at HKD 1,347,826 and the median revenue is between HKD 100,000 to HKD 500,000.
For both the non-profit group of entities and the private limited companies, the primary use of profit/surplus is directing/reinvesting it back for the social or environmental mission, with the former reporting slightly higher at 61 per cent versus 53 per cent for the latter. Non-profits’ second most frequent use of profit/surplus is to subsidise other charitable projects, whereas for the private limited companies it is for distribution to employees.

Trading with the public and general consumers is the most common source of revenue for both non-profits and private limited companies at 32 per cent and 41 per cent respectively. Non-profits further report seed funding and grants from incubators/accelerators as significant revenue sources, followed by government grants and sponsorships. In contrast, private limited companies report trading with corporates and trading with non-profits as other significant revenue sources. This reflects the stakeholder engagement findings which demonstrate that non-profit entities that do not have Section 88 status have greater challenges in receiving government funding, and funding from traditional investors such as family foundations which are perceived to prefer lending or providing grants to non-profits.
Priorities for growth

Improving business models and customer acquisition are common priorities for both private limited companies and social enterprises registered as non-profits. However, they differ in terms of networking and forming partnerships which is a priority for non-profits, and improving the quality of products/services which is more important to private limited companies. This may draw from the challenges they face in obtaining financing and support, where non-profits prioritise collaboration and partnerships, whereas private limited companies must demonstrate quality of their goods and services as compared to the private sector.

Figure 41: Non-profit, charity, companies limited by guarantee – priorities for growth

<table>
<thead>
<tr>
<th>Priority</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Networking and forming partnerships</td>
<td>17%</td>
</tr>
<tr>
<td>Improving business model to achieve financial stability</td>
<td>17%</td>
</tr>
<tr>
<td>Customer acquisition</td>
<td>13%</td>
</tr>
<tr>
<td>Identifying funding/finance</td>
<td>12%</td>
</tr>
<tr>
<td>Recruiting and retaining talent</td>
<td>10%</td>
</tr>
<tr>
<td>Improving the quality of the product and/or service</td>
<td>10%</td>
</tr>
<tr>
<td>Aligning business model with social mission</td>
<td>9%</td>
</tr>
<tr>
<td>Marketing and branding</td>
<td>5%</td>
</tr>
<tr>
<td>Training</td>
<td>3%</td>
</tr>
<tr>
<td>Impact assessment</td>
<td>3%</td>
</tr>
<tr>
<td>Mentoring or coaching</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

Figure 42: Private limited company, partnership, public limited company, sole proprietorship – priorities for growth

<table>
<thead>
<tr>
<th>Priority</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving business model to achieve financial stability</td>
<td>19%</td>
</tr>
<tr>
<td>Customer acquisition</td>
<td>14%</td>
</tr>
<tr>
<td>Improving the quality of the product and/or service</td>
<td>13%</td>
</tr>
<tr>
<td>Identifying funding/finance</td>
<td>12%</td>
</tr>
<tr>
<td>Networking and forming partnerships</td>
<td>11%</td>
</tr>
<tr>
<td>Marketing and branding</td>
<td>10%</td>
</tr>
<tr>
<td>Aligning business model with social mission</td>
<td>9%</td>
</tr>
<tr>
<td>Recruiting and retaining talent</td>
<td>8%</td>
</tr>
<tr>
<td>Mentoring or coaching</td>
<td>2%</td>
</tr>
<tr>
<td>Impact assessment</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
<tr>
<td>Training</td>
<td>1%</td>
</tr>
</tbody>
</table>

Improving business models and customer acquisition are common priorities for both private limited companies and social enterprises registered as non-profits. However, they differ in terms of networking and forming partnerships which is a priority for non-profits, and improving the quality of products/services which is more important to private limited companies.

Barriers to growth

Figure 43: Non-profit, charity, companies limited by guarantee – barriers faced to growth

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow</td>
<td>15%</td>
</tr>
<tr>
<td>Recruitment</td>
<td>13%</td>
</tr>
<tr>
<td>Obtaining grant funding</td>
<td>12%</td>
</tr>
<tr>
<td>Availability/cost of premises</td>
<td>9%</td>
</tr>
<tr>
<td>Lack of demand for product/service</td>
<td>9%</td>
</tr>
<tr>
<td>Understanding of social enterprise among public</td>
<td>8%</td>
</tr>
<tr>
<td>Shortage of technical skills</td>
<td>5%</td>
</tr>
<tr>
<td>Shortage of managerial skills</td>
<td>5%</td>
</tr>
<tr>
<td>Economic climate</td>
<td>4%</td>
</tr>
<tr>
<td>Production capacity</td>
<td>4%</td>
</tr>
<tr>
<td>Lack of access to support and advisory</td>
<td>4%</td>
</tr>
<tr>
<td>Understanding of social enterprise among banks and support organisations</td>
<td>3%</td>
</tr>
<tr>
<td>Expensive transportation/logistics for distribution</td>
<td>3%</td>
</tr>
<tr>
<td>Late payment</td>
<td>3%</td>
</tr>
<tr>
<td>Capital</td>
<td>2%</td>
</tr>
<tr>
<td>Access to markets/distribution channels</td>
<td>1%</td>
</tr>
<tr>
<td>Regulations/red tape</td>
<td>1%</td>
</tr>
</tbody>
</table>

Figure 44: Private limited company, partnership, public limited company, sole proprietorship – barriers faced to growth

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Per cent</th>
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<tbody>
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</tr>
<tr>
<td>Access to markets/distribution channels</td>
<td>1%</td>
</tr>
<tr>
<td>Regulations/red tape</td>
<td>1%</td>
</tr>
</tbody>
</table>
Private limited companies report their top three barriers to growth as being cash flow (11 per cent), availability or cost of premises (nine per cent) and understanding/awareness of social enterprise (nine per cent). Non-profits have the same top barrier as cash flow (14 per cent), but instead report recruitment (13 per cent) and grant funding (13 per cent) as the other most common barriers faced.

Covid-19 has had a significant impact on the revenue generated by social enterprises. 65 per cent of social enterprises have had their revenue negatively impacted as a result of Covid-19. 41 per cent have seen a decrease in revenue of 50 per cent or more.

Those interviewed stated that businesses already developing online product and service offerings, or able to pivot their business models away from in-person activities have been the most successful in this environment.

The survey was launched at the end of September, nine months into the outbreak of Covid-19 in Hong Kong in January 2020. As the situation continues to evolve, the impact upon social enterprises will also evolve over the coming months. The survey provided an opportunity to understand what the initial impacts have been upon social enterprises in the city, and the support they need.
Operating challenges and uncertainty caused by the pandemic have impacted the demand for products and services offered by social enterprises. 54 per cent of organisations have had demand for their products/services negatively impacted by Covid-19 to some extent. Yet 19 per cent have seen higher demand, with the majority focused on good health and well-being. Social enterprises that pivoted their business models reported they have moved training and workshops online, started using virtual tours and marketing for events, and online delivery services.

58 per cent of social enterprises reported there had been no changes to their workforce as a result of Covid-19. 16 per cent reported a decrease, and 12 per cent reported an increase. 60 per cent of social enterprises reported that they had not had to reduce their workforce salaries, and 10 per cent reported being able to increase salaries during the Covid-19 period. 14 per cent reported having to implement salary decreases as a result of Covid-19.

As regards the working hours of staff, the impact of Covid-19 led to 12 per cent of social enterprises having their workforce work longer hours, while 45 per cent stayed the same. 27 per cent reported a decrease in working hours.

The Covid-19 pandemic has required many social enterprises to adjust and pivot their business models to ensure business continuity and survival. Example strategies used include focusing on online promotion and marketing of services. Several enterprises reported that they had to pivot their service offering to an online model, with many holding online seminars and events such as parenting workshops, and educational clubs for youth, as well as corporate training programmes. Some entrepreneurs shared that these measures have been very successful, and they continue to find new digital solutions and ways of engaging with customers while others stated that it has been very detrimental to their business.

The top challenges faced in the Covid-19 environment are uncertainty of business environment (24 per cent), loss of customers/revenue (21 per cent), and adjustment of operations to ensure business continuity (14 per cent). These are followed closely by cashflow and liquidity problems (13 per cent), and challenges to digitisation (12 per cent). Fewer social enterprises reported challenges relating to fulfilling the needs of vulnerable groups, or disruptions to their supply chains.
The majority of social enterprises (53 per cent) accessed the government’s Employment Support Scheme to retain their staff and continue to provide them with wages. Through the scheme, social enterprises accessed wage subsidies. 11 per cent of organisations were able to access the Retail Sector Subsidy Scheme. Several social enterprises specifically stated that they have applied for the Distance Business Programme (D-Biz) which provides financial support to enterprises to adopt IT solutions to continue their business and operations throughout the Covid-19 period.

27 per cent of social enterprises reported that they were not able to access government support measures due to the level of detailed information and resource commitment required for application, and low levels of funding approval that discouraged them from applying. Five social enterprises that were successful reported that funding has taken a long time to be disbursed, exacerbating immediate cash flow problems. The length of time taken to receive the funding was also cited as a deterrent to application.

### Government support measures accessed

<table>
<thead>
<tr>
<th>Government Support Measures</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment Support Scheme</td>
<td>53%</td>
</tr>
<tr>
<td>Retail Sector Subsidy Scheme</td>
<td>11%</td>
</tr>
<tr>
<td>Rental and Fee Concessions</td>
<td>9%</td>
</tr>
<tr>
<td>Food license Holders Subsidy Scheme</td>
<td>7%</td>
</tr>
<tr>
<td>SME Financing Guarantee Scheme</td>
<td>6%</td>
</tr>
<tr>
<td>Training / Skills Upgrading Subsidies</td>
<td>5%</td>
</tr>
<tr>
<td>Distance Business Programme (D-Biz)</td>
<td>4%</td>
</tr>
<tr>
<td>Arts and Culture Subsidy Scheme</td>
<td>3%</td>
</tr>
<tr>
<td>Start-up Loan Scheme deferral</td>
<td>2%</td>
</tr>
<tr>
<td>Recycling Fund Rental Subsidy</td>
<td>1%</td>
</tr>
</tbody>
</table>

The state of social enterprise in Hong Kong

### Support needed

<table>
<thead>
<tr>
<th>Support Needed</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connecting you with funders that may be able to assist your organisation</td>
<td>21%</td>
</tr>
<tr>
<td>Getting support to help you in digitalizing your operations / marketing etc</td>
<td>19%</td>
</tr>
<tr>
<td>Lobbying government to get support for organisations with social / environmental impact during COVID-19</td>
<td>17%</td>
</tr>
<tr>
<td>Connecting your organisation with offers of in-kind support</td>
<td>16%</td>
</tr>
<tr>
<td>Getting capacity building on a range of practical topics</td>
<td>9%</td>
</tr>
<tr>
<td>Prefer not to say</td>
<td>7%</td>
</tr>
<tr>
<td>Connecting you with temporary staff / volunteers</td>
<td>6%</td>
</tr>
<tr>
<td>Providing and signposting to guidance on how to run your business during COVID-19</td>
<td>4%</td>
</tr>
</tbody>
</table>

Funding and cash flow restraints (21 per cent) remain a critical problem for social enterprises, while connecting with potential sources of funding remains the most needed support. This is closely followed by support needed to effectively digitalise operations and marketing (19 per cent). Lobbying the government additional support for organisations with a social/environmental purpose and connecting with in-kind support are other significant forms of support needed, at 17 per cent and 16 per cent respectively.

**CASE STUDY: Community Resilience Fund**

During the pandemic in March 2020, Social Ventures Hong Kong and Sustainable Finance Initiative developed the Community Resilience Fund (CRF), a bridge funding opportunity for social enterprises to cushion the effects of Covid-19 and combat the slower income flow. The loan was designed and implemented in partnership with twenty collaborators from impact investing philanthropic, commercial and legal backgrounds. Meanwhile, funds arrived from foundations, family offices and individuals.

Within the first three months of the fund’s establishment, eight social enterprises received zero-interest loans to continue their crucial and impactful work, serving business purposes such as special needs education, preventing debt bondage for migrant workers, soap redistribution, and maintaining the mobility of the elderly 27. Although bridge funds provide temporary relief, CRF initiatives intended to equip and strengthen social enterprises for the long term. Operating on the vision and mission, Bridge for Today, Revive for Tomorrow, CRF engaged with almost twenty social enterprises on extra-financial support, developing skills and building resilience through one-on-one training sessions, impact measurement workshops and network referrals.
Conclusions

The social enterprise landscape in Hong Kong reflects the social needs and commercial profiles in the city.

Social enterprises in Hong Kong:
- are focusing on creating impact in health, smart cities, and employment, aligning with Hong Kong’s main social needs
- work across all districts of Hong Kong
- are relatively young, having been in operation for four years or less, and consider themselves to be at a scaling stage
- are relatively small, with less than 10 employees
- create impact through providing employment aligned with the work integration social enterprise (WISE) model
- jointly prioritise both generating profit and their social/environmental mission, and are mainly reinvesting profit generated back into the business for impact
- tend to be led by individuals at a mid-point in their career
- are more often led by men but the sector has comparatively higher representation of women than businesses more widely in Hong Kong
- are often registered as private companies limited by shares, with comparatively fewer registering as charities and NGOs
- are breaking even or making a profit, but many continue to rely on other forms of capital for financing.

These findings lead to a number of reflections on the state and landscape of the social enterprise ecosystem in Hong Kong.

Roots in WISE
The research has found that there are several specific characteristics of the social enterprise landscape in Hong Kong. The first is its strong roots in WISE. Government promotion of WISE through the ‘Enhancing Employment of People with Disabilities through Small Enterprise Project’ in 2001 was a pivotal moment in the development of these businesses, with NGOs receiving grants for providing employment to people with disabilities. There is a commitment to promoting WISE and providing employment for disadvantaged and vulnerable groups in Hong Kong with employees within social enterprises being the second largest beneficiary group for enterprises in the city.
Maturity of ecosystem

Hong Kong has a well-developed ecosystem in terms of support available for social enterprises. There are a significant number of intermediaries, membership bodies, chambers, and social enterprises themselves that state that their mission and purpose is to help other enterprises. This is a relatively mature ecosystem with a commitment from many stakeholders to grow the social enterprise space in Hong Kong.

However, the level of maturity in the support system does not appear to be reflected in the level of maturity in the social enterprises themselves. 49 per cent of social enterprises in Hong Kong are less than four years old and 31 per cent (the largest bucket) are not yet making a profit. Considering that the concept of social enterprise is not new in Hong Kong, a larger proportion of mature social enterprises could perhaps be expected. Yet this large proportion of young social enterprises could be indicative of an eruption of new social enterprises, fuelled by the mature support systems. Regardless, financial and non-financial support should respond to the needs of both young and maturing social enterprises.

Misaligned support

Respondents reported that the main barriers for social enterprises are cash flow (12 per cent), staff recruitment (10 per cent) and obtaining grant funding (nine per cent). Many suggest that more help is needed for them to access funding and non-financial support, such as refining their business models and support in gaining access to customers and markets. This indicates that current support for social enterprises, both financial and non-financial, could be improved.

Stakeholders have suggested that financial support provided to social enterprises primarily by the government and to a lesser degree by incubators/accelerators, investors and venture philanthropists, is misaligned, particularly in the context of Covid-19. Some believe that there is a lack of targeted financial support to social enterprises with developed business plans and commercial acumen that are likely to break-even or return a profit. Instead, the finance is distributed in smaller amounts across a broader pool of social enterprises. Interviewees stated that funding for social enterprises is skewed towards new and seed stage social enterprises, with less resources available for growth stage organisations. Application and competition processes to access funding are often perceived as gruelling, while grants are insufficient. In addition, non-financial support, in the form of specific mentoring and coaching, rather than generic business training, may be of value to social enterprises that have sound social impact credentials but poor business knowledge.

Disconnect between social enterprises and beneficiaries

Survey results hint at other needs in the Hong Kong social enterprise space. Just 22 per cent of social enterprises have representation of beneficiaries in their leadership teams or governance structures. Interviewees mentioned that many social enterprise leaders are business professionals looking to do more significant work and contribute to social and environmental needs in the city. Although they may bring vital business skills, they may be inexperienced in understanding social need. This perceived disconnect between social enterprises and the beneficiaries could negatively impact the effectiveness of their operations and both their social impact and financial returns.

Challenges associated with Covid-19

Hong Kong is continuing to balance traditional business challenges with challenges in the external environment linked to recent social unrest, as well as local and global government restrictions brought about as a result of the Covid-19 pandemic. In fact, 41 per cent of social enterprise respondents reported a revenue loss of over 50 per cent as a result of Covid-19. Many of the challenges faced by social enterprises may have been exacerbated by this double blow, but it remains to be seen if social enterprises are disproportionally affected versus other business types.

Despite the challenges that social entrepreneurs face, they remain committed to their social and environmental purpose and are optimistic about the future, with 49 per cent expecting an increase in their revenue over the next year. The majority of social enterprises have not had to make changes to the size or salaries of their workforces as a result of Covid-19, and many report successfully adjusting and pivoting their business models to respond to persistent uncertainty.

Legal registration frustrations

Another distinguishing characteristic of the landscape in Hong Kong is the prominence and importance given to forms of legal registration, particularly formation as a Section-88 status entity or a commercial entity. Social entrepreneurs regularly point to legal registration as a distinguishing factor in the types of funding and finance that they are eligible or successful in applying for, and a big factor in how their organisations are perceived by stakeholders including the government, investors and public consumers.
Recommendations

The findings of this research highlight the valuable contribution that social enterprises are making to meet social and environmental needs in Hong Kong and point to some recommendations for further support for the sector to encourage its development.

A range of options for financial support
All funders from grant givers to investors, should reconsider how funding is targeted and distributed. Different social enterprises have different needs, some may need small injections of capital to tide them over, some may need a continuous stream of funding over a period of time to move them towards a certain goal and others may need a substantial upfront investment for a large-scale transition. Currently, stakeholders report that funding tends to be smaller amounts to a large number of social enterprises, which may suit new and seed social enterprises, but there is too little funding available for social enterprises that need a larger support to mature, or even maintain. Private funders should consider targeting and investing larger amounts in a small number of more promising social enterprises, rather than splitting their resources into smaller amounts to reach a larger number of organisations and could support a higher number of more mature social enterprises in the market.

Government funders should focus on more generic funding, leaving independent funders that have more flexibility, such as private incubators and accelerators, to respond to more targeted, specific funding needs. This would increase the range of funding options for social enterprises in Hong Kong.

Intermediaries play a crucial role in the ecosystem. Providing increased profiling of social enterprises across stages, and targeted platforms for investors to network and meet diverse entrepreneurs would support in connecting social enterprises with financial support.

Funders should particularly consider capacity building and support to refine business models, build business skills and optimise social impact.

More targeted non-financial support
Non-financial support offered to social enterprises in Hong Kong, such as training and courses, should be more specific and targeted, to include (but not be limited to) business mentoring and coaching as well as impact measurement.

General classes and training, although valuable, may not go far enough to support promising social enterprises. Long-term mentoring and coaching programmes and partnerships, support with market research, marketing and communications and financial management, business planning and modelling and financial accounting should be given greater consideration. Ecosystem players in Hong Kong, such as incubators and accelerators should enable partnerships between corporates and social enterprises.

Provide support for uncertainties
During the Covid-19 pandemic and the social unrest, social enterprises are struggling to access sufficient support and have been negatively impacted in terms of revenue, in particular. To ensure that these businesses continue to stay afloat, government departments should provide targeted outreach and support, working with corporate partners to provide online solutions or undertaking specific capacity building courses.
Empower beneficiaries

A potential disconnect between social enterprises and beneficiaries, resulting from a lack of corporate governance inclusion is a concerning finding of this research. Ecosystem players should consider ring-fencing financial and/or non-financial support for beneficiaries or vulnerable groups to assist them in setting up and operating their own social enterprises and solve the challenges that they themselves face. This can empower beneficiaries and increase the effectiveness of social enterprises.

Matching innovative social practitioners that have deep knowledge and understanding of social needs with business savvy partners, either willing corporates or business professionals could be facilitated by incubators and accelerators to bring the cause closer to the business.

Social enterprises should take steps to better understand the needs of their beneficiary groups. Universities and academic institutions and ecosystem partners can encourage this through their programmes.

Legal status

Distinctions between Section 88 status and ‘for profit’ entities and various stigma or perceptions associated with both categories restricts the overall development and maturity of social enterprises. Some stakeholders prefer to work with ‘for profit’ oriented founders, whereas government and family foundations only want to work with non-profit related entities. The Hong Kong government, supported by entities such as the Social Welfare Department, the Home Affairs Department and the Efficiency Office should consider steps to overcome this, including awareness raising campaigns and education about social enterprise, adjustments to legal forms, models for recognising and validating all social enterprises, regardless of their for-profit or not for profit background.
Annex one - survey questions

1.1 What is the full name of your organisation?

1.2 In what year was your organisation incorporated?

Note: if you don’t know, please put “0”

1.3 What is the full name of your organisation?

Choose 1 response

- Hong Kong - Central and Western
- Hong Kong - Wan Chai
- Hong Kong - Eastern
- Hong Kong - Southern
- Kowloon - Yau Tsim Mong
- Kowloon - Sham Shui Po
- Kowloon - Kowloon City
- Kowloon - Wong Tai Sin
- Kowloon - Kwun Tong
- New Territories - Kwai Tsing
- New Territories - Tsuen Wan
- New Territories - Tuen Mun
- New Territories - Yuen Long
- New Territories - North
- New Territories - Tai Po
- New Territories - Sha Tin
- New Territories - Sai Kung
- New Territories - Islands

1.4 At what geographic scale does your organisation operate?

Choose 1 response

- District-level
- City-level
- International
- Don’t know / Prefer not to answer
### 1.5 How would you describe your organisation?

**Choose all that apply**

- Social enterprise
- Cooperative
- Voluntary group
- Community organisation
- Non-profit organisation
- For-profit organisation
- Foundation
- Social Enterprise Project
- Subsidiary of another organisation
- Other (Please specify) ________________________

### 1.6 What stage is your organisation in currently?

**Choose 1 response**

- Ideation stage
- Prototyping stage
- Testing market stage
- Validation stage
- Scaling stage
- Don't know / prefer not to answer

### 2.1 What is the main sector your business operates in?

**Choose 1 response**

- Agriculture and Fisheries
- Arts, Culture and Heritage
- Business Development Services and Entrepreneurship Support (including to charities and NGOs)
- Education
- Energy and Clean Technology
- Family and Child Welfare
- Financial Services
- Food and Nutrition
- Forestry
- Housing
- ICT
- Infrastructure Development and Maintenance
- Justice and Rehabilitation
- Livelihoods and Employment Creation
- Medical Social Services
- Mental Health Services
- Manufacturing
- Mobility and Transport
- Retail
- Services for the Elderly
- Services for Young People
- Tourism
- Other (please specify) ________________________

### 2.2 What social / environmental outcome(s) does / do your organisation aim to achieve?

**Choose all that apply**

- SDG 1: No Poverty
- SDG 2: Zero Hunger
- SDG 3: Good Health and Well-being
- SDG 4: Quality Education
- SDG 5: Gender Equality
- SDG 6: Clean Water and Sanitation
- SDG 7: Affordable and Clean Energy
- SDG 8: Decent Work and Economic Growth
- SDG 9: Industry, Innovation and Infrastructure
- SDG 10: Reduced Inequality
- SDG 11: Sustainable Cities and Communities
- SDG 12: Responsible Consumption and Production
- SDG 13: Climate Action
- SDG 14: Life Below Water
- SDG 15: Life on Land
- SDG 16: Peace and Justice and Strong Institutions
- SDG 17: Partnerships for the Goals

### 2.3 What does your organisation place the most emphasis on?

**Choose 1 response**

- Profit first - We prioritise maximising profits and strive to make a social impact only when it enhances profitability
- Social/Environmental mission first – We prioritise maximisation of impact over profit
- Both jointly – We pursue both financial and social/environmental objectives equally
- Don't know / prefer not to answer

### 2.4 How is this commitment to social / environmental purpose formalised?

**Choose all that apply**

- Governing documents
- Publicly stated commitments
- Internal documents
- Shareholders composition
- Required under legal registration
- Not formally stated
- Don't know / prefer not to answer
Section 3  
Social impact of your organisation

3.1 Do you consider any of the following groups to be direct beneficiaries of your organisation’s core business activities?

Choose all that apply

- Employees of your organisation
- Ethnic minorities
- Ex-Offenders
- Local artisans
- Migrant workers
- New arrivals from Mainland China
- People with disabilities
- Refugees and asylum seekers
- Senior citizens and the elderly
- Urban poor / low-income households
- Women
- Informal workers
- Animals and the environment
- Children (including children with special needs)
- Youth
- Farmers
- People with chronic illnesses
- Organisations (NGOs, micro and small businesses, social enterprises, self-help groups, community, and religious groups)
- Other (please specify) ________________________

3.2 How many beneficiaries in total do you estimate that you have supported in the last 12 months?

Choose 1 response

- No direct beneficiaries
- 1-20
- 21-50
- 51-100
- 101-500
- 501-1000
- > 1000
- Don’t know / prefer not to answer

3.3 How has the number of direct beneficiaries changed in the last year?

Choose 1 response

- Not applicable
- Increased
- Decreased
- Don’t know / prefer not to answer

Section 4  
Legal and organisational structure

4.1 In what legal form is your organisation registered?

Choose 1 response

- Company Limited by Guarantee
- Public Limited Company
- Cooperative
- Limited Liability Partnership
- Sole Proprietorship
- Partnership
- Private Company Limited by Shares
- Charity
- Non-profit organisation
- Trust
- Other (please specify) ________________________

4.2 Do you measure your social and/or environmental impact?

Choose all that apply

- No
- Yes, ourselves
- Yes, independently verified
- Don’t know / prefer not to answer

4.3 Please tell us which of the following best describes your organisation?

Choose all that apply

- Democratically controlled / participatory governance
- Formally constituted
- Independent of the state
- Rules on limits to profit distribution
- Trading (selling goods and services for money)
- Don’t know / prefer not to answer
5.1 What was your organisation’s annual revenue in the last financial year?

Choose 1 response

☐ No revenue
☐ HKD 100,000 or below
☐ HKD 100,000 to 500,000
☐ HKD 500,000 to HKD 1 million
☐ HKD 1 million to 5 million
☐ HKD 5 million to 10 million
☐ Above HKD 10 million
☐ Don’t know / prefer not to answer

5.2 Which percentage of your organisation’s revenue comes from the below sources?

Choose all that apply.

NOTE: Fill in 0 if ‘Not Applicable’.

<table>
<thead>
<tr>
<th>Percentage of Revenue</th>
<th>% of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government grants and sponsorships</td>
<td>☐</td>
</tr>
<tr>
<td>Seed funding and grants from incubators and/or accelerators</td>
<td>☐</td>
</tr>
<tr>
<td>Other sources of donations, grants and sponsorships</td>
<td>☐</td>
</tr>
<tr>
<td>Charity donations, grants and sponsorships</td>
<td>☐</td>
</tr>
<tr>
<td>Trading with the public / general consumers</td>
<td>☐</td>
</tr>
<tr>
<td>Trading with public sector / government contracts</td>
<td>☐</td>
</tr>
<tr>
<td>Trading with corporates</td>
<td>☐</td>
</tr>
<tr>
<td>Trading with non-profits, and/or social organisations</td>
<td>☐</td>
</tr>
</tbody>
</table>

5.3 If you received seed funding and grants from incubators and/or accelerators, please indicate the source of the funding.

Choose all that apply

☐ SIE fund
☐ Community Investment and Inclusion Fund
☐ Innovation and Technology Fund for Better living
☐ Enhancing Employment of People with Disabilities through Small Enterprise Project
☐ Enhancing Self-Reliance Through District Partnership Programme
☐ Other (please specify) ________________________________________________

5.4 What do you expect to happen to your revenue in the coming financial year?

Choose 1 response

☐ Increase substantially (above 60%)
☐ Increase moderately (20% to 60%)
☐ Increase a little (below 20%)
☐ Stay the same (0%)
☐ Decrease a little (below 20%)
☐ Decrease moderately (20% to 60%)
☐ Decrease substantially (above 60%)
☐ I don’t have information on revenue

5.5 Based on the latest financial year, did your organisation make a profit?

Choose 1 response

☐ Not applicable, no revenue yet
☐ Yes
☐ Broke even
☐ No
☐ Don’t know / prefer not to answer

5.6 How is your profit / surplus or potential profit / surplus used?

Choose all that apply

☐ Directed to / reinvested for social (or environmental) mission (including growth)
☐ Distribution to shareholders
☐ Distribution to employees
☐ Distribution to members
☐ Used to subsidise other charitable projects
☐ Other (please specify) ________________________________________________
### 5.7 What forms of finance and funding have you received?

**Choose all that apply**

- Grants from governments
- Grants from foundations
- Donations-cash, in kind (e.g. equipment, volunteer time, friends and family support)
- Concessional loans (loans with below-market interest rates, including from friends and family)
- Commercial loans (market interest rate loans)
- Equity or equity-like investments
- Crowdfunding
- Personal income from another job or source
- Funding from family or friends
- None
- Other (please specify) ____________________________________________________

### 5.8 If you received grant funding, how did you use it?

**Choose all that apply**

- Capacity building of marginalised stakeholders
- Capacity building of staff
- Operating costs
- Organisational expansion or growth
- Equipment - purchase or maintenance
- Other (please specify) ____________________________________________________

### 5.9 What are the major barriers that your organisation has faced in the last 3 years?

**Please select 3 responses (applicable to pre-COVID business as usual scenario)**

- Capital (debt / equity)
- Obtaining grant funding
- Cash flow
- Recruiting other staff
- Shortage of managerial skills
- Shortage of technical skills
- Lack of access to support and advisory services
- Understanding / awareness of social enterprise among banks and support organisations
- Understanding / awareness of social enterprise among general public / customers
- Lack of demand for product or service - low sales
- Economic climate (fiscal regulations, prohibitive commissioning, exchange rate losses)
- Access to public services (transport, energy, water and sanitation)
- Taxation, VAT, business rates
- Availability or cost of suitable premises
- Late payment
- Regulations / red tape
- Access to market - no access to distribution channel
- Expensive transportation / logistics or distribution of product
- Production capacity
- Others (please specify) ____________________________________________________
5.10 What are your organisation’s top 3 constraints in securing financing?

Please select 3 responses (applicable to pre-COVID business as usual scenario)

- Generating revenue for equity investors
- Business model is not refined
- Lack of access to investors
- Limited track / performance record
- Don’t meet the requirements for bank loans
  (no legal entity, revenue, profitability and insufficient collateral)
- Limited supply of capital
- Regulatory constraints when securing capital from international sources
- Securing capital and financing is not one of our major constraints
- Other (please specify) ________________________________

5.11 Has the organisation succeeded in applying for external finance (i.e. investments, loans, grants) in the last three years?

Please select 3 responses (applicable to pre-COVID business as usual scenario)

- Yes - investments and loans
- Yes - grants
- No, tried but did not succeed - investments and loans
- No, tried but did not succeed - grants
- Did not apply
- Don’t know / prefer not to answer

6.1 Please provide the number of personnel your organisation has in the various human resource categories

<table>
<thead>
<tr>
<th>Full time employees (35+ hours per week)</th>
<th>Part time employees (34 or fewer hours per week)</th>
<th>Interns</th>
<th>Volunteers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6.2 The state of social enterprise in Hong Kong

7.1 Do you have a board of directors?

Choose 1 response

- Yes
- No
- Other (Please specify) __________

7.2 What is the composition of your board of directors?

<table>
<thead>
<tr>
<th>Male</th>
<th>%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Female</th>
<th>%</th>
</tr>
</thead>
</table>
7.3 What is the gender of the person currently in charge of your organisation?

Choose 1 response

- Male
- Female
- We have female and male leaders
- Don’t know / prefer not to answer

7.4 In what age range is the person in charge of the organisation?

Choose 1 response

- Under 18
- 18 - 24 years old
- 25 - 34 years old
- 35 - 44 years old
- 45 - 54 years old
- 55 - 60 years old
- 61 years old or above
- Don’t know / prefer not to answer

7.5 Is anyone from your organisation’s leadership from a vulnerable, marginalised or minority group?

Choose 1 response

- Yes
- No
- Don’t know / prefer not to answer

8.1 Please rank the top 3 challenges currently faced by your organisation (with 1 being the biggest challenge) Rank 3 options.

- Customer acquisition and market development
- Product / service development and innovation
- Access to financial support (grants, sponsorships, donations etc)
- Access to non-financial support (mentorship, business advice, shared office spaces etc)
- Achieving social objectives
- Impact assessment
- Building internal capabilities (operations, communications, strategy etc)
- Talent acquisition and retention
- Access to public services and government support
- Lack of public awareness
- Other

8.2 What action(s) has/have your organisation taken to overcome these challenges?

Please share the action(s) that has/have worked or not worked.

8.3 Please rank the top 3 priorities of your organisation (1 being the highest priority) Rank 3 options.

- Improving business model to achieve financial stability
- Aligning business model with social mission
- Improving the quality of the product and/or service
- Recruiting and retaining talent
- Networking and forming partnerships
- Identifying funding/finance
- Impact assessment
- Marketing and branding
- Customer acquisition (access new customer/market)
- Mentoring or coaching
- Training
- Other

The state of social enterprise in Hong Kong

Section 8

Challenges and priorities

8.1 Please rank the top 3 challenges currently faced by your organisation (with 1 being the biggest challenge) Rank 3 options.

- Customer acquisition and market development
- Product / service development and innovation
- Access to financial support (grants, sponsorships, donations etc)
- Access to non-financial support (mentorship, business advice, shared office spaces etc)
- Achieving social objectives
- Impact assessment
- Building internal capabilities (operations, communications, strategy etc)
- Talent acquisition and retention
- Access to public services and government support
- Lack of public awareness
- Other

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- Improving the quality of the product and/or service
- Recruiting and retaining talent
- Networking and forming partnerships
- Identifying funding/finance
- Impact assessment
- Marketing and branding
- Customer acquisition (access new customer/market)
- Mentoring or coaching
- Training
- Other
8.4 Has your organisation benefited from any non-financial support?

Choose all that apply

- Mentoring or coaching
- Incubator/accelerator services
- Training
- Exchanges and visits
- Peer support (informal or through support programmes)
- Information or advice on intellectual property protection
- Membership of network or professional body
- Technical support/advice (including marketing, business planning, impact measurement)
- Support to access new customers/markets
- Corporate support
- Industry specific initiatives / resources
- Government support (e.g. through state-funded programmes)
- We haven’t accessed any support
- Don’t know / prefer not to say
- Other (please specify) ______________________________________________________

8.5 Where have you received this support from?


Section 9

Covid-19

9.1 How has your revenue been impacted by COVID-19?

Choose 1 response

- Positively by 50% and more
- Positively by above 25% and below 50%
- Positively by 5 to 20%
- About the same
- Negatively by 5 to 20%
- Negatively by above 25% and below 50%
- Negatively by 50% and more
- Don’t know / prefer not to say

9.2 How has the demand for your products/services been impacted by COVID-19?

Choose 1 response

- Positively by 50% and more
- Positively by above 25% and below 50%
- Positively by 5 to 20%
- About the same
- Negatively by 5 to 20%
- Negatively by above 25% and below 50%
- Negatively by 50% and more
- Don’t know / prefer not to say

9.3 Please provide the number of personnel your organisation has in the various human resource categories

<table>
<thead>
<tr>
<th></th>
<th>Increase</th>
<th>Decrease</th>
<th>Stay the same</th>
<th>Don’t know / Prefer not to say</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total workforce</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries of workforce</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries of workforce</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
9.4 What are the main challenges your organisation faces in the COVID-19 environment?

Choose 3 options

- Adjustment of operations to ensure business continuity (e.g. staff working from home, changes to infrastructure and company policies, staff engagement)
- Cashflow and/or liquidity issues
- Disruptions to supply chain
- Loss of customers/revenue
- Uncertainty of business environment
- Challenges to digitization - Marketing online to reach out to new clients (e.g. establishing online presence) - Taking existing engagements and/or products and services online (e.g. engagements with existing customers and community through workshops/classes)
- Fulfilling the needs of vulnerable groups due to increased demand of social services
- Other (please specify) __________

9.5 Have you or will you use any of the following support measures announced by the government?

Choose all that apply

- SME Financing Guarantee Scheme
- Rental and Fee Concessions
- Start-up Loan Scheme deferral
- Retail Sector Subsidy Scheme
- Food license Holders Subsidy Scheme
- Arts and Culture Subsidy Scheme
- Employment Support Scheme
- Training / Skills Upgrading Subsidies
- SME Loan Guarantee Scheme (SGS)
- Don't know / prefer not to say
- Other (please specify) __________

9.6 Please provide us additional information about government support you have claimed / been unable to claim, and any challenges you are facing accessing support you need

[Blank space for additional information]

9.7 Beside the support you are receiving from the government, what other types of key support do you need at this time?

Choose 3 options

- Providing and signposting to guidance on how to run your business during COVID-19
- Connecting you with funders that may be able to assist your organisation
- Lobbying government to get support for organisations with social / environmental impact during COVID-19
- Getting support to help you in digitalizing your operations / marketing etc
- Getting capacity building on a range of practical topics (e.g. digital working, insurance, loan financing etc)
- Connecting you with temporary staff / volunteers
- Connecting your organisation with offers of in-kind support
- Don't know / prefer not to say
- Other (please specify) __________________________________________________________

9.8 How have you adjusted your business model in response to the COVID-19 pandemic?

If at all, please provide details.

[Blank space for additional information]
Dream Impact is an impact community bringing together action-driven individuals, businesses and community partners to scale and deepen social impact through their work. Dream Impact provides social innovation support services, co-working and event space for businesses and impact events.

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