

The State of Social Entrepreneurship in China

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# **The State of Social Entrepreneurship in China**

**SEFORIS Country Report**

**Zhiyuan Zhao**

**NPI**

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## **About SEFORIS: Social Enterprise as FORce for more Inclusive and Innovative Societies**

SEFORIS is a flagship multi-disciplinary, multi-method international research project on social enterprise funded by the European Commission. Through the generation of robust evidence and internationally leading research, SEFORIS aims to better understand the role that social enterprises play in the EU and beyond in the development and evolutions of inclusive and innovative societies.

SEFORIS will investigate key processes through which social enterprises deliver inclusion and innovation (spanning a range of domains, from organisation and governance, over financing and innovation to behavioural change) as well as the contexts in which social enterprises thrive. In terms of methodology, we will start from policy and social enterprise practitioner questions and challenges together with critically scrutinizing existing academic literature. We use this first step to develop theoretical frameworks that then serve as a basis for thinking systematically about innovation and inclusion processes in context. This is followed by field and lab experimentation with social enterprises and in-depth case studies to expand and enrich our understanding of social enterprises. Unique longitudinal survey data will be collected across 9 distinct countries to test new (and at times counterintuitive) hypotheses to reach novel insights and generalizable conclusions. We engage policy makers and social enterprises throughout the research process to ensure that our research is relevant for them and can inform their practice.

### **The SEFORIS partnership**

SEFORIS is a consortium of 12 organisations from 10 countries including Belgium, China, Germany, Hungary, Portugal, Romania, Russia, Spain, Sweden, and the UK.

#### **Academic partners and research institutes:**

KU Leuven (Belgium), Hertie School of Governance (Germany), Autonomous University of Barcelona (UAB, Spain), University of Aveiro (Portugal), Centre for Economic and Financial Research (CEFIR, Russia), Stockholm School of Economics (Sweden), Aston Business School (United Kingdom)

#### **Social entrepreneur support and financing organisations**

Oksigen Lab (Belgium), i-propeller (Belgium), Non-Profit Incubator (NPI, China), Nonprofit Enterprise and Self-sustainability Team (NESsT, Hungary & Romania), and The Foundation for Social Entrepreneurs - UnLtd (United Kingdom)

#### **Advisors**

Organisation for Economic Co-operation and Development (OECD, France), Harvard Business School (HBS, USA) and the European Venture Philanthropy Association (EVPA, Belgium)

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## Executive Summary\*

The market mechanism inherently contains many limitations, and there are many issues that the market cannot resolve. Government resources are limited and income derived from taxation can only be directed towards a finite number of projects. Non-governmental Organizations (NGOs) are by and large charity organizations. Charity organizations require a continuous flow of donations for their operations. Therefore, their impact is limited and dependent on the continuous inflow of funding. If government, NGOs, and businesses cannot resolve these problems, then we need another form of solution.<sup>1</sup>

Social enterprises arise in this situation. As a new model of innovative social organization, social enterprises combine the efficient, professional, and flexible characteristics of a business with the goal of taking on and resolving social issues in China. As such, social enterprises are well positioned to efficiently participate in the process of societal management and development, providing a lively and innovative method for the construction of a harmonious society in China.<sup>2</sup>

This China Seforis country report highlights below 9 noteworthy questions, findings and topics of debate to illustrate the current status of social entrepreneurship in China.

### 1. Social enterprises are rising in China

- In comparison to the established concept of social enterprise in Western countries, there are very few mature social enterprises in China. However, NGOs, public institutions, social welfare enterprises, and co-operatives, among others, have in fact been performing the functions of social enterprises for many years.<sup>3</sup>
- The concept of social entrepreneurship began to surface in 2004 in China, and with the spread of the idea of social enterprise, more and more nonprofit organizations and other institutions attempted to adopt this and similar forms to achieve their missions.

### 2. Social enterprises lack of legal framework or policy from the government in China

- Presently, the legal framework supporting social enterprise is still underdeveloped in China. As an innovative organizational form, social enterprises have not yet received a clear legal designation and lack the relevant judicial and supervisory frameworks. This creates numerous different issues to overcome for their future development.

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\*This country report of social enterprise in China is written by the Social Entrepreneur Institute of NPI. Strictly speaking, it is just gather and assort information based on existed literature and reports of social enterprise in China to response the questions what the European Union agency put forward, which for the further study of social enterprise in China.

The reference data mainly from the three social enterprise reports of China, "China Social Enterprise Report 2012", "2013 China Social Enterprise and Impact Investment Report", and "The general report of social enterprise in China".

This report focus on social enterprises in the mainland of China (not including those in Hong Kong, Macao and Taiwan).

<sup>1</sup> United Bank of Switzerland(UBS).2013."2013 China Social Enterprise and Impact Investment Report". Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814->, p2.

<sup>2</sup> United Bank of Switzerland(UBS).2013."2013 China Social Enterprise and Impact Investment Report". Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814->, p11

<sup>3</sup> Ding Kaijie.2007." Social Enterprise: Practice in China". "Social Enterprise Overview: A UK and China Perspective".

### 3. Most of social enterprises in China are in its early development stage and have limited potential for job creation

- According to the report “China Social Enterprise Report 2012”, 54% of surveyed social enterprises in China are under 3 years, of whom 21% being less than 1 year. And 38% were more than 5 years.
- 41% of respondents of these social enterprises created a maximum of 4 jobs, 38% made between 5 and 10 jobs, and only 21% have made more than 10 jobs.

### 4. Key focus areas and location of social entrepreneurs in China

- Social entrepreneurs in China work mainly in the fields of education, economic development through fair trade and social inclusion of disadvantaged community groups. 14% of surveyed social enterprises in China are classified as learning and educational, 12% are fair trade/handicraft enterprises, 11% are working for the more social inclusion of disadvantaged groups, including the disabled and the elderly, and 10% focus on the environment.
- Two-thirds of social enterprises are located in Beijing or Shanghai. Social enterprises surveyed were located in Beijing (50%), Shanghai (17%), and other cities including Shenzhen, Tianjin, Suzhou (17%) and others (17%).

### 5. Institutional and stakeholder landscape of social enterprise in China

- From the perspective of the institutional landscape, the Chinese government is faced with a strained social welfare system, massive unemployment and a drain of ecological resources. 28% of respondents cite government policy or the lack of such policy as a severe challenge to their operation and 19% perceive it as a momentous challenge.
- The main stakeholders of social enterprise in China are policy makers (Ministry of Civil Affairs of the People's Republic of China and local government), nonprofit organizations (NPOs), commercial organizations, (social) business support organizations, research institutions.

### 6. Legal forms of social enterprise in China

- There are four sorts of institutions that can be categorized as quasi-social enterprises: NGOs & NPOs; co-operative; social welfare enterprise; community service center.
- Civilian institutions have been growing rapidly, but they play merely a minor role. The Co-operatives are developing rapidly and play a positive role in uniting the disadvantaged for common development. But they have to perform in a relatively narrow sphere. Social welfare enterprises have created jobs for some of the handicapped. Due to reforms affecting social welfare enterprises, their public welfare related traits are fading. Community service centers keep growing, which effectively improved the efficiency and quality of public services.

## 7. Revenues of social enterprises and social impact investors

- 71% of social enterprises generate less than 500,000RMB in annual revenues. Less than half of social enterprises achieve fiscal sustainability.
- The main impact investors in China include: private foundations, government agencies, overseas foundations, private equity funds, venture capital, corporate social responsibility funding sources.

## 8. Innovation drivers and barriers of social enterprise in China

- Innovation drivers: The social and economic realities faced by people are the ultimate drivers of social entrepreneurship in China.
- Innovation barriers: access to funding; access and retention of human resources; and government policy and the legal framework.

## 9. Social impact of social enterprise in China

- Half of the respondents have a monitoring and evaluation system in place to assess their quality and impacts.
- The impact measurement tools mostly used include Social Return on Investment (26%) and Cost- Benefit Analysis (22%).

# 1. Key facts and figures on social entrepreneurship

## 1.1 Definition and common understanding of social enterprise

- There is no legal definition for social enterprise in China. Generally speaking, the practice of social enterprise is happening ahead of any formal theoretical studies on social enterprise in China.
- In China, the concept of social entrepreneurship began to surface in 2004, when it was first introduced through numerous symposiums and conferences.<sup>4</sup> The phenomenon didn't gain attention on a wider level until two years later, when two internationally bestselling books about social entrepreneurship were translated into Chinese: *How to Change the World* by David Bornstein and *Banker to the Poor* by Mohammed Yunus. Following the 2008 Sichuan earthquake and the expeditious response to the disaster by social entrepreneurs and nonprofits, social entrepreneurship further increased in prominence. Since then, the sector and its advocates—incubators, impact investors, the media and academic researchers—have expanded their influence in China.<sup>5</sup>
- A concrete definition for social enterprise is about finding the right balance between economic and social value. In China, the debates on the precise definition of social enterprise rest on two factors: **organizational nature** – can social enterprises be registered and managed as NGOs or must they be for-profit, commercial ventures? **Income generation** – must social enterprises achieve financial sustainability through the sales of products and services to the market, or can they integrate resources from government contracts as well as grants?<sup>6</sup>

## 1.2 Size of social enterprise<sup>7</sup>

- As there is no legitimate definition of social enterprise in China, there are also no comprehensive statistics.
- According to the report “China Social Enterprise Report 2012”, social enterprises in China are in the early development stage. In 2012, 54% of surveyed social enterprises in China are under 3 years, of whom 21% being less than 1 year. 38% were more than 5 years old.
- Two-thirds of social enterprises are located in Beijing or Shanghai, and social entrepreneurs in rural and western areas are at a comparatively disadvantageous stage. Social entrepreneurs in this report were located in Beijing (50%), Shanghai (17%), and other cities including Shenzhen, Tianjin, Suzhou (17%) and others (17%).
- Social enterprises have limited potential for job creation. The majority of surveyed social enterprises are so small that very few of the social entrepreneurs are able to provide a significant number of direct jobs. 41% of respondents created a maximum of 4 jobs, 38% between 5 and 10 jobs, and only 21% have created more than 10 jobs.
- 71% of social enterprises generate less than 500,000RMB in annual revenues. Less than half of the surveyed social enterprises achieve fiscal sustainability. Only 42% of social enterprises reported being profitable, while 33% indicate that they break even.

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<sup>4</sup> British Council. “2008. The general report of social enterprise in China”. [http://dsi.britishcouncil.org.cn/images/BC\\_China\\_Social\\_Enterprise\\_Research\\_Report.pdf](http://dsi.britishcouncil.org.cn/images/BC_China_Social_Enterprise_Research_Report.pdf). P1.

<sup>5</sup> Andrea Lane. 2012. “China Social Enterprise Report 2012”. Foundation for Youth Social Entrepreneurship. P4.

<sup>6</sup> Andrea Lane. 2012. “China Social Enterprise Report 2012”. Foundation for Youth Social Entrepreneurship. P9.

<sup>7</sup> Andrea Lane. 2012. “China Social Enterprise Report 2012”. Foundation for Youth Social Entrepreneurship.

**Table 1: Key data of Size (China Social Enterprise Report 2012)**

Organizational age	Location	Job creation	Revenues
54% under 3 years	Beijing (50%)	41% maximum of 4 jobs	71% less than 500,000RMB
38% longer than 5 years	Shanghai (17%)	38% between 5 and 10 jobs	
	Shenzhen, Tianjin, Suzhou (17%)	21% more than 10 jobs	

### 1.3 Sectors and regions in which social entrepreneurs are active<sup>8</sup>

#### Industrial sector

- According to the report “China Social Enterprise Report 2012”, the industrial sectors of social enterprises range from micro finance, handicraft jewelry handmade by rural artisans to private schools for migrant children.
- Social entrepreneurs in China work on education, economic development through fair trade and social inclusion of disadvantaged community groups.

**Table 2: Key focus of social entrepreneurs in China according to three different surveys and expert opinion (China Social Enterprise Report 2012)**

SurveyResults	China Development Brief <sup>9</sup>	Xiaomin Yu <sup>10</sup>	Key Sectors Experts recommend(FYSE)
Learning & Education(14%)	Rural development and poverty alleviation (12%)	Education (49%)	Energy
Fair Trade/Handicraft (12%)	Environment (11%)	Social service (18%)	Elderly Care
Disadvantaged Groups incl. Disabled, GLTG and the Elderly(11%)	Education (9%)	Healthcare (14%)	Recycling
Environment and water (10%)	Child welfare (7%)	Healthcare (14%)	Education

#### Regional level

- Most social enterprises operate on a local level with limited economic impact. According to the report “China Social Enterprise Report 2012”, 63% of surveyed social enterprises in China operate at a city or village level, with 13% operating at the provincial level, 17% reaching national level and only 8% operating on an international level.
- Social enterprises working on youth development, disadvantaged groups, learning and schooling usually only operate at the city/village level. Social enterprises in the education sphere remain restricted in scope because working on education issues in China

<sup>8</sup> Andrea Lane. 2012. “China Social Enterprise Report 2012”. Foundation for Youth Social Entrepreneurship.

<sup>9</sup> Fu Tao and Zhang Gengrui. 2012. “The Secret Behind the Numbers: An Analysis of NGO Staff Recruitment”. Accessed April 26, 2014. <http://www.chinadevelopmentbrief.cn/?p=831>.

<sup>10</sup> Xiaomin Yu. 2011. “Social enterprise in China: driving forces, development patterns and legal framework”. Social Enterprise Journal Vol.7 No.1, PP.9-32.

requires strong government partnerships, which have to be forged afresh for every indigenous community.

- Despite the cluster of social enterprises in city/village centers, social enterprises do not limit their operations to these areas, with two-thirds serving beneficiaries outside of the city they are located in, mostly in rural areas of China.

**Table 3: Geographical gap between social entrepreneurs in urban areas and those located in rural isolated parts of China (China Social Enterprise Report 2012)**

	East	West
<b>Location</b>	Based in Beijing, Shanghai, Guangzhou, Shenzhen	Rural, remote provinces such as Yunnan, Guizhou, Sichuan
<b>Knock on effects</b>	Popping up in second tier cities	Grassroots and isolated
<b>Access to social networks</b>	Access to resources (conferences, foundations, mentors, training)	No or limited access to resources
<b>Education level</b>	Well educated; many with exposure to overseas education; English speaking	Less educated; some with limited education; not English speaking
<b>Awareness</b>	Conscious of "social entrepreneurship" and chosen career path	Unaware of "social entrepreneurship" developing solution to a problem they are experiencing

#### 1.4 Recent developments in social entrepreneurship<sup>11</sup>

- As the Chinese government shifts from control-oriented administration to service-oriented administration, a large amount of public services will be provided by civil organizations. The flourishing of these NGOs may push bottom-up reform of the third sector, making registration easier and tax policy more favorable. This creates a potentially huge space within which social enterprises can operate.<sup>12</sup>
- Recent developments have led many NGOs towards a path of marketization and commercialization, and many aspiring to become social enterprises. An increasing number of social entrepreneurs have also begun participating in the areas of education, environmental protection, fair trade, and poverty alleviation, helping to resolve many complex social problems.<sup>13</sup>
- At the same time, academia, media, and other social forces have all devoted unprecedented attention to social enterprise. A number of international conferences and forums have been held exploring means to import and localize this modern form of organization. The popularity of social enterprises has also begun attracting the attention of local governments.<sup>14</sup>

<sup>11</sup> United Bank of Switzerland (UBS). 2013. "2013 China Social Enterprise and Impact Investment Report". Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814->

<sup>12</sup> British Council. "2008. The general report of social enterprise in China". [http://dsi.britishcouncil.org.cn/images/BC\\_China\\_Social\\_Enterprise\\_Research\\_Report.pdf](http://dsi.britishcouncil.org.cn/images/BC_China_Social_Enterprise_Research_Report.pdf). P38.


<sup>13</sup> United Bank of Switzerland (UBS). 2013. "2013 China Social Enterprise and Impact Investment Report". Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p11>.

<sup>14</sup> United Bank of Switzerland (UBS). 2013. "2013 China Social Enterprise and Impact Investment Report". Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p11>.

## 2. General country context

### 2.1 Number of inhabitants and size of country

Table 4: Number of inhabitants and size of country

Number of inhabitants <sup>15</sup>	1370536875 (4/28/2011)	
Size of country <sup>16</sup>	9.60million km2 / 3734000sq mi	

### 2.2 Top 5 societal challenges<sup>17</sup>

- The "One Thousand Questionnaire" conducted by the People's Tribune, presented 10 societal challenges for China in the next 10 years and asked the surveyed participants to rate them in order of perceived severity.
- The first societal challenge is "Corruption levels exceed the limits that people can bear", and which 82.3% of respondents chose (N=6688).
- The second social challenge is "The gap between rich and poor widens, unfair distribution intensifies social conflicts", and which 80.6% of respondents chose (N=6555).
- The third societal challenge is "Conflict between grassroots cadres and the general masses", and which 82.3% of respondents chose (N=5140).
- The fourth societal challenge is "The contradiction between high house prices and low income", and which 82.3% of respondents chose (N=5103).
- The fifth societal challenge is "Credibility crisis, moral misconduct", and which 82.3% of respondents chose (N=5012).

<sup>15</sup> National Bureau of Statistics of the People's Republic of China.2011."The main data bulletin of sixth national population census in 2010". Accessed April 22, 2014. <http://www.stats.gov.cn/tjsj/pcsj/rkpc/6rp/indexch.htm>

<sup>16</sup> The central People's Government of the People's Republic of China.2005." The territory of the People's Republic of China". Accessed April 22, 2014. [http://www.gov.cn/test/2005-06/15/content\\_18252.htm](http://www.gov.cn/test/2005-06/15/content_18252.htm)

<sup>17</sup> People's Tribune. 2009. Report of 10 big challenge in the next 10 years. Accessed April 20, 2014.[http://paper.people.com.cn/rmlt/html/2009-12/21/content\\_427048.htm](http://paper.people.com.cn/rmlt/html/2009-12/21/content_427048.htm)

**Table 5: Top 5 societal challenges**

<b>Corruption levels exceed the limits that people can bear</b>
<ul style="list-style-type: none"> <li>- Between 2008 and 2012, the number of criminal corruption case investigations was 165787, involving 218639 people. Included in this number are more than 13173 county level people employed by the Supreme People's Procuratorate of the People's Republic of China, including 950 people at the Bureau level, and more than 30 at the Provincial level. 19003 of these were bribery related crimes.<sup>18</sup></li> </ul>
<b>The gap between rich and poor widens, unfair distribution intensifies social conflicts</b>
<ul style="list-style-type: none"> <li>- Data from the National Bureau of Statistics of the People's Republic of China shows that China's gini coefficient crossed the warning level by 0.4 in 2000, and has been rising year by year, reaching 0.496 by the year of 2006.<sup>19</sup></li> </ul>
<b>Conflict between grassroots cadres and the general masses</b>
<ul style="list-style-type: none"> <li>- In nearly a decade, the frequency of China's "mass incidents" (civil unrest) has seen a rapid increase. The 1993 total at the national level of total was 8709. Since then the number has maintained a rapid rise, total more than 32000 in 1999, 60000 in 2003, 74000 in 2004, 87000 in 2005, which is an increase of nearly 10 times. If we categorize these events, farmers accounted for about 35% of those protesting to safeguard their rights, workers' rights were cited for 30%, civil rights 15%, others were social disputes with 10%, social unrest 5%, and organized crime and others at 5%.<sup>20</sup></li> </ul>
<b>The contradiction between high house prices and low income</b>
<ul style="list-style-type: none"> <li>- Example: Beijing urban residents' annual per capital income is 26720 RMB (3101.24 Euro). At present, the price for about 100 square meters of ordinary inferior housing in Beijing is more than 2 million. With a required downpayment of about 500000 RMB, and a loan of 1.5 million, principal and interest amounted to 2.11 million RMB over 20 years, totalling 2.61 million RMB, which means a family would need to go without and save for 49 years.<sup>21</sup></li> </ul>
<b>Credibility crisis, moral misconduct</b>
<ul style="list-style-type: none"> <li>- In February 2011, Outlook weekly news magazine joined Chinese specialized research institutions and conducted a poll on the current condition of social honesty of Chinese Society in Shanghai and other four cities. Survey data shows that only 4.8% of the respondents chose to evaluate the condition as "good", 48.7% of respondents to evaluate "average", and close to half (46.6%) of respondents believe the social condition of "bad", even "very poor".<sup>22</sup></li> </ul>

<sup>18</sup> Cao Jianming. 2013. "Work Statement of the Supreme People's Procuratorate of the People's Republic of China". Accessed April 20, 2014. [http://www.spp.gov.cn/gzbg/201303/t20130316\\_57131.shtml](http://www.spp.gov.cn/gzbg/201303/t20130316_57131.shtml).

<sup>19</sup> Wang Rengui. 2009. "Data Shows China's social gap between rich and poor has break through the reasonable limit". Accessed April 20, 2014. <http://finance.ifeng.com/news/hgjj/20090518/673589.shtml>.

<sup>20</sup> Yu Jianrong. 2008. "China's riots and governance crisis". Accessed April 20, 2014. <http://www.sociologyol.org/yanjiubankuai/xuejierenwu/yujian/2008-01-21/4453.html>.

<sup>21</sup> Xin huawang. 2010. "Family neither to eat nor to drink in 49 years to buy a house of semifinished can buy happiness?". Accessed April 20, 2014. [http://news.xinhuanet.com/comments/2010-02/21/content\\_13017499.htm](http://news.xinhuanet.com/comments/2010-02/21/content_13017499.htm)

<sup>22</sup> Zhang Saiqun. 2011. "Social honesty and anomie problems happens often, which influence social benign operation". Accessed April 20, 2014. [http://news.china.com.cn/rollnews/2011-10/31/content\\_10902963.htm](http://news.china.com.cn/rollnews/2011-10/31/content_10902963.htm).

## 2.3 Overview of (social) policy, entrepreneurial and civil society landscape<sup>23</sup>

**Table 6: social policy, entrepreneurial and civil society landscape**

(Social) Policy Landscape	Entrepreneurial Landscape	Civil Society Landscape
<b>SOCIAL EXPENDITURES</b> 2,8 % of GDP (2010)  <b>POLITICAL STABILITY AND ABSENCE OF VIOLENCE<sup>24</sup></b> Rank 28 (0=lowest; 100=highest)  <b>RULE OF LAW</b> Rank 39 (0=lowest; 100=highest)	<b>HIGH Global Entrepreneurship Monitor (GEM) SCORE</b> <ul style="list-style-type: none"> <li>- High status to successful entrepreneurs</li> <li>- Media attention for Entrepreneurship</li> <li>- Entrepreneurship as a good career choice</li> </ul> <b>LOW GEM SCORE</b> <ul style="list-style-type: none"> <li>- Perceived capabilities</li> <li>- Entrepreneurial intentions</li> <li>- Perceived opportunities New business ownership rate</li> <li>- Finance</li> <li>- Discontinuation Of Business</li> </ul>	<ul style="list-style-type: none"> <li>- Important economic factor: &gt;7% of GDP(2011, 9.30%; 2012, 7.65)<sup>25</sup> Growth trend</li> <li>- Broad range of activities: socio-economic, socio- cultural, health &amp; well-being</li> <li>- The increasing economic weight: Education, Health care, Social service</li> </ul>

Note: GEM stands for Global Entrepreneurship Monitor. The scores indicate nationwide attitudes, activities and characteristics which have a positive or negative influence on entrepreneurship. The scores for China are compared with the mean scores of the *efficiency-driven* countries comparison group.

<sup>23</sup> GEM Consortium.2013. "Global Entrepreneurship Monitor 2013 Global Report."

<sup>24</sup> Worldwide Governance Indicators.2012. Accessed April 26,2014.<http://info.worldbank.org/governance/wgi/index.aspx#reports>.

<sup>25</sup> National Bureau of Statistics of China.2012."Gross domestic product (GDP) growth(Percentage points)". Accessed April 26, 2014.  
<http://data.stats.gov.cn/search/keywordlist2?keyword=gdp%E5%A2%9E%E9%95%BF%E7%8E%87>.

### 3. Social enterprises in (an institutional) context

#### 3.1 Institutional and stakeholder landscape of social enterprises

- **Policy makers – public authorities**

China municipal authorities are organized at national, provincial and local level. At present, the Ministry of Civil Affairs of the People's Republic of China is the supervision and management institution of social organizations, which includes NGOs and so-called social enterprises. Most of the policies are made by it. However, the macroscopic context of policy making for social enterprises, depends on the State Council and the Communist Party of China (CPC).

Although there is no legal policy on social enterprises in China, the local government has made policy innovations with relation to social enterprises. In June 2011, the Beijing municipal committee published suggestions by The CPC Beijing Municipal Committee on strengthening and innovating social management in order to advance social construction. The policy paper advised that local governments should “explore various effective means of attracting social resources and social capital into public service, proactively support the development of social enterprises and enhance social services. ” It was the first time that social enterprises were mentioned in an official Chinese government document.<sup>26</sup>

- **Non-profit organizations**

An increasing number of nonprofit organizations are trying to decrease their dependence on traditional donations and achieve financial sustainability.<sup>27</sup>

- **Commercial organizations**

In the past few years, an increasing number of commercial entrepreneurs are no longer satisfied with pure economic returns. Instead, they hope to make a significant social impact by using commercial means to address social issues.<sup>28</sup>

- **(Social) Business support organizations**

NPI (Nonprofit Incubator) is a cluster of several intermediary agencies aimed at providing support for the nonprofit sector. Its mission is to “progress social innovation and cultivate social entrepreneurs”. NPI's vision is “all social entrepreneurs and non-profit practitioners can excel in an environment of ample support from government policy and public opinion. ” In 2006, NPI proposed the concept of a “nonprofit incubator”. In April 2007, it established its headquarters operational base in Shanghai. NPI has now expanded to include offices in Beijing, Chengdu, Shenzhen, Zhuhai and Dongguan.<sup>29</sup>

You Change China Social Entrepreneur Foundation is a state-approved, legally independent non-profit philanthropic organization, registered with the Ministry of Civil Affairs. It is the first

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<sup>26</sup> United Bank of Switzerland(UBS).2013.“2013 China Social Enterprise and Impact Investment Report”. Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p11>.

<sup>27</sup> United Bank of Switzerland(UBS).2013.“2013 China Social Enterprise and Impact Investment Report”. Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p2>.

<sup>28</sup> United Bank of Switzerland(UBS).2013.“2013 China Social Enterprise and Impact Investment Report”. Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p2>.

<sup>29</sup> United Bank of Switzerland(UBS).2013.“2013 China Social Enterprise and Impact Investment Report”. Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p101>.

domestic private foundation jointly funded by entrepreneurs from mainland China, Taiwan, and Hong Kong. You Change's goal is to promote just and harmonious social progress through the two-pronged approach of supporting and developing social innovation support platforms, and discovering and cultivating talent and leaders in "new philanthropy".<sup>30</sup>

Narada Foundation. The foundations' Ginko Fellowship, modeled upon Ashoka's and Echoing Green's international fellowship programs, supports grassroots social entrepreneurs with a three-year annual personal allowance of RMB 100,000, capacity training, and networking opportunities.<sup>31</sup>

- **Academic world**

In recent years increasing scholarly attention towards social entrepreneurship has emerged. Yet nowadays the majority of research and newly established educational programs continue to focus on NGOs with limited focus on social enterprise. Centers includes: Beijing Normal University One Foundation Philanthropy Research Institute, Social Enterprise Research Center, Beijing Normal University Research Center of Philanthropy and Social Enterprise, NGO Research Center of Tsing Hua University and so on.<sup>32</sup>

### **3.2 Key context dimensions for social entrepreneurs**

- **Social welfare system**

With China's speedy economic development and globalization over the past three decades, an increasingly divided society has emerged and the Chinese government is faced with a strained social welfare system, massive unemployment especially among educated young university graduates, and a drain of ecological resources.<sup>33</sup>

- **Legislations of social enterprise**

Government legislation for social enterprises will have a major impact and could enable the sector to grow or stifle it for years to come. Presently, the legal framework supporting social enterprise is still underdeveloped in China. As a new organizational form, social enterprises have not yet received a clear legal designation and lack the relevant judicial and supervisory frameworks, creating numerous issues for their future development.<sup>34</sup>

- **Government policy and relation**

28% of respondents in the "China Social Enterprise Report 2012" state government policy or the lack of such policy as a severe challenge to their operations and 19% perceive it as a momentous challenge.

53% of social entrepreneurs responded that they receive a lot or some help from the government and only 9.5% of entrepreneurs faced some obstacles in government relations.<sup>35</sup>

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<sup>30</sup> United Bank of Switzerland(UBS).2013."2013 China Social Enterprise and Impact Investment Report".

Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p105>.

<sup>31</sup> Andrea Lane. 2012. "China Social Enterprise Report 2012". Foundation for Youth Social Entrepreneurship.P32.

<sup>32</sup> Andrea Lane. 2012. "China Social Enterprise Report 2012". Foundation for Youth Social Entrepreneurship.P33.

<sup>33</sup> Andrea Lane. 2012. "China Social Enterprise Report 2012". Foundation for Youth Social Entrepreneurship.P30.

<sup>34</sup> United Bank of Switzerland(UBS).2013."2013 China Social Enterprise and Impact Investment Report".

Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p11>.

<sup>35</sup> Andrea Lane. 2012. "China Social Enterprise Report 2012". Foundation for Youth Social Entrepreneurship.P30.

- **Cultural values, norms, social capital**

The market mechanism inherently contains many limitations, and there are many issues that the market cannot resolve. Each player in the market pursues profit, often overlooking societal needs in order to maximize returns. A novel approach is needed in order to address these social issues.

Government resources are limited and direct income from taxation can only be directed towards a finite number of projects.

NGOs are by and large charity organizations. Charity organizations require a continuous flow of donations for their operations. Therefore, their impact is limited and dependent on the continuous inflow of funding.

If government, NGOs, and businesses cannot resolve these problems, then we need another form of solution. Social enterprises arise in this environment. Social impact investors are keen to participate. Academia is heavily interested. Local governments have begun experimenting with social enterprise incubators, and the media is calling for a spirit of social entrepreneurship.<sup>36</sup>

### **3.3 Linkage between social entrepreneurs and inclusive society**

As a new mode of innovative social organization, social enterprises combine the efficient, professional, and elastic characteristics of a business with the goal of taking on and resolving social issues. As such, social enterprises can efficiently participate in the process of societal management and development, providing a lively and innovative method for the construction of a harmonious society.<sup>37</sup> A lot of social enterprises focus on serving people who physically handicapped, providing job opportunities for them and building their confidence. Thus creating more inclusive societies.

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<sup>36</sup> United Bank of Switzerland(UBS).2013."2013 China Social Enterprise and Impact Investment Report". Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p2>

<sup>37</sup> United Bank of Switzerland(UBS).2013."2013 China Social Enterprise and Impact Investment Report". Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p11>.

## **4. Organization of social enterprises in market and society**

### **4.1 Legal forms of social enterprises**

Because social enterprises in China are a relatively new concept, there is no specific legislation for them and they have to adhere to the existing legislative framework. There are four sorts of institutions that can be categorized as quasi-social enterprises: NGO & NPO; co-operative; social welfare enterprise; community service center.

Civilian institutions have been growing rapidly, but they play merely a minor role. Co-operatives are developing rapidly and play a positive role in uniting the disadvantaged for common development. But they have to perform in a relatively narrow sphere. Social welfare enterprises have created jobs for some of the handicapped. Because of the reform of those enterprises, their traits of public welfare are fading. Community service centers keep growing, which effectively improves the efficiency and quality of public services. But there are still quite a few problems.<sup>38</sup>

### **4.2 Operational model of social enterprises**

“Operational Model” refers to the methods adopted by the organization to achieve its established goal. “Social enterprises” operate in many different areas using various different operational models. A social enterprise may be a nonprofit organization employing a business’s operational management model. Or it could be a financially advantageous organization transitionally into the nonprofit area. It could also involve joint investments by several nonprofit organizations in order to achieve societal objectives made by a for-profit company.<sup>39</sup>

### **4.3 Important values for social entrepreneurs**

Social enterprises are started either driven by an individual’s or by organization’s needs. Many social entrepreneurs launched their social enterprise out of personal motivation with the intention to do something meaningful, out of compassion and to follow a passion.<sup>40</sup>

For the last three decades, China has experienced remarkable economic growth, lifting millions out of poverty. This economic growth, on the other hand, has also led to income disparities and environmental degradation, potentially providing a seedbed for social unrest. Social entrepreneurs worldwide and in China are actively identifying and tackling those voids by providing sustainable solutions.<sup>41</sup>

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<sup>38</sup> Ding Kaijie. 2007. “Social Enterprise: Practice in China”. “Social Enterprise Overview: A UK and China Perspective”. P61-70.

<sup>39</sup> United Bank of Switzerland (UBS). 2013. “2013 China Social Enterprise and Impact Investment Report”. Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p3>.

<sup>40</sup> Andrea Lane. 2012. “China Social Enterprise Report 2012”. Foundation for Youth Social Entrepreneurship. P13.

<sup>41</sup> Andrea Lane. 2012. “China Social Enterprise Report 2012”. Foundation for Youth Social Entrepreneurship. P4.

## 5. Financing of social enterprises

### 5.1 Sources of revenue and funding for social enterprises<sup>42</sup>

- 77% of social entrepreneurs raised their seed funding from family and friends with none of them using bank loans. In addition to family impact investors, government and bank loans also do not feature significantly.

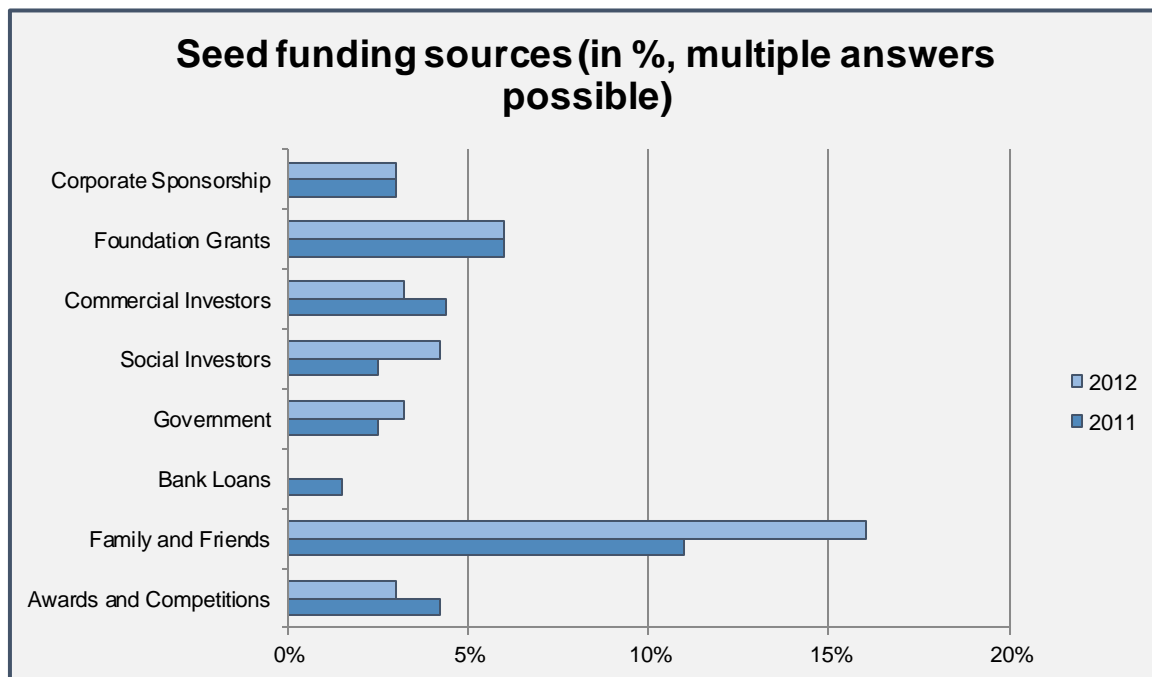


Figure 1: Seed Funding Sources (China Social Enterprise Report 2012)

- The majority of social enterprises derive their income from the sales of products and services. Social enterprises receive their income from a variety of sources including grants and investments, yet respondents generate on average 73% of their income from the sales of products and services, with 91% generating more than 70% and 13% generating less than 20% of their income this way. This gave 83% of social enterprises the confidence to believe that if all forms of income stopped except for selling products and services, either now or in the foreseeable future, the organization would not cease to exist.

### 5.2 Financial Crisis<sup>43</sup>

- In China, social enterprises, like SMEs and NGOs, are confronted with a challenge of accessing sufficient financial resources to start and scale their organizations. In China, most social entrepreneurs are not able to access bank loans which affect millions of SMEs as well.

<sup>42</sup> Andrea Lane. 2012. "China Social Enterprise Report 2012". Foundation for Youth Social Entrepreneurship.P20.

<sup>43</sup> Andrea Lane. 2012. "China Social Enterprise Report 2012". Foundation for Youth Social Entrepreneurship.P24 - 25.

- Bilateral and multilateral organizations, international foundations and INGOs, which have been the traditional sources of funding for civil society in China, have been reducing their funding for China in recent years in most areas (climate change is an area that has not experienced as dramatic a decrease as other areas). So-called “new donors” such as the Chinese government, corporations, and the 2,743 government-managed public foundations and private foundations have not yet mobilized—or are not yet willing to provide—the required financial resources to replace old donors or they exclude social enterprises from their funding.
- New donors themselves struggle with legal uncertainties and change. Private foundations still face major constraints in terms of fundraising, legal registration, capacity building and their own legitimacy. The uncertain regulatory environment also pushes foundations to fund projects and organizations in less risky sectors such as education, poverty relief, and environmental protection, and to stay away from more sensitive areas.

### **5.3 (New, dedicated) players<sup>44</sup>**

In China, diverse participants constitute the current pool of social impact investors from government-backed agencies to business organizations and academic institutions. The main impact investors in China include the following:

- Private Foundations. According to the website of the China Foundation Center, as of August 20, 2012, there are 2,747 foundations, of which 1,259 are public foundations. The number of private foundations now exceeds public foundations, reaching 1,488. Private foundations are typically founded by high net worth individuals, and these individuals often provide key funding for impact investing and provide a channel for funding from corporations and other private investors.
- Government agencies. Under the guidance for Social Management Innovation, government procurement of social services became a new management method currently under experimentation.
- Overseas foundations. Many overseas foundations with mature and sophisticated operations have begun to focus on China’s economic development and the existing social services market gap. In addition to Hong Kong registration in 2009 of the Ashoka support network, many other pioneers in the field of social enterprise and impact investment have begun to fund projects in China, including the Ford Foundation and the SOW Asia Foundation.
- Private Equity Funds. Private equity funds have begun to play a role in social impact investing. One example is China’s first local private equity foundation -- Lanshan Social Investment. The foundation emphasized in its mission statement that it puts social impact first, financial return second, and aims to invest in high-growth social enterprise.
- Venture Capital. Presently, Tsing capital is one of China’s most influential triple-bottom line (economic, social, environmental) investment institutions. It is a leader in China’s venture capital industry and a pioneer investor in the industries of renewable energy, energy efficiency, environmental protection, new materials, sustainable agriculture, and cleaner production.
- Corporate social responsibility. As a business, the ideal social impact investment achieves dual social and economic returns by allowing the business to support societal development in areas such as environmental protection, aiding disadvantaged groups,

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<sup>44</sup> United Bank of Switzerland(UBS).2013."2013 China Social Enterprise and Impact Investment Report". Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p45-51>.

and cultural education, at the same time as increasing the business's own supply chain competitiveness.

**Table 7: Major Social Impact Investment Institutions in China at a Glance (2013 China Social Enterprise and Impact Investment Report)**

<b>Fund Name</b>	<b>Year Established</b>	<b>Founding Institutions</b>	<b>Numbers of Investments (in China)</b>	<b>Total investment Amount</b>
<b>Transist</b>	2012	Schoenfeld Foundation	2	Unknown
<b>China Impact Fund</b>	2012	World Resources Institute	4	Unknown
<b>LGT Venture Philanthropy</b>	2008	LGT Foundation	2	Approximately \$300,000
<b>SA Capital</b>	2008	SA Capital	2	Less than \$500,000
<b>Avantage Ventures Impact Fund</b>	2012	Avantage Ventures	3	Expected to be approximately \$20 million
<b>Lanshan Social Investment Fund</b>	2011	Private Equality	7	160 million RMB
<b>Beijing Leping Social entrepreneur Foundation</b>	2008	Fuping Development Institution	5	Unknown
<b>SOW Asia Foundation</b>	2009	SOW Asia Foundation	1	500,000RMB
<b>Xinhu-Yu Fund</b>	2012	Xinhu-Yu Group, Venture Avenue	2	Unknown
<b>Narada Foundaion</b>	2007	Shanghai Narada Group Co.Ltd	Unknown	Unknown
<b>YouChange Foundation(China Social Entrepreneur Foundation)</b>	2007	Entrepreneurs from Mainland China, Taiwan, and HongKong	Unknown	Unknown
<b>Tsing Capital</b>	2002	Tsing Capital	>30	Unknown

## 6. Innovations of social enterprises

### 6.1 Innovation drivers and barriers<sup>45</sup>

- **Innovation drivers**

While the early development of social enterprise was largely driven by external factors, two simultaneous internal trends are currently influencing the growth and innovations of social entrepreneurship in China. The social and economic realities faced by people are the ultimate drivers of social entrepreneurship in China, which is at a unique stage in its economic development.

- **Innovation barriers**

The foremost challenges cluster around three key issues: access to funding; access and retention of human resources; and government policy and the legal framework.

For NGOs, new donors cannot yet replace old donors. Bilateral and multilateral organizations, international foundations and INGOs, which have been the traditional sources of funding for civil society in China, have been reducing their funding for China in recent years in most areas.

Access and recruitment of talent and the skills and knowledge level of employees are a severe challenge for 52% of survey respondents, with a further 21% finding it a significant challenge.

While there are a variety of legal forms in the current legislative framework in China that social enterprises can adopt, no specific legal form for social enterprises has emerged, and registration and legal uncertainty remain one of the biggest challenges for innovations of social enterprises.

### 6.2 Typology of innovations

Social enterprise is still in its infancy stage in China, strictly speaking. It is difficult to summarize the typology of innovations of social enterprise. The general practice of exploration can be divided into two typologies: one is relying on the existing system of public welfare innovation typology, it is mainly based on two kinds of system, one is the social welfare enterprises based on state-owned enterprises management; and the other is based on the non-governmental organizations management of Private non-enterprise units. The second is to actively introduce the market mechanism of social innovation typology.<sup>46</sup>

### 6.3 Innovation process

Through analysis of existing social enterprises in China, we can find that most social enterprises would choose collaboration with different partners to seek various kinds of resources, which includes the government, foundation, social media, experts, supportive social organization and so on.

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<sup>45</sup> Andrea Lane. 2012. "China Social Enterprise Report 2012". Foundation for Youth Social Entrepreneurship.

<sup>46</sup> Wang Ming, Zhu Xiao hong, 2010, An Outline of social enterprises, *China nonprofit review*.

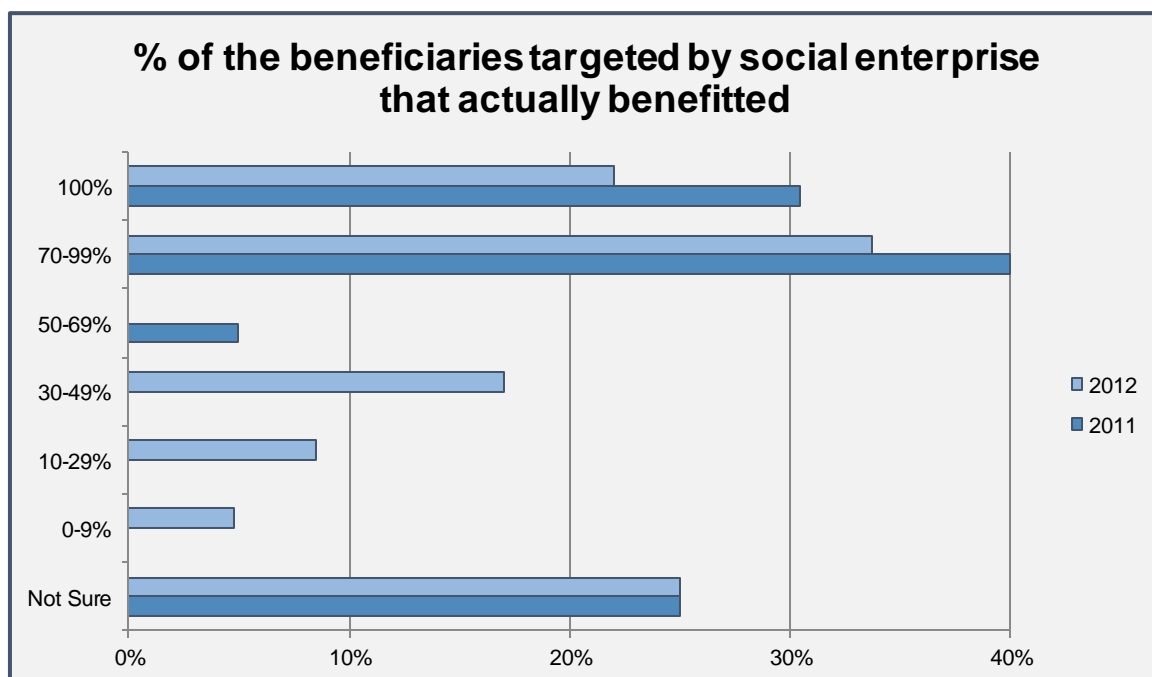
## 7. Impact of social enterprises

### 7.1 Impact measurement: does this take place?

- In China, there is no impact assessment system of independent third-party assessment agency for evaluating the social impact of social enterprises. Instead, the impact assessment of social enterprises comes from social enterprises' own records and assessments.<sup>47</sup>
- According to the report "China Social Enterprise Report 2012", Half of the respondents have a monitoring and evaluation system in place to assess their quality and impacts.<sup>48</sup>

### 7.2 Impact results and dimensions<sup>49</sup>

- The lack of impact measurement results in a lack of information about how many beneficiaries benefit from their social mission: 25% of social entrepreneurs do not know how many of their targeted beneficiaries have actually benefitted from the social enterprise making it difficult to create a compelling case for social impact.



**Figure 2: % of targeted beneficiaries (China Social Enterprise Report 2012)**

- The impact measurement tools mostly used include Social Return on Investment (26%) and Cost- Benefit Analysis (22%). Yet social entrepreneurs in China are faced with a variety of challenges in implementing monitoring and evaluation systems, particularly about deciding upon and getting the right data for measurement and having the financial resources to invest into evaluations.

<sup>47</sup> United Bank of Switzerland(UBS).2013."2013 China Social Enterprise and Impact Investment Report". Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p42>.

<sup>48</sup> Andrea Lane. 2012. "China Social Enterprise Report 2012". Foundation for Youth Social Entrepreneurship.P21.

<sup>49</sup> Andrea Lane. 2012. "China Social Enterprise Report 2012". Foundation for Youth Social Entrepreneurship.P21.

### **7.3 Trends and developments related to social impact**

- Along with overseas foundations demands and government purchase of public services, more and more social enterprises have awakened to the importance of impact measurement.
- On the one hand, support organizations like NPI offer professional skills to do the impact assessment; on the other hand, social enterprises put more attention on how to do the social impact work to meet the requirements of the others and gain legitimacy.

## **8. Overview of studies**

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- Andrea Lane. 2012. “China Social Enterprise Report 2012”. Foundation for Youth Social Entrepreneurship.
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