



OUR HONG KONG
FOUNDATION
團結香港基金

SOCIAL INNOVATION FOR A BETTER HONG KONG

Lessons from the UK and the
Importance of Social Impact Assessment



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In May 2008 he was made Chairman of the Advisory Committee on Revitalisation of Historic Buildings. From 2009-2015, he was Chairman of the Council for Sustainable Development. In 2014 he was appointed Chairman of the Steering Committee on Restored Landfill Revitalisation Funding Scheme. And in 2015 he was named Chairman of the new Committee on Reduction of Salt and Sugar in Food.

He was appointed a Justice of the Peace in 2002, and a Commander (3rd Class) of the Most Noble Order of the Crown of Thailand in 2004. In 2006, he was awarded the Gold Bauhinia Star by the Hong Kong SAR Government. He was educated at Pomona College in California.

Mr. Stephen Wong

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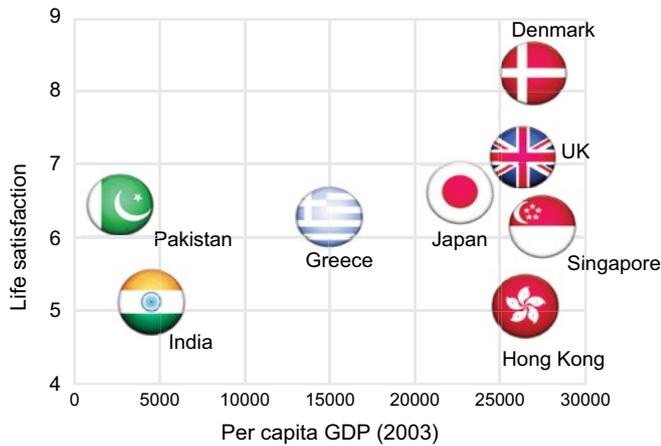
Dr. Tse is an advisor of Our Hong Kong Foundation, Chair of Social Investors Club, Founding Chair of Hong Kong Social Entrepreneurship Forum, Co-founder of Dialogue in the Dark HK, and Co-founder of Education for Good CIC Ltd. He was also appointed by Hong Kong Government as a member of Social Enterprise Advisory Committee in 2014.

Before devoting into social sector since his retirement in 2000, Dr. Tse was a senior executive of Shui On Group for ten years and had founded management consulting company, K K Tse & Associates in 1992.

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Why Hong Kong Needs Social Innovation?



(Comparison of life satisfaction and GDP per capita between Hong Kong and other economies. Adapted From "Income, Health, and Well-Being around the World: Evidence from the Gallup World Poll." by Deaton, Angus, 2008, Journal of Economic Perspectives, Vol. 22, no. 2, Spring 2008: 53-72. Copyright © 2008 by the American Economic Association)

According to Angus Deaton, the 2015 Nobel Prize Economics laureate, Hong Kong people's life satisfaction is on the lowest among developed economies such as Denmark, the United Kingdom, Japan and Singapore. Hong Kong people has the same life satisfaction level as their Indian counterpart, whose GDP per capita is much less than that of Hong Kong's.

We should address the issue that Hong Kong people have low life satisfaction despite their relatively high living standard.

Social innovation will be the key to tackling social problems and increase Hong Kong people's life satisfaction.

How Social Impact Assessment can Enhance Outcomes

Output and outcome are two different concepts.

Output is the product/service delivered; outcome is the change resulted on stakeholders.



The assessment can improve product/service to suit stakeholders better.



Outcome-based assessment can help identify stakeholders' needs.



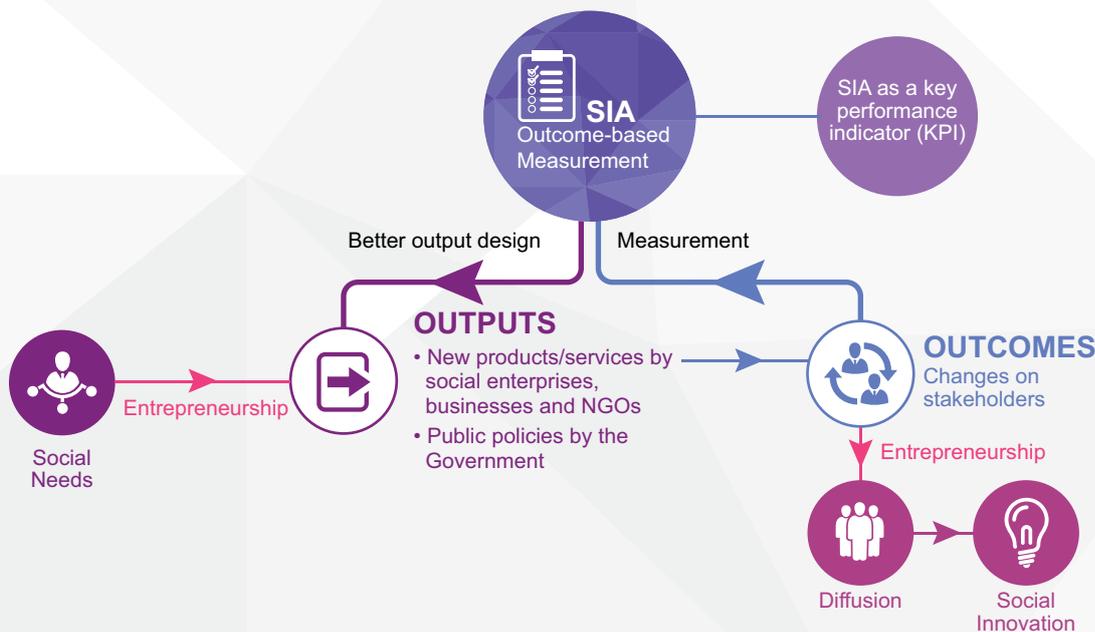
Outcome-based assessment

Brief of the Report

Social innovation starts from the identification of a social problem. The solution is a new product/service which is realized via entrepreneurship. Public acceptance is the factor that differentiates an innovation from a new product/service. That is, the product/service (i.e. output) needs to invoke changes among the stakeholders (i.e. outcome) and diffuse to the general public, if it is to be regarded as social innovation.

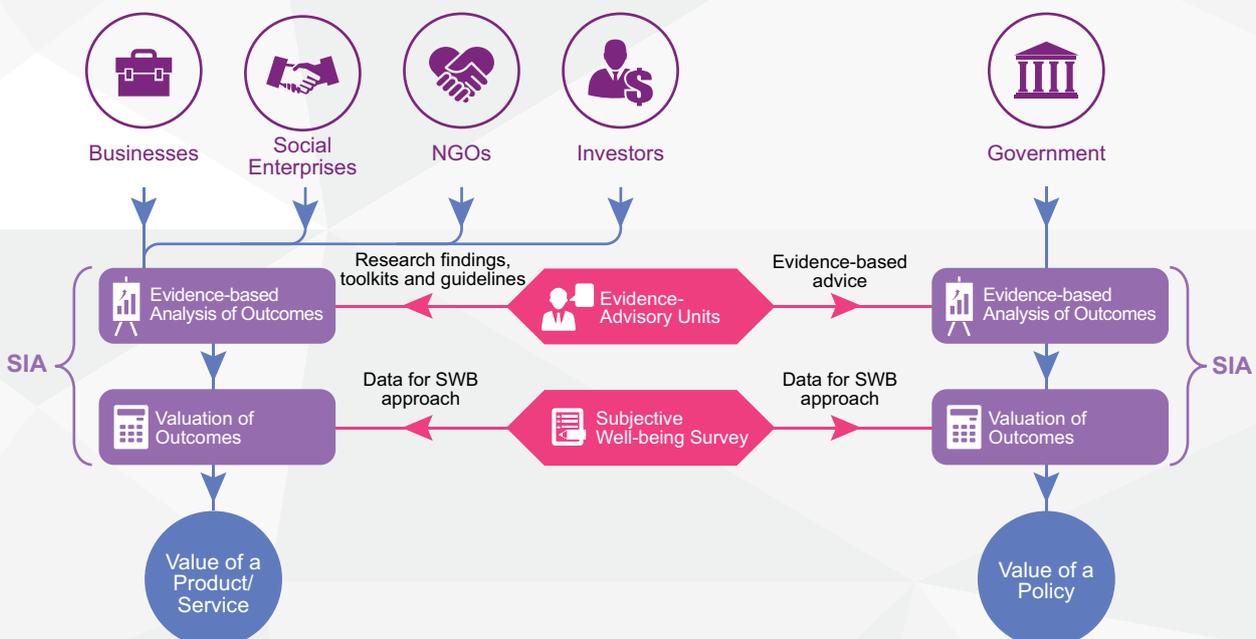
The Government, social enterprises, businesses and NGOs can use social impact assessment (SIA), an outcome-based measurement, to enhance their policies, products and services to achieve social innovation.

How SIA can Improve the Process of Social Innovation



Procedure of SIA and the Roles of Evidence-Advisory Units and the Subjective Well-being Survey

SIA consists of evidence-based analysis of outcomes and valuation of outcomes. To facilitate the conduction of SIA, the Government should establish evidence-advisory units and carry out a periodic survey on subjective well-being. The units provide policy advice to the Government as well as publicly accessible research findings, toolkits and guidelines. Data from the survey should also be open to the public.

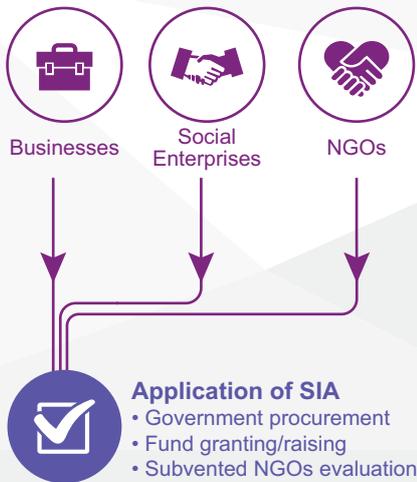


Brief of the Report

How SIA can Enhance the Ecosystem of Social Innovation

Apart from using SIA to improve the innovation processes within an institution, SIA can also enhance the ecosystem of social innovation by inducing competition for social outcomes, engaging businesses, better policy formulation with capacity building.

Competition for social outcomes



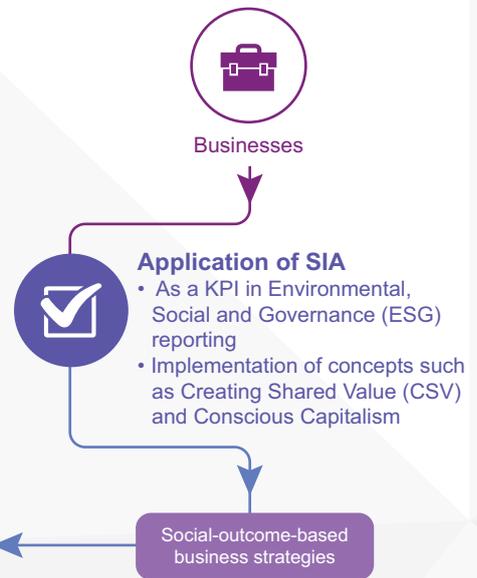
Engaging Businesses for scaling up social innovation through funding



Policy formulation and capacity building



Engaging businesses by integrating social impact in business strategies



SOCIAL INNOVATION



Executive Summary

General

1. Innovation consists of novelty, entrepreneurship and diffusion. Novelty is a new abstract idea, while entrepreneurship is to turn this idea into a new product/service. Diffusion, which is the public acceptance of the product, differentiates an innovative product from just another new product. Entrepreneurship is also required for a successful diffusion. These elements are regarded as the Trinity of Innovation.
2. Social innovation shares the same trinity, but focuses on social needs. In this case, novelty is the identification of a social problem. A new product/service is regarded as the output while the changes invoked by the output on stakeholders is regarded as the outcomes. A new product/service without any outcomes cannot be diffused to public even with entrepreneurship, therefore the introduction of outcome-based measurements is an important step to foster social innovation. The outcome-based measurement that we propose can be collectively regarded as social impact assessment (SIA). SIA consists of two stages: evidence-based analysis for outcomes and valuation of outcomes (including market and non-market outcomes).
3. Social enterprises can apply SIA in product refinement, fundraising and public procurement processes. Fund providers and philanthropies can apply SIA in selecting proper social projects for investments or donations. The Government is the main stakeholder of SIA and can apply the techniques for a better and more transparent policy formulation.
4. With the belief of 'SIA is necessary yet insufficient', our recommendations focus on introducing SIA complemented with other supportive measures, so as to construct a healthy ecosystem of social sector in Hong Kong.

The United Kingdom Experience

5. The United Kingdom (UK) is one of the most experienced nations in social innovation, and its experience can provide us with insights. SIA is required for most public policies in the UK and there are a number of official SIA guidelines issued. To facilitate the whole process, the UK Government has set up seven What Works Centers to provide evidence-based analyses for policies. It has also modified the Annual Population Survey (APS) to provide important data for the valuation of outcomes.
6. Public Services (Social Value) Act in the UK requires public procurement agencies to consider social benefit in the selection processes, this opens up more opportunities for social enterprises. Moreover, the Futurebuilders Fund was established to provide repayable finance for social enterprises in delivering public services.
7. Geoff Mulgan, a UK expert in social innovation, initiated the idea in matching resource-rich businesses and impactful social innovators. This idea is regarded as 'bees and trees'.
8. There is a growing social investment market to finance social enterprises, including equity investments and loans. Bridges Ventures, Charity Bank and Big Society Capital are the active fund providers in the UK. Social Impact Bond has also been introduced.
9. In the UK, UnLtd, the School for Social Entrepreneurs, the Skoll Center and Nesta are the major capacity builders for social innovation. These institutes provide resources, coaching and mentoring to encourage social entrepreneurship and scale up social innovations.
10. Community Interest Company (CIC) is a legal form of company in the UK as an official recognition of social enterprises. Asset lock and dividend cap are two major requirements of a CIC. There are over 10,000 CICs registered in the UK.

Our Recommendations

Our recommendations can be categorized into four areas: improving policy formulation, engaging business, inducing competition for social outcomes and capacity building.

Improving Policy Formulation:

11. The Hong Kong Special Administrative Region (HKSAR) Government should champion the use of SIA to propagate the importance of social impact. It should collaborate with local universities and professional bodies to establish evidence-advisory units in specialized areas. These units will provide social impact assessments for public policies. They will also provide advice to public issues with their publicly accessible findings, toolkits and guidelines. Large-scale subjective well-being surveys should also be conducted regularly to collect sufficient data for valuing non-market outcomes and the data should be opened to public.

Engaging Business:

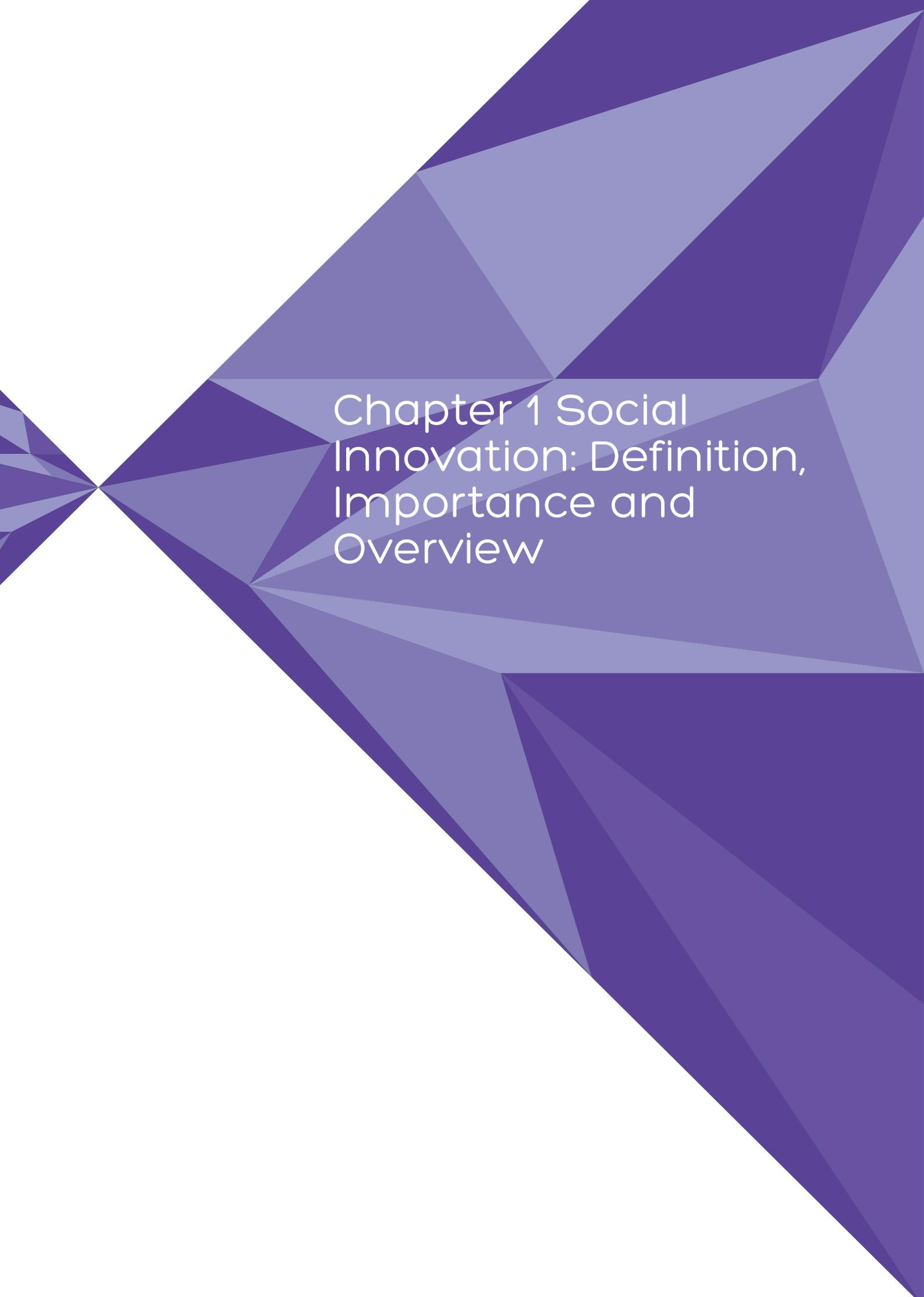
12. SIA should be included as a key performance indicator in the Environmental, Social and Governance (ESG) reporting required for listed companies in Hong Kong Exchanges and Clearing Limited (HKEX).
13. The HKSAR Government should support the establishment of a 'Bees and Trees' platform to scale up the impact of outcome-proved social innovation.

Inducing Competition for Social Outcomes:

14. SIA could be applied in public procurement processes to take candidates' social impacts into account, opening a new operation pathway for social enterprises, as they are currently disadvantaged because of their higher accounting costs than normal businesses.
15. SIE Fund, as well as other funding bodies for social enterprises and social innovation projects, should integrate SIA in their funding processes as much as possible. Together with the previous recommendation, competitions for social outcomes can be created and social innovation could be promoted.
16. The HKSAR Government could establish a funding mechanism in providing repayable finance to social innovation projects.

Capacity Building:

17. Awareness of SIA application should be increased among officials in the Treasury, which is the central paymaster of the HKSAR Government. Efficiency Unit, SIE Fund secretariat, Audit Commission, Social Welfare Department, Home Affairs Department and subvented non-governmental organizations (NGOs) should also be prioritized.
18. The HKSAR Government could encourage businesses to integrate social innovation into their business strategies.
19. The HKSAR Government should increase senior officials' awareness of the importance of social innovation, and introduce possible ways to foster social innovation.



Chapter 1 Social
Innovation: Definition,
Importance and
Overview



Defining Innovation

Before trying to understand what social innovation is, one needs to learn about the definition of 'innovation', which is the core component of the concept.

Nobel Prize laureate in economics of 1978, Herbert Simon, proposed in his work *Administrative Behavior* (1947) that entrepreneurs cannot focus only on profit-maximization but also on finding feasible solutions to a set of problems. This idea was reinforced by another concept of 'bounded rationality' in his later work *Models of Man: Social and Rational*, through which he insisted that human's decision making was bounded by different factors (e.g. limit of information), making profit-maximization impractical. His other groundbreaking book *The Sciences of the Artificial* has formalized this idea as Adaptive Artifice, which is enforced via entrepreneurship in reality and is an important process of turning novelty, which is an abstract but new idea, into new products and services. *The Sciences of the Artificial* is the origin of 'Design Thinking' which is regarded as the framework of innovation¹ nowadays.

Helge Godoe (2011) consolidated Simon's works and diffusion of innovation² to form a trinity of innovation: **novelty, entrepreneurship and diffusion**. According to Godoe, entrepreneurs do not only turn novelty into inventions but also diffuse the new products/services to the society, making the public widely accept the new products/services. Only after successful diffusions can the new products/services be called 'innovation'.

The literature formally defines the process of innovation and emphasizes the role of entrepreneurship. Therefore, terms such as 'start-up' and 'entrepreneur' are frequently mentioned when we talk about innovation. However, entrepreneurship is not an exclusive characteristic of entrepreneurs, but applicable to different kinds of people, such as government officials and businessmen.

What is Social Innovation?

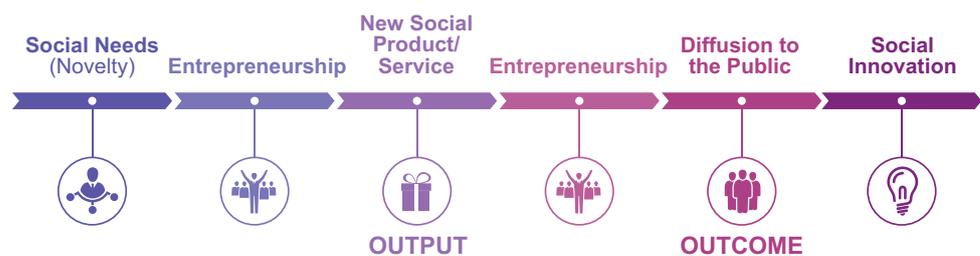
Social innovation is a kind of innovation and shares the same trinity.

According to the European Commission, social innovation is commonly defined as new approaches that create effective solutions to social needs. The process of social innovation involves identifying social needs, developing new solutions, evaluating the effectiveness and scaling³.

Despite the same trinity it shares with innovation, the focus of social innovation is on satisfying social needs. The identification and solution development are to turn a novel idea into a new product/service, while evaluating effectiveness and scaling are diffusion of innovation. In both processes, entrepreneurship is a vital component, therefore stimulating entrepreneurship is one of the core strategies of Europe 2020⁴.

According to the trinity of innovation, 'innovative' is not equivalent to 'new'. New products/services can become innovative only if they invoke substantial impacts to the public and entrepreneurship is a key factor that drives innovation. The same idea applies to social innovation. The social innovation process starts from novelty which is usually the social needs observed. Entrepreneurship turns the novelty into a new product or service and diffuse it to the public, resulting in social innovation. The relation between entrepreneurship and social innovation can be illustrated in **Figure 1**.

Figure 1: Relationship between entrepreneurship and social innovation



The new products/services are regarded as outputs, but whether they can diffuse to the public or not depends on their outcomes to the stakeholders.

Output is a set of numbers summarizing the amount of goods produced and services delivered. For example, a new highway can shorten the time of travelling between region A and region B by two hours. Outcome indicates the changes invoked by a policy, project or activity on the stakeholders. Using the previous example, although the new highway can shorten the time of travelling, it can result in no outcome at all if no one finds it necessary to travel between region A and region B.

If a new product or service has little or no outcome to the stakeholders, it can hardly be diffused to the society and cannot be regarded as an innovation.

By creating a new social product/service with significant outcomes, together with entrepreneurship for diffusion, impact to the public will be delivered, resulting in social innovation. **Figure 2** shows how a successful social innovation can diffuse its impact to public.

Figure 2: Diffusion of impact by a successful social innovation

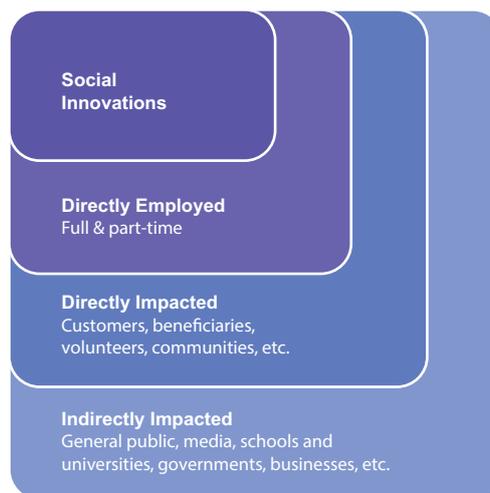


Table 1 below enumerates some of the social innovations in Hong Kong and other countries.

Table 1: Examples of social innovation in Hong Kong and other countries

Social Innovation	How it Works
Hong Kong Examples	
Dialogue in the Dark	Enhancing social inclusion by providing people with the chance to experience the lives of visually impaired people
Diamond Cab	Providing wheelchair-friendly taxi services
Food Angels	Collecting and redistributing safe excessive food to people in need
The Good Lab	Providing a co-working space and courses to social innovators
Green Monday	Promoting vegetarian cuisines for a greener environment
Light Be	Providing housing services to households living in subdivided flats
MakerBay	Offering craftsmen and innovators a working area and courses
Nature School	Educating children with nature-oriented programs
Personal Emergency Link	Providing a 24-hour emergency service to the elderly living alone ⁵
Run Our City	Developing youngsters by long distance run training
Teach for Hong Kong	Engaging university students and graduates to teach disadvantaged students
International Examples	
Design for extreme affordability	Designing products that are affordable to the most underprivileged
Emission trading	Leveraging the market mechanism to reduce emission of greenhouse gases
Fair trade	Purchasing goods from primary producers with better prices to enhance their living
Massive Open Online Courses	Providing free online university-level courses
Microfinance	Offering repayable finance to individuals who are denied by the normal financial market
Sharing economy	Making good use of under-utilized assets or resources
Urban farming	Encouraging farming in cities
Voluntourism	Engaging tourists in volunteering activities

The Importance of Social Innovation and the Case in the United Kingdom (UK)

Angus Deaton (2008) has investigated life satisfaction across different countries. The 2015 Nobel Prize Economics laureate⁶ found that life satisfaction and per capita GDP have a positive relationship, but with decreasing marginal effect.

Hong Kong is found to be an outlier to this finding. Compared to other developed economies with similar per capita GDP, such as Singapore, Japan, UK, Denmark and Finland, Hong Kong has the lowest life satisfaction. Life satisfaction in Hong Kong trailed behind certain developing countries such as Brazil, Pakistan, Argentina and Mexico which have much lower per capita GDP. The example of Hong Kong illustrates that wealth is not equal to happiness and economic prosperity neither reduces the number nor complexity of social issues.

The UK had a similar experience in 1970s when the UK Government was unable to tackle growing social problems and social enterprises emerged as a force to provide solutions. After decades of development, there were, as of March 2015, a total of 10,639 Community Interest Companies (CICs). CIC is the official legal entity for social enterprises.⁷ Social Enterprise UK pointed out in its *State of Social Enterprise Survey 2013* that the median turnover for social enterprises was £187,000 in 2013.⁸ Based on Kee's methodology (2015) which multiplies the median turnover with the number of CICs, we estimate that CICs in the UK generated about £2 billion and contributed to 0.1% of the nation's 2013 GDP.⁹

The snapshot for social enterprises in Hong Kong is shown in **Table 2**. WE have based on the data collected by the Chinese University of Hong Kong (CUHK) and the Hong Kong Council of Social Service to estimate the number of employees in local social enterprises. We have also employed Kee's methodology (2015) to estimate the annual turnover of social enterprises.

Table 2: Statistics of Hong Kong's social enterprises in 2015

Number of Social Enterprises in Hong Kong	527 ¹⁰
Estimated No. of Employees in Social Enterprises	About 8,900 ¹¹
Estimation of Annual Turnover as of 2013	About HK\$1.5 billion ¹²

In Hong Kong, there were 527 social enterprise projects in 2015, according to the statistics from HKCSS-HSBC Social Enterprise Business Center¹³. As shown in **Table 5** in **Appendix II**, these social enterprises have an estimated

annual turnover of HK\$1.5 billion. According to the estimated annual turnover, social enterprises accounted for Hong Kong's 0.07% of the 2013 GDP.

Besides, the density of CICs in the UK is 166 per million population, while that of social enterprises in Hong Kong is 73 per million population.

The UK Government has also issued an official guideline, the Green Book, for policy outcome assessment, which is mandatory for most public policies in the UK. Similar guidance and requirement do not exist in Hong Kong.

The figures above have only demonstrated the effort the UK Government has exerted. Yet social innovation is explained in terms of impact instead of output. Deaton (2008), again, has provided some insights for the outcomes. Hong Kong has a life satisfaction score of around 5 while that of the UK is 7. An economy with similar life satisfaction score to Hong Kong is India, but its per capita GDP is less than one-tenth of Hong Kong's. The higher score of life satisfaction cannot be all attributed to the UK Government's effort, but can imply the necessity to improve the overall societal well-being in Hong Kong via social innovation.

Organization for Economic Co-operation and Development (OECD) has defined well-being as a mental status reflecting an individual's evaluation of her/his life and experiences¹⁴. Hence social innovation focuses on the outcome invoked to the public which can be regarded as the change of overall well-being.

Social innovation, as well as entrepreneurship as shown in **Figure 1**, are not restricted to social enterprises: they can originate from governments, businesses, NGOs, social enterprises and individuals, as long as their new solutions to social problems can improve well-being.

From Output-based to Outcome-based Measurements

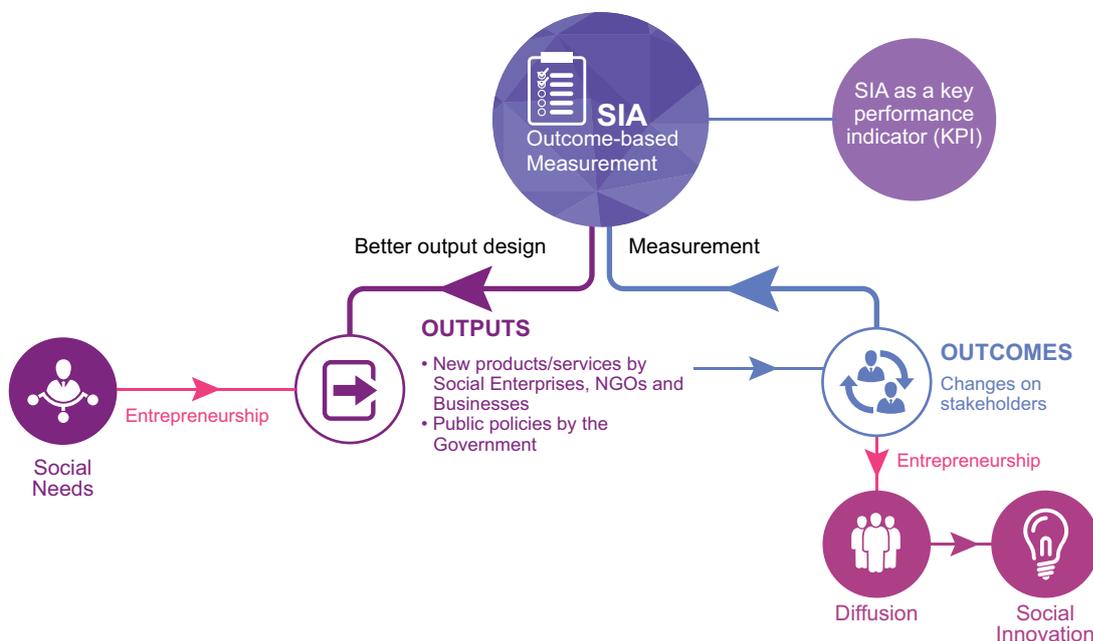
As mentioned in the previous section, outputs with insignificant outcomes to the public cannot become innovations. Therefore, in assessing any social enterprises, social projects or public policies, outcome-based, not output-based, measurements should be used. The outcome-based measurements that we are going to propose can be collectively regarded as social impact assessment (SIA).

In the social innovation processes, innovators may not know how the public will react to their new products/services when they are still under development. There is a risk that the new products/services may not produce any impact on the stakeholders, making diffusion impossible.

By introducing SIA, social innovators can assess the potential outcomes on stakeholders even when the new products/services are still being developed. This can help refine the products/services to suit public needs better. Moreover, SIA can provide solid evidence of social impacts invoked for potential fund providers to finance the production or scale up the impacts. In the UK, SIA can also be employed by social enterprises to win public contract as social benefit must be considered during public procurement processes under Public Services (Social Value) Act in the UK.¹⁵

Figure 3 illustrates how SIA can foster social innovation.

Figure 3. How SIA can facilitate social innovation



The Elderly Safe Living Scheme by the Hong Kong Housing Society (HKHS) is an example of government-led social innovation applying SIA. The scheme enhances the living environment of elderly to reduce their likelihood of injury, which is the target outcome. SIA was employed to assess the scheme. Evidence-based analysis was conducted via in-depth interviews before and after the living environment was enhanced. Changes of responses can provide evidence of impacts on the elderly. Valuation techniques were applied to estimate monetary values for each of the proved outcomes which could reveal the strengths and weaknesses of the project for further improvement. HKHS was subsequently awarded Gold Award (Social Enterprise Category) from the Hong Kong Outstanding Corporate Citizenship Awards Presentation Ceremony.

Another local example is the SIA conducted on the Urban Renewal Plan for Kowloon City. Unlike the previous example, the assessment focused on evidence-based analysis with extensive stakeholder engagement to figure out the negative outcomes on the residents, including owners and tenants, and businesses affected by the renewal plan. Suggestions were then provided to mitigate the difficulties faced by the stakeholders. This case is an example of applying SIA to appraise and improve a policy before it is launched.

Reynolds (2002) applied SIA to evaluate the impact invoked by a public-funded early childhood program in the US and found that the program could generate \$7.14 for every dollar invested. The amount included the value of enhanced well-being, reduction of crime-related expenditure and reduced spending on remedial education. Local research centers, such as Sau Po Center on Ageing, also conducted evidence-based researches related to social issues in Hong Kong.

The use of SIA is not restricted to public policies. For example, Livingin Constructions (LC) is a social enterprise established by Kyabra Community Association in Australia. It provides affordable housing to the society; at the same time, its employees are people denied by the labor market. SIA, conducted on LC, benefited it in different aspects¹⁶:

- The key value driver, which is the improved employees' social interaction, was identified.
- During the engagement process, management can understand how LC could create social values for its employees and the way for improvement.
- Sources of outcomes were clearly revealed, allowing the management to improve data collection and to save cost without sacrificing social value.
- The assessment could be used for fundraising and marketing.

From **Figure 3** and the local examples, SIA does not determine whether a new product/service is an innovation or not. It is a tool for appraisal and evaluation to improve the product/service to satisfy the social needs. The innovators can also use SIA to demonstrate their impact to secure funding and public contracts.



The Importance of Social Impact Assessment (SIA)

Traditional output-based measurements, such as GDP and input-output based measurements, are not applicable in assessing the effectiveness of different social-innovative products, services and policies because most of their impacts are not marketable. Instead, SIA is more appropriate in valuing social innovation as monetary values for non-market outcomes can be estimated with the above example of Elderly Safe Living Scheme serving as a good example.

SIA consists of two stages, namely evidence-based analysis of outcomes and valuation of outcomes. In the first stage, assessors seek evidence to prove the existence of outcomes invoked by the product/service. This stage is a prerequisite for the second stage and it is important for assessors to figure out the reasons if any intended outcomes cannot be proved.

In the second stage, each of the proved outcomes is estimated for its monetary value. Monetary values can be estimated even for non-market outcomes, such as health and social status, and the methods are shown in **Appendix I**. The values of all outcomes are aggregated to provide the overall value of the product/service.



Who should Use SIA?

SIA can be widely applied to different products, services, projects and even policies. There are five groups of stakeholders who can employ SIA.

The Government: The Government is the main stakeholder of SIA. It can apply SIA in policy formulation and help enhance the transparency of policy-making. The Government can also require public procurement agencies to take into account social benefit when outsourcing contracts and apply SIA in the selection process. This approach can enhance the competition for social goods among the bidders and foster social innovation.

Social Enterprises/NGOs: Social enterprises/NGOs can conduct SIA before finalizing new products/services to suit public needs, as well as providing the evidence for obtaining production funding. After the new products/services are released, SIA can also provide evidence to public procurement commissioners for bidding public contracts or to potential investors for funding to scale up. It can help social enterprises diffuse their products/services to society, resulting in social innovation.

Investors/Fundraising: When investors and fundraising platforms assess social enterprises for their investment, social outcome is one of the factors that they take into consideration. SIA assists the selection of proper social enterprises or projects for investments. It also induces competition for the highest social outcomes and hence drives social innovation.

Family Philanthropy: UBS and INSEAD have conducted a study on family philanthropies in Asia. According to the research, most families were still active in managing their family businesses¹⁷. 58% of the respondents regarded social impact assessment as an important performance measurement, comparing to 40% for operational efficiency and 26% for profitability/sustainability. Besides, only 20% of respondents were satisfied with the impact of their investments and 55% were partially satisfied with requirement for improvement¹⁸. Generally, philanthropists concern about the impact created by their donation, and SIA can help measure social impact for them. If social enterprises can demonstrate their social impacts through SIA, they can raise funds more easily to scale-up their projects.

Businesses: SIA can also be applied to Creating Shared Value (CSV), as well as Conscious Capitalism (CC), which emphasize on joining the values of business and community. SIA evaluates all the market and non-market outcomes on all stakeholders (including the business itself), thus facilitating CSV and CC as they share the core principles. As such, SIA is an important element to engage businesses for fostering social innovation.

Applications of SIA for the stakeholders can be summarized in **Figure 4**:

Figure 4. Relationship between social entrepreneur and social innovation



Although SIA is our key recommendation, other policies involving the above stakeholders for social innovation will also be addressed in this report.



Our Report

The report's principal goal is to provide suggestions on constructing a comprehensive ecosystem of social innovation; and the UK will be the main point of reference, because the UK is one of the global leaders in the social sector and the field of social innovation. In the following chapter, **Chapter 2**, we will introduce UK examples that are relevant to Hong Kong followed by critical reviews. The examples will provide insights on how to build up a sustainable ecosystem for social innovators and social entrepreneurs.

In **Chapter 3**, we will propose a series of recommendations, based on the UK experiences and the critical reviews. All the recommendations, in line with the report's principal goal, contribute to the maximization of the potential of social innovators, entrepreneurs and government in social innovation. One of our major recommendations is to introduce SIA as a tool to stimulate overall social awareness of social impact. In fact, SIA is applicable in a cross-sector manner, and the HKSAR Government should take the initiative as a champion of SIA to promote its application. We also suggest the HKSAR Government to consider other specific recommendations that can create a better environment for social innovators to substantialize their ideas.

We hope this report can raise the society's awareness of the importance of social innovation through a set of holistic yet practical recommendations that we have summarized from the UK experience.

Notes

1. T. Brown, "Design Thinking" in Harvard Business Review (June 2008), pp.84-92.
2. It can be referred to Schumpeter Trilogy initiated from Schumpeter in his work the Theory of Economic Development and Capitalism, Socialism and Democracy and can also be referred to the idea from E.M. Rogers in his work Diffusion of Innovations.
3. European Commission, Guide to Social Innovation (2013), p.6.
4. Ibid.
5. As indicated by Ms. Irene Leung, CEO of Senior Citizen Home Safety Association, Personal Emergency Link is not the first in this type of service and its success is mainly based on a holistic care model.
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11. Please refer to **Table 6** in **Appendix II** for more detailed calculation.
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The background consists of a complex, abstract geometric pattern of overlapping triangles in various shades of purple and blue. The triangles are arranged in a way that creates a sense of depth and movement, with some pointing towards the center and others pointing outwards. The overall effect is a modern, stylized design.

Chapter 2 The UK Experience and Insights for Hong Kong



Why UK Experience?

The UK is chosen to be the model of reference because it has a well-developed social sector, which is already shown in the comparison in the previous chapter, and it has a long history in the development of social innovation. The growth of the UK's social sector and its capacity for social innovation has deep roots in British culture and tradition.

As early as the 12th century, philanthropies and charities had been one of the most powerful stabilizing factors for the nation suffering from internal conflicts and disasters. During the 19th century, labor and female movements spawned new social organizations.¹

The two World Wars in the 20th century and global de-colonization threw the British society into an unprecedented turmoil. When the UK emerged from the ashes of World War II, however, the economy began to experience a remarkable growth, providing fresh impetus to create a welfare state, which was the unfinished dream before the wars.

The 1970s were a turning point. Despite the booming economy and the welfare state, the society witnessed an ever-growing array of social problems that the government and the welfare agencies were unable to tackle, such as unemployment, drug abuse, crime and violence, massive school dropouts and inadequate health care.

At the same time, financial resources of the government were increasingly insufficient to meet the growth of the welfare budgets. Pressure emerged to scale back welfare provisions: successive governments were forced to limit the growth of the welfare budget on the one hand, and increase the efficiency and productivity of government agencies through various measures, including mass cost-cutting and privatization of social services on the other. The UK Government believed social innovation was the way to solve the problem of unsustainability of the existing system, and it has become a very strong advocate of social innovation.

With a long history in nurturing social innovators and entrepreneurs, the UK experience is a good example for Hong Kong to refer to.



The Millennium Watershed

There have been major developments in social innovation in the UK since 2000, and the following are some of the most important initiatives that are particularly relevant and insightful for Hong Kong:

- **Social Impact Assessment and Outcome-Based Policy Formulation** - providing the government and business with the way to measure and comprehend social impact
- **Government Procurement Policy** - emphasizing social impacts of the candidates bidding for public contracts and creating a new pathway of growth for social enterprises.
- **'Bees' and 'Trees'** - pairing up resource-rich organisations and social innovators to scale up social innovations
- **Social Investment Market** - promoting social innovation with financial innovations
- **Capacity Building for Social Innovation and Entrepreneurship** - nurturing social entrepreneurs through multiple approaches and pioneering efforts
- **Legal and Regulatory Frameworks** - supporting social innovation with new legislations and regulations



Social Impact Assessment and Outcome-Based Policy Formulation

The UK Experience

One of the most significant achievements of the UK is the adoption of SIA.

SIA, in short, is the assessment of social impact brought about by projects, taking both positive and negative into account, and come up with a result whether it can bring benefit or harm to the society².

There are several forms of SIA, and the most widely used ones are **Social Cost-Benefit Analysis (SCBA)** and **Social Return on Investment (SROI)**.

The Green Book is the social cost-benefit analysis guideline adopted by the UK Government. It is published by the Her Majesty's Treasury (HM Treasury) and is a well-structured guideline for appraisal and evaluation within the UK Government. A part of valuing non-market impacts was later introduced for conducting social cost-benefit analysis, which is a more inclusive version of cost-benefit analysis putting social impact into consideration. Government units have to comply with *the Green Book's* instructions on actions in connection with both spending taxpayers' money and changes in regulation.³ As stated by the *Impact Assessment Guidance* issued by Her Majesty's Government (HM Government), impact assessment is required, among others, in situations such as involving a regulatory change and redistribution that affects private, public or other organizations.⁴

SROI, on the other hand, is developed from SCBA and social accounting.⁵ The Cabinet Office of the UK Government has published an SROI guideline for third sector organizations. Social sector organizations, often receiving government grants and subventions, can demonstrate their impacts more clearly using the SROI framework and metrics.

The Green Book suggests several approaches⁶ to monetize non-market outcomes or, to be more specific, to value the change of well-being invoked by public policies. The values of all market, non-market, positive and negative outcomes are aggregated and compared with the cost. A policy is worth implementing if the net value is positive. This practice is usually required for policies involving regulatory changes and is highly suggested for public spending proposals⁷.

As a champion of SIA, the UK Government helps raise society's awareness of social impact by putting in place the framework to show the practical application of the assessment: impacts brought about by social innovation can be quantified and presented in a consistent and understandable way.

The UK's emphasis on well-being is another policy worth noting. The British Household Panel Survey (BHPS) is a multi-purpose survey that contributes to social and economic researches. Starting from 1991, BHPS has been following the same group of people and conducting surveys annually. The number of people participating is currently around 19,000.

On the national level, the UK has started to take social progress along with economic progress into consideration. In 2010, the UK Government launched the **Measuring National Well-being Program** to measure the development of the country by examining factors apart from GDP. It comprises of 10 domains:⁸

1. Personal well-being
2. Our relationships
3. Health
4. What we do
5. Where we live
6. Personal finance
7. Economy
8. Education and skills
9. Governance
10. Natural environment

This program is a collection of national data and survey results. Some of the data used are collected by the UK Government, but some are gathered by other organizations. For example, the personal well-being data come from the Annual Population Survey (APS), which includes four questions on people's life satisfaction, worthwhile rating, happiness and anxiety respectively⁹. APS is conducted on approximately 165,000 people each year¹⁰. Starting from 2012, Office for National Statistics (ONS) has issued *Life in the UK* each year which included the statistics of response for the four well-being questions as well as other normal economic measurements, such as per capita GDP, unemployment and disposable income, to provide insights on the general living condition. The well-being data can serve to value non-market outcomes as documented in *Valuation techniques for social cost-benefit analysis* issued by HM Treasury.

Furthermore, the UK Government has also adopted an evidence-based approach in policy-making processes. In 2013, it created the What Works Network, a network of centers receiving both government and non-governmental support. Essentially, it invites non-government experts of different policy areas to evaluate and review existing policies based on their findings and evidence.

As of January 2016, the What Works Network comprises seven centers:¹¹

1. National Institute for Health and Care Excellence (focuses on health and social care)
2. Sutton Trust/Educational Endowment Foundation (focuses on educational achievement)
3. College for Policing What Works Center for Crime Reduction (focuses on crime reduction)
4. Early Intervention Foundation (focuses on early intervention)
5. What Works Center for Local Economic Growth (focuses on local economic growth)
6. Center for Ageing Better (focuses on improved quality of life for elderly citizens)
7. What Works Center for Wellbeing (focuses on well-being)

It also has two affiliated members:¹²

1. Public Policy Institute for Wales
2. What Works Scotland

Each center, which is independent from the government¹³, serves as an advisory body to the authority. These centers engage experts, including professionals and scholars such as economists and social scientists, to help the government in its public policy-making. They also provide easy-to-understand tools to summarize evidence for policy-makers' and public reference.¹⁴

Relevance to Hong Kong and Critical Review

SIA has already been taken into consideration in policy-making in many countries. The UK Government has made SCBA an essential assessment tool for evaluating policies involving regulatory changes. Official guidelines for both SCBA and SROI are published. Although HKSAR Government has implemented SIA in some of its policies, it is still not a common practice. Nevertheless, the concept of SIA is still not well-known in Hong Kong. If awareness of social impact were to be raised, it would be crucial to promote and implement an SIA policy framework with the government serving as the champion.

Besides, the UK Government's What Works Network is also a highlight measure to which Hong Kong can make reference. The What Works Centers do not only engage the civil society and experts to solve social problems and improve public policies, but also reinforce an 'evidence-based' policy-making process. A transparent and substantiated policy-making process can ameliorate the HKSAR Government's difficulty in the lack of support for public policies.

SIA is widely applicable: the Government, as a role model, can propagate the importance in assessing social impact to other four key stakeholders: more social enterprises, social fundraising platform/investors, businesses and family philanthropists would consider using SIA to evaluate social impacts.



Government Procurement Policy

The UK Experience

The UK Government has a large annual procurement budget, but procurement policies and structures have been poorly set up to support social innovation. For examples, established commercial organizations have a natural advantage over smaller organizations in the process of competing for public contracts since the latter do not have sufficient resources. Consequently, the UK Government has attempted to leverage public procurement to promote the growth of social enterprises.

The **Public Services (Social Value) Act** was passed in 2012 to create more opportunities for social enterprises to win bids in government procurement.¹⁵ It requires public sector agencies, when commissioning (i.e. procuring) a public service, to take into consideration of the respective economic, environmental and social benefits.

Even before the enactment of the Social Value Act, the UK Government would like to encourage more social sector organizations to take up public sector contracts. However, many of these organizations are structurally underdeveloped and managerially ill-equipped. Therefore, in 2008, the government set up the **Futurebuilders Fund**¹⁶ (currently under the management of the Social Investment Business) with the explicit aim of strengthening the social sector's role in public service delivery. The Fund was established in recognition of the social enterprises' difficulty in obtaining loans from banks to deliver public contracts. Its aims were to enable repayable finance to be available to the social sector and increase the overall capacity of the voluntary and community sector.¹⁷ Up to the end of 2014, Futurebuilders Fund had provided over **£145 million**¹⁸ of loans to social purpose organizations to bid and run government contracts, making it the single largest source of repayable finance to the social sector.

Relevance to Hong Kong and Critical Review

From the UK experience, we can understand that social sector organizations are disadvantaged in competing with mainstream businesses in winning sizable contracts, while the public sector has a large procurement budget which should be leveraged to stimulate the growth of the social sector. However, social sector organizations first need to increase their all-round capability before they could benefit fully from the progressive policies created in their favor.

In Hong Kong, some social enterprises are already engaged in public contracts to deliver services to government agencies, but the scope is extremely limited as they are mostly confined to cleaning and catering services. The implication is that even if Hong Kong passes a new law similar to the UK's Social Value Act, not many social enterprises could benefit from it.

What Hong Kong needs right now is a government-funded program like Futurebuilders which could work closely with social enterprises to provide them with funding (primarily loans, not grants), guidance, and capacity building support so that they could progressively be able to win and deliver larger government contracts.

'Bees' and 'Trees'

The UK Experience

Geoff Mulgan, a UK expert in social innovation, has used the analogy of 'bees' and 'trees' to illustrate different actors' interactions in social innovation: 'bees' are individuals, groups or social entrepreneurs who cross-pollinate their creative ideas while 'trees' are organizations with abundant resources.¹⁹ Since 'bees' have little resources and 'trees' have limited creativity, only by joining the two can social innovation be scaled up. However, there are barriers to be overcome to effectively pair up the two.²⁰

When impact starts diffusing, social innovators should consciously search for larger and more resource-rich organizations (such as governments, corporates, large NGOs and charitable foundations) for collaboration in order to create even larger impact. The resource-rich organizations (especially corporates and government) should actively seek to collaborate with the social innovators to scale up the impact. For businesses, they could do a better job as 'trees' rather than 'bees'.

The basic relationship among the 'bees', 'trees' and government policies is illustrated in **Figure 5**.

Figure 5. Relationship among the 'bees', 'trees' and governments

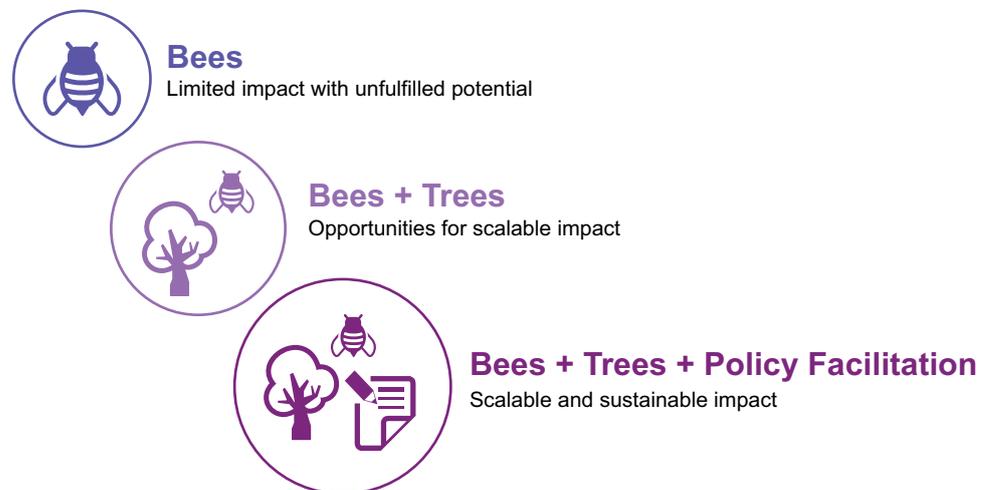
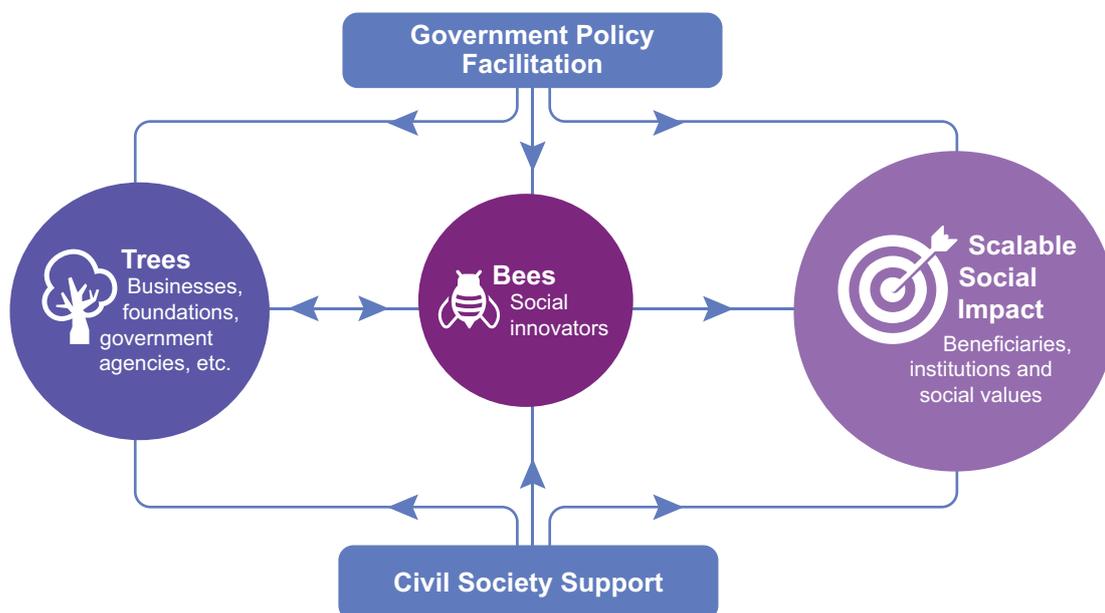


Figure 6 further demonstrates the roles of 'bees' and 'trees' in the social innovation eco-system.

Figure 6. Key components of the social innovation eco-system



When 'bees' and 'trees' work together, the chances of creating scalable social impact are much enhanced. Government's policy facilitation could play a vital role, so will civil society support. We will put forward recommendations for government actions in **Chapter 3**.

In the UK, there are many instances in which 'bees' and 'trees' work together to create major impact. An example is the Leeds Empties. In 2010, there were approximately 16,700 empty homes in the city.²¹ A local Community Interest Company, Social Business Brokers CIC, has delivered the project of Leeds Empties in May 2012 to support empty property owners in dealing with their empty properties through renovations, sales, rents and provision of professional advice.²² In 2013, the Leeds City Council approved a sum of £100,000 to Leeds Empties for its Empty Homes Doctor service, and it continued the funding in 2014 for Leeds Empties, and a target of 50 renovated homes was set.²³ For the periods of 2013/14 and 2014/15, Leeds Empties was able to revive 26 and 59 properties respectively.²⁴ The City Council not only funds but also refers suitable cases for Leeds Empties. Leeds Empties, on the other hand, shares the City Council's burden in targeting and recovering empty houses and updates the City Council's empty house database.²⁵ It is a win-win situation for the City Council and Leeds Empties as their works are complementary.²⁶

Relevance to Hong Kong and Critical Review

In Hong Kong there are cases that are analogical to 'bees' and 'trees'. Diamond Cab is an example of a 'bee' supported by a 'tree'. Without taxi licenses, Diamond Cab could not operate even though Ms. Doris Leung, founder of Diamond Cab, was able to persuade Crown Motors to import

Noah Welcabs into Hong Kong as the new model of taxi. This problem was not solved until Tai Wo Motors was willing to rent out five taxi licenses at a lower price. It was an encouragement for a start-up like Diamond Cab as taxi licenses are expensive.^{27 28} On the other hand, Tai Wo Motors could gain market share in a potential market of a new form of taxi.

Hong Kong Broadband Network Limited (HKBN) and iEnterprise is another case demonstrating the cooperation between 'bees' and 'trees'. iEnterprise has substantiated the Tripartite Collaborative Model (TCM) by matching an outsourcing contract of an enterprise with created shared value (CSV) and an agreement with a sustainable NGO in providing the service. Lam (2016) found this model financially sustainable with fulfillment in social mission²⁹. In the TCM employed by iEnterprise, HKBN allocates some of their hotline duties to iEnterprise which then fulfills the duties by employing underprivileged. Not only had the underprivileged benefited from the model, but HKBN also observed an effective use of under-utilized resources³⁰.

In recent years, there has been an emergence of a number of 'bees' in Hong Kong. At the same time, there have been an increasing number of businesses that have shown interest in working with social innovators. Platforms can be created to facilitate the cooperation between the two and make systematic effort in identifying bees with high potential for scalable impact and provide assistance to increase their reach and impact.



Social Investment Market

The UK Experience

'Social investment' refers to an investment that takes into account both the financial return and its impact on a targeted social objective.³¹

In the late 1990s, the UK Government came to a conclusion that the most important factor limiting the growth and scalability of social purpose organizations was finance: these organizations relied primarily on grants and donations, and even social enterprises that were capable of achieving financial self-sufficiency had much difficulty in obtaining repayable finance, i.e. loans and equity investments.

In 2000, the HM Treasury set up the **Social Investment Taskforce**. The Taskforce fostered stakeholders' participation in making policy recommendations to the government and helped the authority construct a 10-year implementation blueprint of the respective recommendations.

- **Bridges Ventures**, a community development venture fund, was established in 2002 according to the Social Investment Taskforce's recommendations. It provides long-term equity investment and business support to entrepreneurs to spur the growth of social purpose organizations. The government matched the £20 million private investment to raise the total to £40 million for the first Bridges fund. By 2014, the fund had grown to £460 million from various investors. Bridges offers lucrative returns³² and has a wide spectrum of models that suit different investment targets. The success of Bridges Ventures indicates shows it is possible to gain returns from impact investment.
- **Charity Bank** is one of the earliest Community Development Financial Institutions (CDFI). Social purpose organizations (SPO) that address social needs can apply for flexible loans from the Bank. The Bank is designed to fill in the gap of the existing financing mechanism. It obtains capital from individual and institutional social investors and then provides loans to its target organizations. Since 2002, over 1,000 charities, community organizations and social enterprises have benefited from the flexible loans of the Charity Bank.
- **Social Finance** is a not-for-profit intermediary financial organization. It was founded in 2007 to support new models of social change. It cooperates with social organizations, investors and the government. Also, it designs brand new investment products that investors can identify with. In September 2010, Social Finance partnered with the

Ministry of Justice to launch the first Social Impact Bond (SIB) (which is also called Social Benefit Bond or Pay for Result Bond).³³

- **Big Society Capital** was established in April 2012 by the Cabinet Office. It is an independent social wholesale investment bank. It received a total of £600 million investment fund during establishment, with over £400 million from unclaimed bank accounts and £200 million from Barclays, HSBC, Lloyds Banking Group and RBS. It does not directly provide financing to the social sector organizations as such but through a number of intermediary financial institutions (Community Development Financial Institutions). According to the 2013 annual report, Big Society Capital had already made £149 million of investment in a wide spectrum of areas, and a majority of which required a match funding from other investors.

Relevance to Hong Kong and Critical Review

The UK experience provides the following insights to Hong Kong:

- **Social investment market:** Currently, grant-making is the main financial support to social enterprises. At the same time, the financial industry and the general public are unaware of the benefits of leveraging social investments to facilitate the development of social entrepreneurship and innovation
- **Intermediary institutions:** They need to be supported for the social investment market development. Since they are more familiar with the social sector, it would be more efficient to search for and support social innovators through these intermediaries.
- **Repayable finance:** The development of repayable financing, e.g. loans, are needed. Grant-making is important in building a vibrant social investment market, but loans have to be put in proper perspective to foster cash flows.
- **'Paying for Results':** The idea of 'paying for results' could be more widely publicized and certain elements of this approach could be designed into the service contracts between the government and social service providers.



Capacity Building

The UK Experience

The UK has also been exemplary in its efforts and achievements in capacity building for social entrepreneurship and social innovation, and in this section we will list out examples that Hong Kong could refer to.

- **UnLtd** symbolizes the UK Government's empowerment to social innovators and entrepreneurs. Instead of creating a new organization by itself to promote social innovation, the UK Government invited seven civil society organizations to take charge of the capacity builder, named UnLtd, and was formally established in 2001.³⁴ UnLtd is a non-profit organization charged with the responsibilities of stimulating and supporting the generation of new solutions to social problems. The Millennium Commission granted UnLtd with a £100 million endowment,³⁵ the interest from which serves as a permanent source of income for UnLtd to run various programs aimed at encouraging and supporting individuals to test out innovative ideas to tackle a wide range of social issues. For each individual there is a tailored assistance of cash funding, mentoring support and networking opportunities. UnLtd also provides training, opportunities for further development and voluntary professional services.

UnLtd reaches out to approximately 1,000 social entrepreneurs every year.³⁶ In 2014 alone, it gave out more than 1,700 awards to social entrepreneurs.³⁷ Also, according to a survey conducted by UnLtd in 2014-15, the award winners claimed to have helped around 820,000 people.³⁸

- **The School for Social Entrepreneurs (SSE)** was the brainchild of the late Lord Michael Young. The School educates students through action-learning rather than regular classes. Only applicants with aspirations, commitments and excellent ideas are admitted. Upon admission, the School educates students through its team of professional tutors of different backgrounds. The school also provides networking support to students. Furthermore, graduates serve as Fellows after graduation so that they can assist current students in their learning process.³⁹

SSE now operates in 12 locations throughout the UK, including Cornwall, Dartington, East of England, Hampshire, London, Midlands, North West region, Scotland, Yorkshire and Humber. Since its inception, there have been over 1,500 graduates from the School⁴⁰, over 90% have started their social enterprises or charities in their communities. The SSE model has

attracted international attention and it has developed a social franchise arrangement with Schools in Ireland, Canada, Australia and India.

- **The Skoll Center for Social Entrepreneurship at Oxford University's Saïd Business School** is a pioneer in social entrepreneurship education at university level. It offers a variety of courses and programs that aim at equipping students to become social entrepreneurs. The Skoll Foundation granted £4.4 million to facilitate the Center's establishment in 2003.⁴¹

The Skoll Center also runs two major events every year, namely the Skoll World Forum on Social Entrepreneurship and the Emerge Conference. The Forum gathers nearly 1,000 the world's leading social entrepreneurs and facilitates the exchange of ideas and challenges in social entrepreneurship, while the Conference targets young adults who aspire to become social entrepreneurs. The two international educational events help nurture social entrepreneurs of different nationalities.

- **Nesta** is a charity (since 2012) that focuses on innovation capacity building. The UK National Lottery granted £250 million for its establishment.⁴² It promotes innovation across different sectors by launching different programs, forming partnership and conducting researches.

Through cooperating with individuals and organizations, it identifies innovation opportunities, existing innovations that have the potential to be scaled up and issues that require innovative solutions. In short, Nesta focuses on capacity building and scaling up social innovations for societal betterment.

- **The Commissioning Academy**, launched in 2012, aims to provide training to senior leaders from the public sector to strengthen their abilities to lead their teams to come up with innovative service provision and influence external parties and markets.⁴³ It was established in the context of increasing demand and dwindling resources.

Relevance to Hong Kong and Critical Review

The UK experience highlights the need for well-resourced effort to create **capacity builders** to address different target groups and their needs. They serve a wide range of individuals and organizations: individual change-makers, university students, innovators, entrepreneurs, corporates, social sector organizations and public officials. Each of these groups has different needs and requires different sets of capabilities.

The HK\$500 million Social Innovation and Entrepreneurship Development Fund (SIE Fund) has been launched to nurture social entrepreneurship. The Fund sets 'capacity building' as one of its three priority tasks alongside 'research' and 'innovative programs'. It is encouraging to see that capacity building is being developed at full speed, and by further learning from the UK experience Hong Kong can further refine its capacity building efforts and nurture more social innovators.



Legal and Regulatory Frameworks

The UK Experience

The UK experience reveals that changes in legal and regulatory frameworks could foster social innovation. Over the past 20 years, there were some important legislations which have come about specifically for creating a more enabling environment for social entrepreneurship and innovation.

In the UK, there is no uniform definition of social enterprises. As a result, **Community Interest Company (CIC)**, a legal form of companies with social purposes, was introduced in 2005 when the UK Government made amendments to the Companies Act to create the new legal entity.

CICs have a special mechanism to help them achieve their social goals as well as maintain their financial abilities. A CIC has an asset lock which prevents the assets from being distributed among members and other shareholders, allowing other CICs or charities to inherit the assets from any CIC that is closing down or being taken over. A CIC also has to pass a Public Interest Test, which is an approval of their objectives by the Regulator of Community Interest Companies (RCIC), which was set up to regulate CICs. Besides, a CIC must demonstrate in their annual accounting report to the RCIC how it meets its objectives. Moreover, a dividend cap, which is 35% of distributable profits, is set to limit the amount of dividend that shareholders can receive from a CIC. These four principles effectively define the nature and operation of CICs.

When the RCIC office opened in 2005, it was predicted that about 200 CICs would be registered a year. Now the office literally registers the same number every month, and by November 2014, the number of CICs was already over 10,000.

Ten years of establishment is relatively short for a legal entity: there is room for improvement to further refine the structures of CICs. In 2014, there was a major review and revision of the relevant regulations resulting in some significant changes. But the basic model is intact and the aggregate dividend cap remains at 35%⁴⁴.

Relevance to Hong Kong and Critical Review

Hong Kong also does not have a clear definition of social enterprise. The 'official' figure of social enterprises in 2015 was 527, as reported in the **Social Enterprise Directory 2015 (SE Directory 2015)** published by HKCSS-HSBC Social Enterprise Business Center.⁴⁵ At the same time, it was also mentioned in the report that there were 527 social enterprise **projects**⁴⁶ in Hong Kong. The two different descriptions have raised questions about the 'real' definition of social enterprise. Meanwhile, the government claims that definition of social enterprise does not exist⁴⁷. The criteria to enter the SE Directory are similar to that of CICs which also require the distribution of profit to be less than 35%⁴⁸ and this number is, in fact, abnormally high even for normal businesses.

It turns out that most of the government-funded 'social enterprises' have operated as 'social enterprise projects' within their organizations, rather than registered as enterprises (i.e. companies). Being 'projects' rather than enterprises, there are no legal entities, shareholders, board of directors, independent profit and loss accounts and corporate governance are involved. Moreover, the projects tend to be treated as cost centers rather than profit centers.

Both the UK and Hong Kong experiences show that owing to the nascent nature of social enterprises, the tendency has been to adopt a loose definition. But as the sector matures, there may be a need to keep on refining the definition without unduly restricting the diversity and creativity of the operators. Failure to do so may create unnecessary confusions and misleading situations.



Summing Up

Hong Kong can learn from the UK's holistic approach in creating an enabling environment for social innovators. The HKSAR Government can position itself as the champion of social innovation, such as taking **the initiative to adopt SIA** for policy formulation and appraisals, to become a role model so that business, investors and philanthropies would follow. Other UK experiences such as **public procurement**, **'bees' and 'trees'** and **capacity building** are also necessary to build a landscape of social innovation in Hong Kong.

In the next chapter, we will present a number of recommendations for the HKSAR Government to consider to enhance the ecosystem of social innovation in Hong Kong.

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34. The seven organizations are Ashoka UK, Community Action Network, Changemakers, Comic Relief, the Scarman Trust, SENSCOT and the School for Social Entrepreneurs.
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The background of the page is a complex, abstract geometric pattern composed of numerous overlapping triangles. The color palette is primarily shades of purple and blue, ranging from deep, dark tones to lighter, more muted hues. The triangles are arranged in a way that creates a sense of depth and movement, with some shapes pointing towards the center and others extending towards the edges. The overall effect is a modern, minimalist aesthetic.

Chapter 3

Recommendations

With the aim of creating an ideal ecosystem for social innovators, in this chapter we propose nine recommendations for the HKSAR Government to consider. The recommendations fall into four different categories, namely 'Improving Policy Formulation', 'Engaging Business', 'Inducing Competition for Social Outcomes' and 'Capacity Building'. On top of our belief that 'SIA is necessary yet insufficient' in creating such a landscape, the above categories of recommendations all involve implementations of SIA, while non-SIA-specific recommendations are included as they complement SIA in fostering social innovation.

The outline of recommendations is presented in **Table 3**:

Table 3: Outline of recommendations

Improving Policy Formulation	SIA-Specific Recommendation	Recommendation 1: SIA to be Adopted in Public Policy Formulation
Engaging Business	SIA-Specific Recommendation	Recommendation 2: SIA for Listed Companies
	Non-SIA-Specific Recommendation	Recommendation 3: Support the Establishment of a 'Bees and Trees' Platform
Inducing Competition for Social Outcomes	SIA-Specific Recommendations	Recommendation 4: Competition for Social Goods in Public Procurement
		Recommendation 5: SIE Fund and other Funding Bodies for Social Enterprises and Social Innovation Projects to Integrate SIA in their Funding Processes as Much as Possible
	Non-SIA-Specific Recommendation	Recommendation 6: Provide Repayable Finance to Facilitate Cash Flow of Social Enterprises
Capacity Building	SIA-Specific Recommendations	Recommendation 7: Increasing Awareness of SIA in Government Units and Subvented NGOs
	Non-SIA-Specific Recommendation	Recommendation 8: Increasing Awareness in the Business Sector on the Need of Business Transformation
		Recommendation 9: Increasing Awareness in Senior Government Officials on Social Innovation



Improving Policy Formulation

Recommendation 1: SIA to be Adopted in Public Policy Formulation

SCBA is far more dominant than other types of SIA among governments and international organizations. The UK, New Zealand, Canada, Australia, European Commission and World Health Organization all adopt SCBA and have their own official guidelines. The long history and rich literature on SCBA explain its popularity. Therefore, **we suggest the HKSAR Government choose SCBA as the form of SIA in policy formulation and other applications.**

Technically, SIA involves two stages, namely evidence-based analysis of outcomes and valuation of outcomes.

Evidence-based Analysis

This stage can be further divided into 'understanding the outcomes' and 'evidencing the outcomes'. In 'understanding the outcomes', stakeholders must be engaged in order to determine the potential outcomes on them. Stakeholder engagement can be done by questionnaires, phone, face-to-face interviews or large-scale public consultations; evidence must be provided to support the validity of the outcomes afterwards. It may involve scientific analyses or experiments. The overall result of the analysis determines whether a policy can invoke substantial changes.

In the UK, What Works Network has been established to assist the UK Government's decision-making using a strong evidence-based approach. The seven centers of the Network provides evidence-based analysis for policy formulation in different areas: health, education, crime, early intervention, economic growth, ageing and well-being. The centers do not only serve the government but also actively provide the public with research findings, toolkits and guidelines for social issues related to their areas.

Learning from the UK, **the HKSAR Government could consider setting up units to implement evidence-based assessments covering different social aspects.** The Government could partner with local universities and professional organizations to establish new evidence-advisory units that attract experts and scholars to cooperate in doing in-depth social impact assessments, which include evidence-based analyses and valuations, for public policies on specialized social aspects. They will also disseminate research findings, toolkits and guidelines to the public. The duration of the partnership should last for a fixed period and be opened for bidding when

the partnership ends¹. Individuals, businesses and social enterprises should have free access to the findings, toolkits and guidelines issued by the units.

Sufficient funding should be provided to the units in order to attract academics and professionals. Taking reference to the UK's What Works Centers, Center for Ageing Better has received an endowment of £50 million and Education Endowment Foundation is funded with £125 million.

Valuation of Outcomes

The units help provide evidence for the impacts invoked by a policy, and values of the outcomes have to be determined afterwards.

Although market prices for market outcomes are readily available, determining the values of the market outcomes are not easy. Assessors should ensure policies will not exert significant influences on market prices. A policy will affect market prices when:

- It alters market demand or supply considerably. For example, a sudden increase in supply will cause a fall in price.
- It alters the market structure. For example, market price tends to be higher when the market changes from keen competition to oligopoly.

If market prices are likely to be affected, assessors should estimate the potential changes by statistical/economic models or make reference to past experience or similar cases in other economies.

Another challenging task is to value non-market outcomes which are important and commonly stated in public policies. For example, air pollution, better health status and social engagement are all important non-market outcomes. Valuation techniques have to be applied in order to provide monetary values to them.

There are two common valuation techniques: stated preference and revealed preference.

Another emerging technique is the subjective well-being (SWB) approach. APS in the UK has included four questions related to SWB to assess their citizens' life satisfaction, worthwhileness, yesterday's happiness and yesterday's anxiety. *The Green Book* has been supplemented with a guide for valuation techniques which suggests, on top of stated preference and revealed preference, to use the statistics of life satisfaction from the APS to value non-market impacts². The approach estimates the amount of income required to maintain the same level of life satisfaction as if a non-market good is consumed or taken away. SWB approach is deemed the most cost-effective technique, provided that data similar to APS are available.

Details of all techniques are shown in **Appendix I**.

The uses of valuation techniques depend on different circumstances and each of them has its own merits. Stated preference can be tailor-made for each policy, but it is expensive and subject to biases such as protest values and anchoring bias. Revealed preference is less expensive but is subject to the market structure in the referenced market. SWB approach is the most cost-effective but is subject to the availability of data. **The HKSAR Government is suggested to conduct a periodic survey on subjective well-being.** Such survey can be carried out by Census and Statistics Department or by a partnership with local universities to facilitate the implementation of SIA.

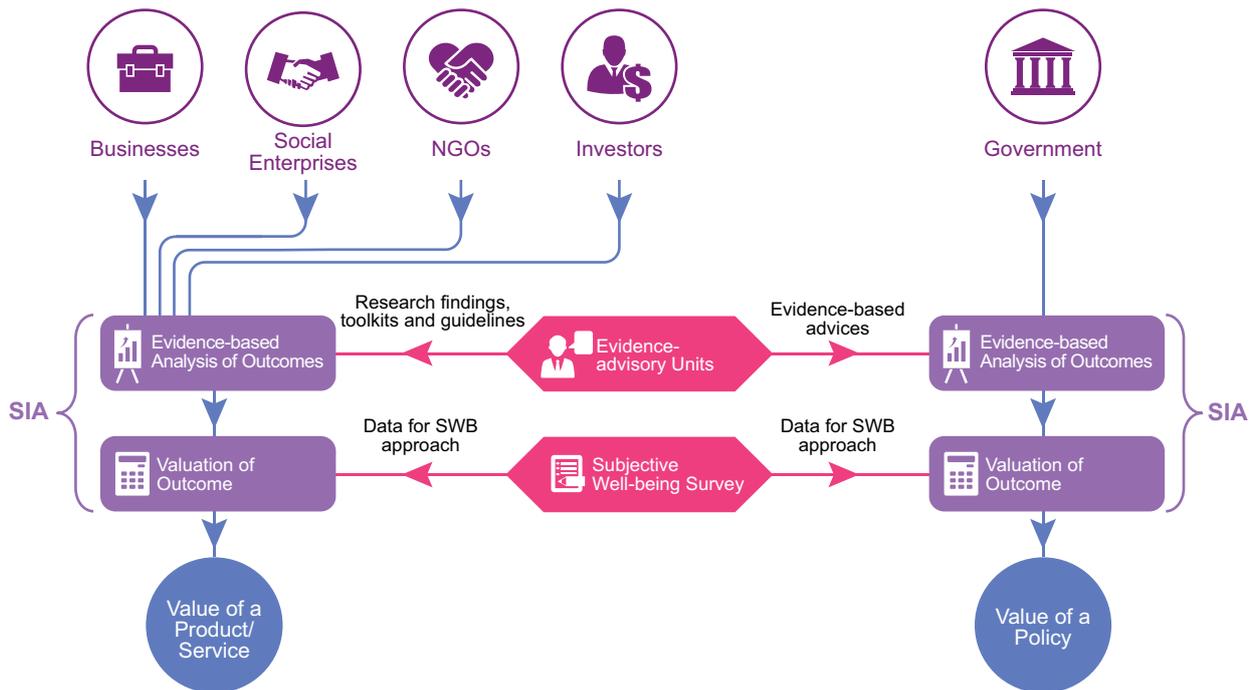
For the frequency of the survey, as suggested by OECD (2013), since the changes of SWB measures are slow, the effects from standard errors are relatively high and it is difficult to separate the trend from the statistical noise if observations are not adequate. They have suggested an annual update as the minimum frequency³. For other economies having SWB survey, the frequency ranges from quarterly to biennially, with annual survey as the most common one⁴. Therefore, the survey is suggested to be conducted annually.

The data collected should be publicly accessible to facilitate social enterprises, NGOs and individuals in applying SWB approach, which is the most cost-effective approach with available data, for the valuation of outcomes.

Moreover, the HKSAR Government is also suggested to reveal the overall statistics of the SWB data in Annual Digest of Statistics so as to provide a more complete picture of life in Hong Kong. Another approach is publishing a new annual report to consolidate the SWB statistics, GDP and other local statistics.

The procedure of SIA and the functions of evidence-advisory units and SWB survey are summarized in **Figure 7**:

Figure 7. Procedure of SIA and role of evidence-advisory units and SWB survey





Engaging Business: SIA-Specific Recommendation

Recommendation 2: SIA for Listed Companies

Starting from 1st January 2016, listed companies need to comply with the new regulation by the Hong Kong Exchanges and Clearing Limited (HKEx) on Environmental, Social and Governance (ESG) reporting. They are required to report on the two subject areas: environmental and social⁵. Key Performance Indicators (KPIs) have been listed out for the companies to measure their achievement in each subject area. There are two forms of provisions in the report: 'comply or explain' and 'recommended disclosure'. For subjects under the first provision, companies must explain if they fail to provide the required information. As for the latter one, the companies are encouraged, but not required, to provide relevant information.⁶ To implement the regulation smoothly, HKEx issued guidelines and provided relevant training to listed companies.⁷

In the Reporting Guide issued by HKEx, there are four main principles, namely materiality, quantitative, balance and consistency⁸. These four principles are very similar to those employed in SIA. SIA is a more advanced step that HKEx can take in the coming years, as it suits the four principles of ESG reporting, but it can perform even better, especially in consistency. SIA provides monetary values for the outcomes by a consistent methodology and the values can be used for comparison across different companies and sectors. In the Consultation Conclusions issued in December 2015, it is proposed that 'comparability' may be further incorporated into the Reporting Principles in the future.⁹

Indeed, the authority has taken a large step forward in asking businesses to do 'comply or explain' in their ESG reporting. Currently, HKEx also encourages companies to identify related KPIs and interact with stakeholders to understand their own impacts.¹⁰ Besides, the current mechanism allows freedom for companies to have their own frameworks and calculation of KPIs.

To further the effort, HKEx could consider building on this output-based model and transform it into an outcome-based approach, i.e. SIA. By integrating and further processing the KPIs while engaging more stakeholders, which HKEx is already advocating, businesses can offer more comprehensive measurements of their social impact.

Our recommendation: HKEx should introduce SIA reporting on top of ESG Reporting.

Proposed Implementation strategy:

- HKEx should first monitor the implementation of ESG reporting and then refine the whole mechanism. This process allows companies to familiarize themselves with ESG reporting and the calculation of KPIs.
- After the listed companies have familiarized themselves with ESG reporting, HKEx can consider pushing further for an outcome-based SIA.



Engaging Business: Non-SIA-Specific Recommendation

Recommendation 3: Support the Establishment of a 'Bees and Trees' Platform

'Bees' refer to social innovators who use novel ways to tackle social issues. 'Trees' refer to resource-rich large organizations, such as businesses, philanthropic foundations and government agencies.

Whenever 'bees' and 'trees' work together they could scale up the impact substantially. Unfortunately, Hong Kong lacks platforms to facilitate the meeting and collaboration of 'bees' and 'trees'. Such platform should be created to ensure a sustainable development of social innovation in Hong Kong.

This platform could be created by an NGO or foundation, but the Government's endorsement and support could greatly enhance its profile and chances of success.

Our recommendation: The HKSAR Government should endorse and support an NGO or foundation to build the 'Bees and Trees' platform.

Proposed Implementation strategy:

- The HKSAR Government, through the SIE Fund, should provide support to the NGO or foundation that is building this platform.
- Since private investors have more interests in projects of which they have clear understanding, participating social innovators are encouraged to use SIAs to measure their potential social impacts in their presentation to potential investors.



Inducing Competition for Social Outcomes: SIA-Specific Recommendations

Recommendation 4: Competition for Social Goods in Public Procurement

Audit Commission (2012) reported that the Government Logistics Department (GLD), in 2011, procured stores and general services for other bureaux and departments with HK\$5,385 million in value under 450 public contracts. This amount is about one-third of the value procured by the whole government¹¹. Therefore, it is estimated that, in 2011, the value of total government procurement in stores and general services was about HK\$16 billion. There are no recent data related to government procurement, but the 2011 value can still serve as a good proxy and the amount is significant if compared to the HK\$500 million endowed for SIE Fund. If social impact can be included as one of the key criteria for selecting contractors, public procurement can then induce a competition for social good and drive social innovation.

The UK has already established the Social Value Act which is legally binding for government agencies to take social value into account when starting procurement. In Canada, Toronto also created the 'Social Procurement Framework' for evidence-based social procurement¹².

The HKSAR Government should adopt a similar approach and SIA is suggested to be applied in public procurement processes. This can provide opportunities for social enterprises to compete with mainstream businesses in delivering public services and the competition not only focuses on price but also social outcomes.

Our recommendation: The HKSAR Government, particularly the GLD, is advised to adopt SIA on public procurement policy as the first step to a thorough implementation of SIA on overall policy-making.

Therefore, we recommend the HKSAR Government to make SIA an integral part of the government procurement process. A common procedure to conduct SIA which is based mainly on SCBA suggested in *the Green Book* by HM Treasury in the UK, with incorporation of a principle in SROI, is provided in **Appendix I**.

Recommendation 5: SIE Fund and other Funding Bodies for Social Enterprises and Social Innovation Projects, to Integrate SIA in their Funding Processes as Much as Possible

SIE Fund is the main source of government grant to support social innovation projects. With the parallel aims of fostering social innovations and cautious spending of public money¹³, SIA should be integrated in the whole funding process as much as possible to simultaneously achieve these two goals. Understandably, the depths that SIA are carried out vary with different stages of social innovation projects but the principles of SIA such as stakeholder engagements, potential outcomes, expected social impacts and social benefits, should be important funding criteria in the process. More robust assessments, including valuations, could be conducted when the social innovation projects become more mature. A proper judging criterion aligned with SIA could be provided to the judging panels. More autonomy should be granted to the SIE Fund for selecting candidates with proven or potential social impacts. Apart from SIE Fund, other funding bodies should also consider to implement SIA in their funding process.

Our recommendation: SIE Fund, as well as other funding bodies for social enterprises and social innovation projects, should consider making SIA an integral evaluation procedure in their funding processes.

Proposed implementation strategy: The Government should provide sufficient training to all the involved parties, including all intermediaries and judging panels, to understand the concepts and principles of SIA and be able to apply SIA in assessing candidates.

Figure 8 shows the mechanism of inducing competition for social outcomes via SIA.

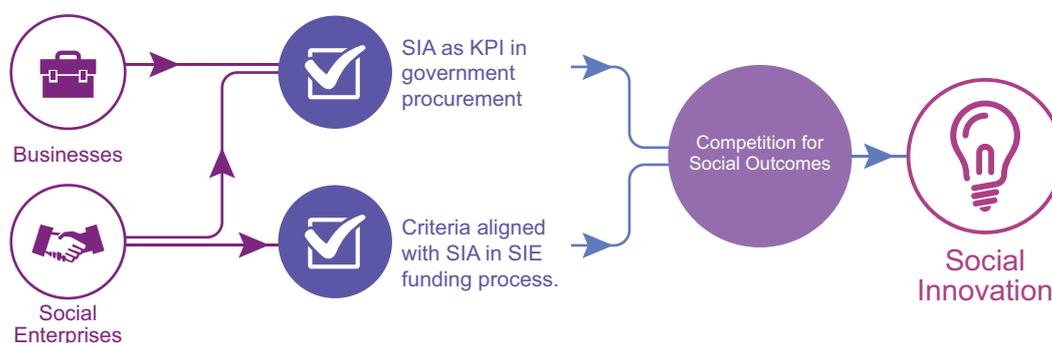


Figure 8. Mechanism of inducing competition for social outcomes



Inducing Competition for Social Outcomes: Non-SIA-Specific Recommendation

Recommendation 6: Provide Repayable Finance to Facilitate Cash Flow of Social Enterprises

Shortages of cash flow are possible when social enterprises are delivering contracts for private businesses or the Government. Since social enterprises are usually small to medium sized, their cash flow maybe insufficient in fulfilling large-scale contracts. Therefore, short-term financing is necessary.

Moreover, the HKSAR Government relies heavily on grants to support social enterprises while the UK has the Futurebuilders Fund for repayable finance. A similar fund can be established in Hong Kong to facilitate social purpose organizations' cash flow so that they could deliver public and business contracts.

Our recommendation: The HKSAR Government should set aside a fund and appoint a number of 'social finance intermediaries' to provide loans to social purpose organizations.

Proposed implementation strategy:

- SIE Fund, or an appropriate institute, should reserve a source of fund for short-term repayable finance in supporting social enterprises and appoint financial intermediaries in delivering the loans.
- Such funding body can collaborate with the GLD for loans related to public contracts. The GLD can base on SIA to identify proper applicants (Recommendation 4 above) and if the applicants do not have enough cash flow, such funding body can be consulted for loan applications. Loans will then be drawn when the public contracts are secured.



Capacity Building: SIA-Specific Recommendation

Recommendation 7: Increasing Awareness of SIA in Government Units and Subvented NGOs

Application of SIA in related public units is an important step for outcome-driven policy formulation. The Government should increase the awareness of SIA in related departments and subvented NGOs.

Our recommendation: the HKSAR Government should commission an independent organization to provide SIA seminars on the importance of SIA in public units. Classes can be conducted for those officials who find SIA important in delivering their services.

Proposed implementation strategy:

SIA is particularly applicable to the operations of the following public units:

- Since SIA will be crucial in the fund approval process and will help ensure the effective use of public funds, SIE Fund secretariat should understand the application and benefits of SIA.
- As the Government's central paymaster, the Treasury should be the most vital unit to comprehend SIA and to master the technique in policy formulation processes.
- As the management consultant for the Government, Efficiency Unit can apply SIA in helping other public units in terms of performance measurement and process re-engineering.
- Since the public procurement process is suggested to include SIA, staff in the Government Logistic Department, which accounts for about one-third of government procurement, should be familiarized with SIA.
- The Social Welfare Department and the Home Affairs Department closely cooperate with the social sector and they could use outcome-based assessment to measure the effectiveness of public funding.
- Audit Commission should value social impact apart from monetary revenues and costs when auditing.
- Subvented NGOs should also use SIA to refine and improve their services
- SIA can also be introduced to politicians.



Capacity Building: Non-SIA-Specific Recommendations

Recommendation 8: Increasing Awareness in the Business Sector on the Need for Business Transformation

The concept of Creating Shared Value (CSV) is an important link between Corporate Social Responsibility (CSR) and normal businesses. Other ideas, such as B-Corp, Conscious Capitalism (CC) and purpose-driven businesses, all promote the integration of social outcomes into business models. Venture capitalist Anthony Tjan wrote in Harvard Business Review that some billionaires from Forbes have accumulated wealth because of social purposes¹⁴. Williams and Hayes (2013) pointed out that Google, with US\$16 billion net income in 2015, has adopted the concept of shared value. These findings have shown the possibility for businesses to create positive social values and make a fortune simultaneously.

Our recommendation: The HKSAR Government should continue to promote intensive awareness of social innovation among local businesses.

Proposed implementation strategy: SIE Fund has successfully held a Shared Value Forum and CSV workshops in 2015. SIE Fund can collaborate with NGOs in continuing the awareness campaigns by facilitating a platform coalescing businesses that are interested in integrating social innovation into their businesses. Aside from the participants of the Shared Value Forum, the 'trees' from the 'bees and trees' platform (Recommendation 3 above) are also potential targets as they are engaged in the overall social innovation movement. SIE Fund can also encourage the participating companies in the Shared Value Forum and CSV workshops to be the 'trees' in the 'bees and trees' platform.

Recommendation 9: Increasing Awareness in Senior Government Officials on Social Innovation

Starting from 2013, the Civil Service Training & Development Institute (CSTDl) has been collaborating with the Good Lab to organize a series of 2-day Tri-Sector Social Innovation Workshops for mid-level civil servants. However, it is also critical for all heads of bureaux and departments to understand the nature, importance and challenges of leveraging social innovation to address social and environmental issues.

Our recommendation: The HKSAR Government should design and implement a series of seminars to

- a) familiarize all directorate staff with social innovations that create impacts on our society; and
- b) rethink how the operations of the Government could support social innovation and even create social innovation.

Proposed implementation strategy: The Efficiency Unit (which is already serving as the secretariat of the SIE Fund) should team up with a UK organization (such as UnLtd, Nesta, or the Skoll Center for Social Entrepreneurship at Oxford University) to design and execute the seminar series for all directorate staff to understand the importance of social innovation.

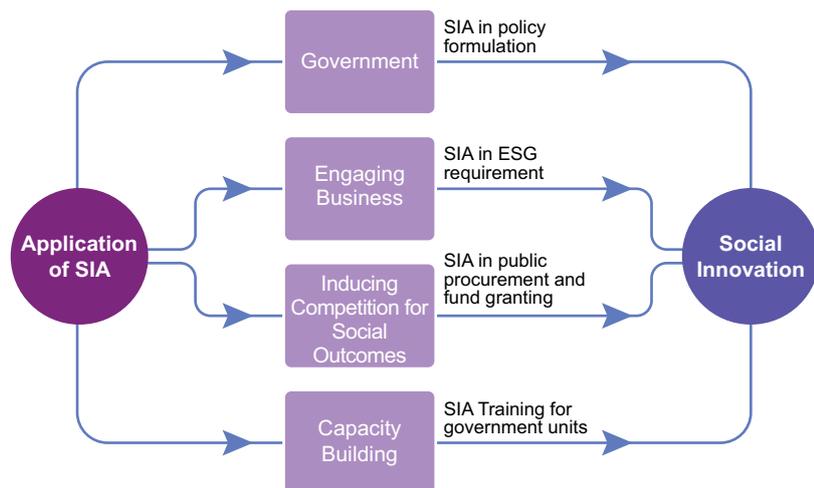
Conclusion

To release the power of social innovation, Hong Kong should first create an ecosystem in which the society comprehends and is fully aware of social innovation, while social innovators can substantialize their ideas with support from various sectors. The HKSAR Government can only construct such a sustainable ecosystem through a holistic approach to engage different strata and sectors of the society to actively take part in this movement.

We believe, however, the promotion of SIA would be the highlight of the series of measures that the HKSAR Government needs to implement to foster social innovation. The Government should consider speeding up the process of introducing SIA for internal uses, particularly procurement, so that it can act as an advocate of measuring social impact.

Figure 9 below summarizes the channels that SIA can facilitate social innovation.

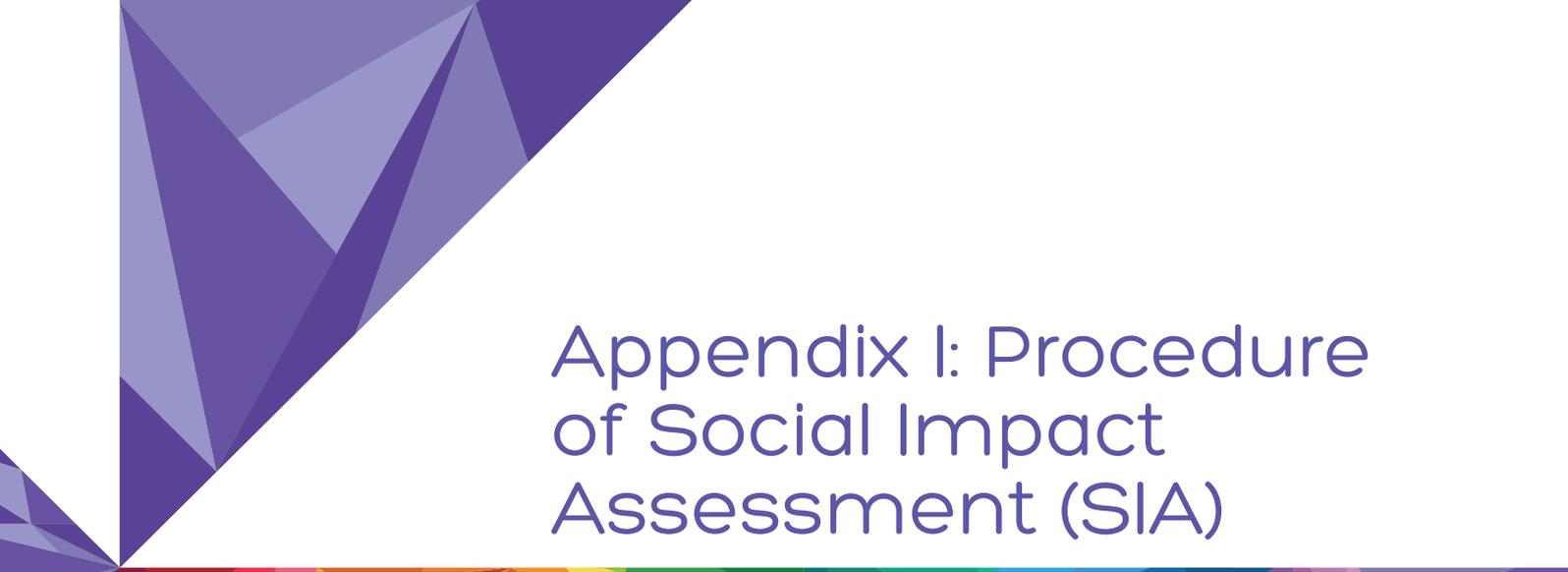
Figure 9. Summary of SIA-specific recommendations



Together with specific policies to engage businesses, induce competition for social outcomes and do more capacity building, quantified social impact can act as the key to unite the business sector, social sector and social innovators and unleash the power of social innovation.

Notes

1. This model is similar to the one employed by What Works Center for Crime Reduction in the UK.
2. HM Treasury, Valuation Techniques for Social Cost-Benefit Analysis: Stated Preference, Revealed Preference and Subjective Well-Being Approaches (2011), p.7.
3. OECD, OECD Guidelines on Measuring Subjective Well-being, (OECD Publishing: 2013). p. 153.
4. Gus O'Donnell et al., Wellbeing and Policy (London: Legatum Institute, 2014), p.37.
5. Hong Kong Exchanges and Clearing Limited, "Appendix 16," Consultation Paper: Review of the Environmental, Social and Governance Reporting Guide (July 2015), pp.1-2.
6. Ibid., p.2.
7. Hong Kong Exchanges and Clearing Limited, Training on ESG Reporting Guide (2013), https://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/training_2013.htm, accessed 16th December 2015.
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11. Audit Commission, Procurement and Supplies Services Provided By The Government Logistics Department (2012), Executive Summary.
12. TEPSIE, Growing Social Innovation: A guide for Policy Makers, p.12.
13. SIE Fund, Objectives, <http://www.sie.gov.hk/en/who-we-are/objectives.page>, accessed 11th January 2016.
14. Anthony Tjan, "It Takes Purpose to Become a Billionaire" in Harvard Business Review (2014), <https://hbr.org/2013/09/it-takes-purpose-become-a-bill/>, accessed 17th February 2016.



Appendix I: Procedure of Social Impact Assessment (SIA)

Introduction

What is Social Impact Assessment (SIA)?

International Association for Impact Assessment (IAIA) has defined SIA as a process to analyze changes invoked by any kind of intervention, such as a policy, product, service, program or project¹ (all these terms are regarded as 'project' hereafter).

The assessment process will quantify the material changes to monetary values. The rationales, judgments and final results will be presented in a transparent manner.

This appendix serves as a reference on a common and suggested procedure in conducting SIA, and should not be regarded as a full guideline which should have more detailed guidance in each of the steps involved.

Who should Use the SIA?

SIA can be widely applied to different parties. Governments, social enterprises, non-governmental organizations (NGOs), investors of social enterprises and even private businesses can utilize SIA to evaluate the social impact of their interventions. (For details please refer to **Chapter 1** in the report)

Who can Conduct SIA?

This SIA framework is complicated and requires well-trained personnel.

Private businesses and social enterprises can base on their available resources to adjust the rigor of assessments to a level that can be conducted by their internal personnel. In our report, the Government is suggested to establish evidence-advisory units and conduct periodic survey for subjective well-being to facilitate other parties in conducting SIA.

For the government, since the social impacts of public policies are always significantly positive or negative, it is suggested that the government should authorize evidence-advisory units, which consist of well-trained officials to conduct the assessments with higher rigor.

Stages of Assessment

SIA consists of two stages. The first one is the evidence-based analysis of outcomes which provides evidence to prove that there are changes (both positive and negative) invoked on the stakeholders. Once the existence of outcomes is proved, the second stage, which is the valuation of outcomes, will estimate the monetary values of both market and non-market outcomes. The aggregation of the values is the overall value of the policy, product, service, program or project.

The following is the procedure that should be involved in conducting SIA:

Evidence-based analysis of outcomes

1. Stakeholder identification and outcomes (benefit/cost) determination
2. Counterfactual Analysis

Valuation of outcomes

3. Valuation of outcomes (benefit/cost)
4. Adjustment for distributional effect
5. Adjustment for price changes and taxes
6. Discounting
7. Considering uncertainty

The above process is a combination of Social Return on Investment (SROI) and Social Cost-Benefit Analysis (SCBA), which are two types of SIA. The United Kingdom (UK) adopts Her Majesty's Treasury's (HM Treasury) *Green Book*, and the SCBA it suggested does not necessarily involve stakeholders to determine the outcomes and it is argued that without stakeholder involvements there may be a higher risk of ignoring important outcomes. This argument gives rise to step 1 so as to strike a balance between stakeholder involvements. Steps 2 to 7 are similar to SCBA.

1. Stakeholder Identification and Outcomes (Benefit/Cost) Determination

Stakeholders are the groups of people or organizations that are affected by the policy: they not only comprise targeted groups and contractors' employees, government, in the case of a construction project, people living near the project venue are also included.

The first step to identify stakeholders is to provide a preliminary list of people that may be affected by the policy and the possible outcomes on them. Representatives of each group are invited to fill in questionnaires, join focus groups or phone interviews to determine the possible outcomes.

During this process, it is possible that some of the listed stakeholders would reveal that they are not affected: if so, they could be removed from the stakeholder list. Moreover, unintended outcomes may also be revealed during this process.

Moreover, stakeholders who are not expected to be affected may be identified during the exercise. This kind of stakeholders is difficult to identify without a large scale public engagement, so it may not be cost-effective

for public procurements and social enterprises to intentionally find out such stakeholders.

At this stage, both market and non-market outcomes can be identified. Market outcomes are ones that have tradable markets and market prices, such as property, job and transportation. Non-market outcomes refer to those usually not tradable and with no market prices, such as health, education, environment and time saved. Market outcomes are relatively easier in valuation than non-market outcomes. The valuation techniques of non-market outcomes are shown in valuation of outcomes.

2. Counterfactual Analysis

Assessors should, in their report, include a part discussing a counterfactual that compares the difference between the two scenarios: 'With the Project' versus 'Without the Project', to demonstrate that the project could bring about social impacts or create social values.

An experimental process should be carried out for comparison. We suggest three possible ways that assessors could choose according to their available resources.

- A. Randomized control trial: This is the most recommended process as it provides the highest accuracy among the three methods. In this method, the sample group is randomly assigned to a control group and a treatment group to collect the outcomes from the two groups' pre- and post- treatment. This method is the most resource-demanding.
- B. Quasi-experiment: This is a method that assessors could choose if the 'randomized control trial' is not feasible. This method is similar to the randomized one, but it does not need a random assignment of people to the control or treatment group.
- C. Matching techniques/Regression: This method should be considered as the 'last resort' among the three approaches because its accuracy is the lowest. It requires the use of regression techniques to match the control group with the treated group. It provides the greatest ease to find a control group.

By experimenting (or pseudo-experimenting) via one of the above three approaches, the assessors can recreate a counterfactual for comparison and highlight the social impacts that could be brought about by the project.

3. Valuation of Outcomes (Benefit/Cost)

This step will start the valuation of the outcomes obtained in Stage 1. The most imperative part of SIA is to convert any value created, either positive or negative, either tangible or intangible, to a measurable quantity. The most practical way to do so is to convert the outcomes into monetary values, which could then be compared on an equal basis for further assessments and evaluations.

For market outcomes, the prices in the market can be regarded as the value. Although it looks straight forward, price adjustment is required with detail discussed in the section "Adjustment for price changes and taxes". Moreover, assessors should also consider whether replacement cost should be used or not. For example, if a policy involves the renewal of a certain area,

the current property prices in that area may not be suitable to value the cost incurred by the residents because they have to purchase or rent properties in other areas with different prices.

For non-market outcomes, conversions to monetary values are needed. Since social innovation mainly brings about non-market social impacts and creates new social values, measuring these non-market outcomes essentially makes up the biggest part of SIA.

Three different valuation techniques can be used, namely stated preference, revealed preference and subjective well-being approach. These three approaches are suggested by HM Treasury in *the Green Book*², and all of them employ a concept in economics: utility. Utility measures the preference of an individual in consuming different sets of goods. A set of goods is a combination of goods which can contain both market goods, such as smartphones and jewelries, and non-market goods, such as health and environment. Loosely speaking, utility can be regarded as satisfaction, change of welfare or change of well-being. Although these three terms cannot fully explain utility, they are the closest approximations.

By using the concept of utility, values can be measured by another two concepts in economics, Equivalent Variation (EV) and Compensating Variation (CV).

Equivalent Variation (EV) is the change of wealth that can generate the same effect on an individual's utility as if a good is consumed. This concept is usually related to a term 'Willingness to Pay (WTP)' and is useful for measuring the value of a good to be provided. For example, if an individual is willing to pay HK\$300 to wait 30 minutes less in airport, the 30 minutes reduction of waiting time to be created by a policy, which is a non-market outcome, can be monetized as HK\$300.

Compensating Variation (CV) is the change of wealth that can change an individual's utility to initial level as if a good is not consumed. This concept is usually related to a term 'Willingness to Accept (WTA)' and is useful for measuring the value of a good to be removed from consumption. For example, an individual is currently enjoying a nice sea view from his/her accommodation and will only give up this view if compensated by HK\$50,000. The blockage of the view to be created by a policy, which is a non-market outcome, can be monetized as -HK\$50,000 or, say, the cost to the individual from this outcome is HK\$50,000.

In fact, all the three valuation techniques aim to estimate EVs and CVs for the stakeholders. Aggregating all the EVs and CVs from stakeholders can, theoretically, provide us with the net value of the project to society via non-market outcomes. Together with the net value of the market outcomes, the overall net value created by a project can be estimated.

The three different techniques are discussed below³:

- A. Stated preference approach is the most widely-used yet costly one among the three approaches. It involves tailor-made questionnaires for a particular project, or even a particular outcome for a project, to estimate the WTP and WTA.

Simple random sampling can be used to invite representatives of each group of stakeholders for the survey. There are two valuation methods in this approach, namely contingent valuation methods and choice modelling methods.

- In **contingent valuation methods**, a hypothetical market will be created for the representatives invited. Details, providers and duration of the goods, available substitutes and complements, methods and frequencies of payments, and budget constraints must be clearly stated.

The questionnaires can employ the following formats:

- Open-ended format: an invitee is directly asked for the maximum amount that he/she is willing to pay (or accept) for receiving (removing) the good described. Follow-up questions can be used to ask for the reasons of the responded amounts.
- Bidding game format: starting from a randomly drawn price, an invitee will be asked if he/she is willing to pay for a good described with the price. If he/she declines, the price will be adjusted upward or downward until he/she accepts.
- Payment card method: an invitee is presented with a range of prices for the good described and he/she needs to tick those prices that he/she is willing to pay and cross those that he/she refuses to pay.
- Dichotomous choice: an invitee is provided with a price to purchase the described good and can either accept or decline the offer.
- **Choice modelling methods** aim to estimate the value for attributes of an outcome. For example, building a new highway can simultaneously reduce traffic jam and create pollution. The value of the outcome is the aggregated values of all its attributes.

The attributes can be figured out from the questionnaires, focus groups or phone interviews in Stage 1, or via related literature.

A choice or an option is created by pairing the price and the level of the attribute. For example, a lower price is paired with a minor reduction of traffic jam and a higher price is paired with a larger reduction of traffic jam.

The following formats can be employed for this method:

- Choice experiments: different options are presented to the invitee for a choice with a quo option. Choosing quo option means bearing the current negative effect without paying anything.
- Contingent ranking: an invitee is required to rank different options together with the quo option.
- Contingent rating: an invitee is required to numerically rate different options together with the quo option for his/her preference.
- Paired comparison: an invitee is required to choose between two options and then numerically rate them.

B. In revealed preference methods, values of non-market outcomes are not directly obtained from stakeholders, but revealed from prices change of other market outcomes or related costs. Two commonly used methods are hedonic pricing method and travel cost method.

- In the **hedonic pricing method**, values of non-market outcomes are revealed via the changes of consumption behavior for related market outcomes.

For example, a new subway station can reduce the travel time of households living nearby. The reduction of travel time is non-market, but it can affect the housing prices in that region. Studying housing prices can reveal the value of time saved. It is essential to note that the change of housing prices cannot be directly used as the value because the change can be attributed to different factors. A regression is usually required to figure out the influence of time saved to housing prices before arriving at any value.

- In the **travel-cost method**, the frequency of an individual visiting a site should depend on the cost of visiting the site as well as other factors, such as the price of other sites available, income, age, gender, education and number of children. By collecting this information from visitors and performing regression, a function relating visiting frequency and cost of visiting can be obtained. The function can be used to construct a demand curve for the site. Its value to an individual is the area under the demand curve between the current cost of visiting and the choke cost which make him/her stop visiting the site.
- C. In the Annual Population Survey (APS), there are four questions related to subjective well-being, namely life satisfaction, worthwhileness, yesterday's happiness and yesterday's anxiety. The subjective well-being (SWB) approach is based on the statistics from the question of life satisfaction to estimate the value of non-market outcomes and it can be further clarified as life satisfaction approach.

The research of Life Satisfaction Approach started during the early 2000s, when B. S. Frey and A. Stutzer studied the relationship between people's subjective well-being (SWB) and the economy. People's SWB is given more and more importance in policy-making processes apart from traditional economic outputs.

Life satisfaction approach uses life satisfaction statistics in APS to proxy the utility function in order to figure out the marginal rate of substitution (MRS) between income and a non-market good of which the value can then be calculated.

Since life satisfaction data are not available in Hong Kong, our report has suggested the HKSAR Government conduct a periodic survey on SWB. The data collected should be publicly available for other parties to apply life satisfaction approach in valuing outcomes.

Referring to Fujiwara and Campbell (2011), a linear specification of the regression model in Life Satisfaction Approach will take the form like this:

$$LS_{it} = C + \alpha \ln(M_{it}) + \beta Q_{it} + \sum_{k=1}^N \gamma_k X_{ikt} + \varepsilon_{it} \dots \dots (1)$$

In this specification, LS_i is the life satisfaction of individual i ; C is a constant; M_i is the income of individual i and logarithm is applied to take into account the diminishing marginal utility of income; Q_{it} is the level of consumption of a non-market good under valuation by individual i ; X_{ik} is characteristic k of individual i . From the model, there are N characteristics for individual i which can be age, gender, employment status, marital status, health, family size, living region and even personalities⁴. Although the variables included can be customized for Hong Kong, the basic requirement is that the variables should not be significantly affected by income and the non-market good, and are optimal if not inter-related.

Let us consider a simplified version for an easier explanation.

$$LS_{it} = C + \alpha \ln(M_{it}) + \beta Q_{it} + \gamma X_{it} + \varepsilon_{it}$$

Reminded that the definition of EV is the change of wealth that can generate the same effect on individual's utility as if a good is consumed, the EV for an individual, with amount of Q changed, can be obtained by the following formula:

$$\begin{aligned} C + \alpha \ln(M_{it}) + \beta Q_{it}^1 + \gamma X_{it} + \varepsilon_{it} \\ = C + \alpha \ln(M_{it} + EV_{it}) + \beta Q_{it}^0 + \gamma X_{it} + \varepsilon_{it} \end{aligned}$$

$$EV_{it} = e^{\ln M_{it} + \frac{\beta}{\alpha}(Q_{it}^1 - Q_{it}^0)} - M_{it}$$

The step is similar to calculating CV for an individual which is the change of wealth that can change an individual's utility to initial level as if a good is not consumed:

$$\begin{aligned} C + \alpha \ln(M_{it}) + \beta Q_{it}^0 + \gamma X_{it} + \varepsilon_{it} \\ = C + \alpha \ln(M_{it} - CV_{it}) + \beta Q_{it}^1 + \gamma X_{it} + \varepsilon_{it} \end{aligned}$$

$$CV_{it} = M_{it} - e^{\ln M_{it} - \frac{\beta}{\alpha}(Q_{it}^1 - Q_{it}^0)}$$

From the above calculation, if α and β are estimated in advance by regressing life satisfaction on other data in the SWB survey, the overall values created to society can be obtained in a straightforward manner given that outcomes are properly determined in Stage 1. It is the case in the UK and is the reason why life satisfaction approach is regarded as cost-effective there.

However, the case in Hong Kong is different because the database for life satisfaction approach is well established and maintained in the UK while Hong Kong has no such data yet. British Household Panel Survey (BHPS) has started the life satisfaction survey since 1997 and conducted 10,000 surveys for those sampled UK households each year⁵. APS is conducted on around 200,000 people annually by Office for National Statistics (ONS)⁶ No regular and large-scale surveys of this kind are conducted in Hong Kong currently, so we suggest the HKSAR Government to conduct periodic surveys on SWB to provide the data.

- Each of the approaches has its own relative merits:
 - Stated preference methods allow questionnaires to be tailor-made for specific valuations and have wide application. Follow-up questions can be asked for reasons of the responses. Yet, protest values are possible. For example, some people may put zero value to an outcome because of a reason not related to the project. Anchoring bias is another problem, especially for the bidding game format. Anchoring bias means the final value of WTP or WTA will be affected by the first prices given to the respondents. It is also very costly to conduct a tailor-made survey for each assessment.

- Revealed preference methods are relatively more cost-effective than stated preference methods and the estimation is based on the real market situation. However, market structure will have a significant influence on the estimation. For example, in evaluating the value of noise from an infrastructure project, the effect on housing prices in nearby area will be affected by the market structure. The effect may be smaller if the market is less competitive.

Moreover, EV and CV are theoretically measured in terms of Hicksian surplus which requires holding utility constant and takes into account only substitution effect⁷. However, in real life application, changes of prices always associate with Marshallian surplus which allows utility to change and takes into account both substitution and income effects. The methods are theoretically not very appropriate in estimating EV and CV and will result in biases.

- Life satisfaction approach does not require policy-specific surveys and can avoid the protest values and anchoring bias in stated preference methods. The result will also not be affected by the market structure. It is also cost-effective if data of life satisfaction is available.

The main drawback of the approach is the potential bias caused during regression. Such bias will appear if relative income, indirect effect and counter-effect of income are not taken into account. Relative income is the average income of a reference group. Individual may be considered rich in a society, but relatively poor if compared to his/her colleagues. Relative income is found to be a significant factor affecting subjective well-being which should not be ignored. Indirect effect of income means that income will affect other variables, such as marital status, which are assumed to be exogenous. Counter-effect of income means that income itself is also not exogenous because income is usually derived from labor input which essentially reduce time for other activities and may affect other variables such as health and social relation. Moreover, this approach is not cost-effective before a life satisfaction data are available in Hong Kong.

- All the three approaches have their relative merits and assessors should choose the most appropriate one based on the outcomes being valued and available resources. However, from the perspective of resource-insufficient parties, life satisfaction approach will be more suitable because of its cost-effectiveness, given that SWB data are available.

Since the effect of each outcome may last differently, resulting in zero value at the end, the drop-off should be properly estimated. For example, if the value of outcome is estimated to be HK\$1,000 in year 0 and the effect is expected to last for 10 years, an annual drop-off rate of 60% will make the value close to zero in 10 years by using compounding. However, linear drop-off, such as HK\$100 per year in the mentioned example, is usually employed in real practice.

4. Adjustment for Distributional Effect

Distributional effect describes the different levels of an impact on different groups of stakeholders⁸. For example, a health care policy, which can reduce waiting time for public medical services, may yield higher impact on the elderly than the young. Assessors should take this effect into account when estimating the overall impact of policy on the society.

- A. If life satisfaction approach is used, introduction of interactive terms of variables can be considered. A simple regression model with interactive terms is illustrated below⁹:

$$LS_{it} = C + \alpha \ln(M_{it}) + \beta_1 TimeRed_{it} + \beta_2 TimeRed_{it} Age_{it} + \gamma Age_{it} + \varepsilon_{it}$$

TimeRed represents the waiting time reduced for public medical services in terms of days. It is the non-market outcome to be valued (the *Q* in equation (1)). Age is the age of an individual (one of the *Xs* in equation (1)). From this model, if β_2 is significantly different from zero, the coefficient of *TimeRed* will be $\beta_1 + \beta_2 Age_{it}$. The EV or CV resulted will then be affected by age and will take the distributional effect on age into account.

Moreover, the logarithm applied to income *M* has already taken the distributional effect of income into account. By using logarithm, the effect of increasing income on life satisfaction will decrease with individuals' original income. That is, a one-dollar increase in income is worth less for wealthier people.

- B. For stated and revealed preference approaches, *the Green Book* has provided adjustment for income-based marital status and number of children¹⁰. Studies should be conducted to provide proper adjustments for households in Hong Kong.
- C. When considering distributional effect, assessors must pay attention to the local and international regulations related to discrimination. Whether distributional effect should be considered or not may be legally bounded for particular groups of stakeholders.

5. Adjustment for Price Changes and Taxes

All the values of costs and benefits must be adjusted for inflation which means that they should be expressed in constant prices (usually today's prices).

Apart from inflation, assessors should take into account other factors affecting market prices. The factors can be broadly classified as market-specific and project-specific.

- A. Market-specific factors are not related to the project under assessment and are affected by general characteristics of the market. For example, products related to technology usually decrease in value with time and prices of imported goods are always affected by the exchange rate. Assessors should provide estimations to this kind of price changes.
- B. Project-specific factors are related to the project under assessment and are mainly due to the distortion of market after implementing the project. The Government should pay more attention to these factors

as its policies are more likely to affect market prices than other parties, such as social enterprises and NGOs.

For example, a policy stimulating households to purchase educational services may increase the demand for the services and hence increase the market prices. The resulting benefit may be smaller than expected.

Another example is related to costs. Implementing large-scale infrastructural policies can increase the demand for related resources, such as labor and building materials, resulting in a surge in the related market prices. If this effect is ignored, the realized cost may be higher than expected and a policy, which is expected to have net benefit on society, may result in a net loss.

The last example is related to the changing market structure. If a policy eases the entrance requirement for a market, more competition can result in lower prices. This can be a benefit from the perspective of consumers.

Estimation of price changes due to a project requires more sophisticated knowledge in related areas and statistical skills. It is more cost-effective to perform this estimation for government policies than projects from other parties, such as NGOs and social enterprises, due to their larger potential influence. From the government's perspective, although it is challenging to estimate the post-policy movement of the prices, neglecting the effect can result in a significant error.

- C. Taxes should be considered because they may alter an individual's behavior¹¹. For a policy enhancing the income of people in low-income classes, it may not be beneficial to some stakeholders as the policy may increase their annual incomes over the tax allowance, which will essentially reduce their post-tax incomes.

6. Discounting

The annual net value of each year should take into account all the positive and negative values of both market and non-market outcomes to the stakeholders.

All the annual net values will then be discounted by a proper discount rate to give a set of present values. **Net present value (NPV) of the project can then be obtained by aggregating all the present values. An NPV larger than zero means the project is worth implementing, or otherwise, should be refined or abandoned.**

HM Treasury has suggested a discount rate of 3.5% in the first 30 years and declining for the longer term¹². However, this rate, which is regarded as Social Time Preference Rate (STPR), is recommended based on researches conducted in the UK¹³. STPR is used to turn future social values into present ones. Similar researches should also be conducted in Hong Kong to determine a suitable STPR for local use.

If the outcome is irreversible and the effect is assumed to last for infinity, the growth rate of its value (if any) should not be larger than the discount rate applied for longest term or, otherwise, no present value can be obtained for this outcome, so as the whole project.

7. Considering Uncertainty

There are two basic analyses for considering the uncertainty, namely sensitivity analysis and scenarios analysis.

In sensitivity analysis, values of different variables are changed and the responses of the NPV are observed¹⁴. It is important to know the extent of change in a variable that will result in a negative NPV, making the policy not worthy to be implemented. For example, it is supposed that the positive NPV of building a new hospital is based on the estimation that the population of the elderly will maintain its growth rate, what if the rate drops by 1%? How much will the rate need to drop to result in a negative NPV?

Scenarios analysis provides assessors with the potential changes of NPV for status of the economies, politics, technology and environment¹⁵. For example, assessors should estimate the NPVs of a policy for high economic growth, low economic growth and even depression.

Notes

1. IAIA, IAIA Special Publication Series No. 2, p.2.
2. HM Treasury, The Green Book, p.57. HM Treasury also provided detailed discussion for the three techniques in Fujiwara and Campbell, Valuation Techniques for Cost Benefit Analysis: Stated Preference, Revealed Preference and Subjective Well-Being Approaches (2011).
3. The discussion is based on Valuation Techniques for Cost Benefit Analysis: Stated Preference, Revealed Preference and Subjective Well-Being Approaches by HM Treasury, and we provide a simplified outline of the three approaches and relative merits in this session.
4. HM Treasury, Valuation Techniques for Cost Benefit Analysis: Stated Preference, Revealed Preference and Subjective Well-Being Approaches, p.41.
5. Ibid., p.42.
6. Ibid.
7. Hicksian and Marshallian surpluses are two main economic concepts which can measure the change of welfare.
8. HM Treasury, The Green Book, p.24.
9. Example of using interactive terms for distributional effect can be referred to p.25 of "Quantifying and Valuing the Well-being Impacts of Culture and Sport" by David Fujiwara.
10. Refer to Table 5.1 and Table 5.2 in HM Treasury, The Green Book, p.92.
11. HM Treasury, The Green Book, p.28.
12. Ibid., p.99.
13. Ibid., p.97.
14. Ibid., p.32.
15. Ibid., p.33.

Appendix II: Hong Kong's Current Social Sector

Table 4. Estimation of number of employees in social enterprises

Current No. of SE as of 2015	527 ¹		
Range of No. of Employees ² as of 2013	% of responses ³	No. of Employees Referred	Estimated sub-total
11 to 30	26.4%	20	2,783
31 to 50	5.7%	40	1,202
51 to 100	4.6%	75	1,818
more than 100	2.9%	100	1,528
smaller than 10	60.3%	5	1,589
		Estimated Total	8,919

Table 5. Estimation of annual turnover

Current No. of SE as of 2015	527 ⁴		
Range of Turnover (HKD) ⁵ as of 2013	% of responses ⁶	Turnover Referred	Estimated sub-total
smaller than 500,000	27.7%	250,000	36,494,750
510,000 - 1,000,000	17.4%	750,000	68,773,500
1,010,000 - 3,000,000	35.5%	2,000,000	374,170,000
3,010,000 - 5,000,000	6.5%	4,000,000	137,020,000
5,010,000 - 10,000,000	7.1%	7,500,000	280,627,500
10,010,000 - 25,000,000	3.9%	17,500,000	359,677,500
more than 25,000,000	1.9%	25,000,000	250,325,000
		Estimated Total	1,507,088,250

Notes

1. HKCSS-HSBC Social Enterprise Business Center, 2015 Social Enterprise Directory (2015), Appendix I.
2. CUHK, Research Study on the Social Enterprise Sector in Hong Kong (2014), A2-6 Figure 6.
3. Ibid.
4. HKCSS-HSBC Social Enterprise Business Center, 2015 Social Enterprise Directory, Appendix I.
5. CUHK, Research Study on the Social Enterprise Sector in Hong Kong, A2-8 Figure 11.
6. Ibid.

Appendix III: Stakeholders Consulted

Table 6. Stakeholders consulted

Name	Institute	Title
Evan Auyang	Gerson Lehrman Group	Head of Asia-Pacific & Managing Director
Cecilia Chan	The University of Hong Kong	Professor
Rachel Chan	InnoFoco	Founder & Chief Catalyst
Chris Cheung	Give Venture Partners Limited	Executive Director
Kelvin Cheung	Unlimited Hong Kong Foundation Limited	Chief Executive Officer
Leong Cheung	Run Our City	Founder and Chairman
Patrick Cheung	The Social Innovation and Entrepreneurship Development Fund Task Force	Co-opted Member
Wayne Chow	Agent of Change	Founder & Chief Executive Officer
Cora Chu	Dialogue Experience	Chief Executive Officer
Demi Chu	Education For Good	Director
Chua Hoi Wai	Hong Kong Council of Social Service	Chief Executive Officer
Leung Pui Fung	Fairtaste	Founder
Martin Fung	Next City	Founder
Philip Fung	Houston Leadership Training Center	Director
Maggie Ho	Education for Good	General Manager
Erwin Huang	Senior Citizen Home Safety Association	Vice-Chairman
Florence Hui	Home Affairs Bureau	Under Secretary for Home Affairs
Kee Chi Hing	Fullness Social Enterprises Society	Chair
Ilex Lam	Social Enterprise Steering Committee, Hong Kong Rehabilitation Power	Chairperson
Patricia Lau	Efficiency Unit	Deputy Head
Vivian Lau	Junior Achievement	President

Table 6. Stakeholders consulted

Freddy Law	Social Investors Club	Director
Catus Lee	Zensbilo Consulting	Change Architect
Jane Lee	Hong Kong Sheng Kung Hui Welfare Council	Director
Josephine Lee	St James Settlement	Deputy Chief Executive Officer
Lindy Lek	Social Impact Partners Limited	Executive Director
Doris Leung	Diamond Cab (Hong Kong) Ltd	Chief Executive Officer
Irene Leung	Senior Citizen Home Safety Association	Chief Executive Officer
Lehui Liang	Social Ventures Hong Kong	Associate Director
Howard Ling	HKCSS-HSBC Social Enterprise Business Centre	Chief Consultant
Theodore Ma	CoCoon	Founder
Hang-Sau Ng	The Hong Kong Society for Rehabilitation	Chief Executive Officer
Stanely Ng	Hong Kong Rehabilitation Power	Executive Director
Kim A. Salkeld	Efficiency Unit	Head
Susan Tse	British Council	Director of Programmes
Ada Wong	The Good Lab	Convenor
Anthony Wong	The Hong Kong Council of Social Service	Business Director (Policy Research and Advocacy)
Sania Yau	New Life Psychiatric Rehabilitation Association	Chief Executive Officer
Yvonne Yeung	Hong Kong Young Women's Christian Association	Chief Executive
Ada Yip	Education For Good	Director
Alvin Yip	Jockey Club Design Institute for Social Innovation, The Hong Kong Polytechnic University	Director
Ivan Yiu	Tung Wah Group of Hospitals	Community Services Secretary
William Yu	World Green Organization	CEO
Terence Yuen	Hong Kong Institute of Social Impact Analysts	Chief Executive
Rebecca Yung	Education For Good	Founder & Vice-chairperson

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Acknowledgements

We would like to thank Mr. C. H. Tung, the Chairman of Our Hong Kong Foundation, for his unwavering support to the research of this report.

We would also like to express gratitude to the Foundation's Executive Director Mrs. Eva Cheng, as well as members of the Foundation's Research Council:

Dr. John Chan, Deputy Chairman of Transport International Holdings Limited;

Prof. Hsin-Kang Chang, Former President of CityU;

Mr. Sew-Tong Jat, Senior Counsel, Chairman of Minimum Wage Commission;

Mr. Franklin Lam, Founder of HKGolden 50;

Mrs. Fanny Law, Member of Executive Council, HKSAR Government;

Prof. Chack-Fan Lee, Chancellor of Chu Hai College of Higher Education;

Mr. Antony Leung, Group Chief Executive of Nan Fung Group;

Prof. Pak-Wai Liu, Research Professor of the Institute of Global Economics & Finance, CUHK;

Prof. Chung-Mau Lo, Head, Department of Surgery, Li Ka Shing Faculty of Medicine, HKU;

Prof. Francis T. Lui, Department of Economics, HKUST;

Prof. Richard Wong, Chair of Economics, HKU;

Prof. Suk-Ying Wong, Professor of Sociology, CUHK;

Mr. Peter Woo, Chairman of Wheelock Holdings Pte Limited;

Mr. Joseph Yam, Executive Vice President of the China Society for Finance and Banking, and

Prof. Eng-Kiong Yeoh, Head, Division of Health System, Policy and Management, JC School of Public Health and Primary Care, CUHK

for their participation and contribution in the discussions throughout writing this report.

In addition, Our Hong Kong Foundation is immensely grateful for the valuable input of the many experts, scholars and professionals in this field of study, as well as stakeholders who attended the roundtable discussions of the research, which are critical to the successful completion of this report.

We would also like to thank Edwin Cheung, Cyprian Fong and Lily Yuen for their research efforts, as well as Yee Ping Kuit for the design of this report.

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Hong Kong

March 2016

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