

- 2012 -

# CHINA SOCIAL ENTERPRISE REPORT



## ABOUT THE REPORT

This report was written by Andrea Lane with contributing articles by Sharan Baral, industry experts including Karla Simons, Professor of Law at the Columbus School of Law, Catholic University of America; Adam Lane, Manager at BSR; and Cecilia Zhang, Investment Manager China at LGT Venture Philanthropy. The report is based on interviews with industry experts listed in the appendix and a survey among—and interviews with—social entrepreneurs conducted in December 2010 and December 2011-January 2012.

FYSE's research aims to provide insights and knowledge around social entrepreneurship to guide our programs and to drive the field of social entrepreneurship. This 2012 China Social Enterprise Report intends to provide an insight into the current state of social entrepreneurship in China and its development since 2010, as well as the challenges and opportunities for the sector.

FYSE has collated the following dataset to detail the demographics of social entrepreneurs, their current state, and the opportunities and challenges facing the sector:

- Online questionnaires distributed in Chinese and English gathering valid data from 52 social enterprises based in China;
- Interviews with industry experts representing 12 organisations supporting social entrepreneurs in China.

The authors would like to thank all participating person for their generous support and contributions. Any errors that remain are those of the authors. For questions, comments and requests please contact Andrea Lane at [andrea@fyse.org](mailto:andrea@fyse.org)

## ABOUT FYSE

FYSE is dedicated to inspire, connect and accelerate social entrepreneurs and the field that supports them. With a track record of managing regional and national projects in Asia through multi-stakeholder collaborations FYSE connects wide network of partners including companies, educational institutions and nongovernmental organizations.

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# 1. INTRODUCTION

**While the social entrepreneurship field has been around for several decades in some countries, social entrepreneurship in China has only just begun to emerge in the last decade with social entrepreneurs beginning to tackle diverse social**

While awareness in China about the concept social entrepreneurship began surfacing in 2004, when it was first introduced through various symposiums and conferences, the phenomenon didn't gain currency 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.<sup>1</sup>

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 across the country, although there remains much room for development and growth for the nascent field.

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.

Looking at the statistics along, the potential of Chinese social enterprises for job creation, scale as well as individual motivation are similar to social entrepreneurs in other countries including the United Kingdom or India. Yet, the entrepreneurial ecosystem in which they operate and the challenges they face are unique due to the high influence and role of the government as well as the nascent supporting structures that are only emerging in China.

Yet, despite the various challenges social entrepreneurs face in China, an increasing number of social enterprises such as Shokay, Miaolosophy (苗荟民族手工艺的前世今生) Beijing LangLang Learning Potential Development Center (北京市红十字基金会儿童读写困难基金) and Canyou (残友) to name just a few, are emerging and growing.

With a further focus on the recommendation we provide, including seed funding for early-stage social enterprises, scaling up supporting networks and intermediaries and building the human resource capacity of the whole sector, we are confident that social enterprises in China have the potential to contribute to developing a harmonious society.

## 2. KEY STATISTICS

### Social Entrepreneurs are mostly of middle age, highly educated with international exposure.

63%

of Chinese social entrepreneurs are 31-40 years of age and all social entrepreneurs in our study had university degrees. Furthermore, almost half of the social entrepreneurs studied or worked outside of China, where many had been exposed to—and inspired towards—social entrepreneurship, taking action upon their return to China. Yet the number of social entrepreneurs with international experience is decreasing compared to our 2011 survey, indicating that social entrepreneurship is increasingly localising.

### The workforce of social enterprises in China is predominantly female.

42%

Decades after Mao Zedong declared that “women hold up half the sky” women now make up 42% of social entrepreneurs and more than 70% of the workforce of social enterprises.

### NGOs embark towards commercialisation.

An increasing number of NGOs are embarking towards marketisation and commercialisation due to a revenue shortage and institutional challenges facing NGOs. Yet, because many struggle to become social enterprises and often revert back to grants and donations, many Chinese experts question the ability of NGOs to turn into viable social enterprises. Instead they believe that the most promising Chinese social enterprises are to be found in the business sector, among the businesses across China that might not even identify themselves as social enterprises.

### Social enterprises operate on limited geographical scopes.

63%

of social enterprises operate on a city or village level, 13% on a provincial level, 17% reach national level and 8% operate on an international level, whereby this usually constitutes the sales of products to an international market rather than serving beneficiaries internationally.

Two-thirds of surveyed social enterprises are headquartered in Beijing or Shanghai as this location enables entrepreneurs to access a large pool of human and financial capital, networks and proximity to more forward-thinking governments at provincial/municipality and district levels.

### Corporate registration and good corporate governance are major stumbling blocks.

Because social enterprises in China as defined in this report are a relatively new concept, there is no specific legislation for them and they have to adhere to the existing legislative framework. This provides social enterprises with challenges, but also freedom to choose a legal status from a variety of legal forms including those of commercial companies, farmers’ specialised co-operatives and Social Welfare Enterprises (SWEs). Indeed, 66% of social enterprises in our survey were registered as a company, 20% as an NGO and 14% were not registered at all.

66%

### The recent interest in social enterprise is reflected in their youthfulness.

54% of social enterprises were started within the last 3 years. 38% of enterprises are older than 5 years and their number rose from only 15% in 2011. On the flip-side the pipeline of early-state social enterprises is drying up, with a decreasing number of enterprises up to 2 years of age or 3-5 years of age. Our research indicate that a large proportion of social enterprises are not able to mature from initial start-ups into established organisations.

54%

### Social enterprises are still limited in scale and economic impact, mainly due to their age.

71% of respondents generate less than 500,000RMB in annual revenues and even mature social enterprises remain relatively small. For example, only two social enterprises surveyed achieved a turnover above RMB 10 Million. Respondents created a median of 7 jobs and 2 volunteer positions.

71%

## CHALLENGES FOR SOCIAL ENTERPRISES

Social entrepreneurs in China face a variety of challenges, some in common with their global counterparts, some unique to China. The foremost challenges cluster around three key issues:

- ▶ Access to funding, especially mezzanine funding presents a severe or significant challenge to 86% of social entrepreneurs.
- ▶ Despite an increasingly socially conscious talent pool, 58% of respondents cite access and retention of human resources as a severe or significant challenge.
- ▶ The nature of the Chinese government means that government legislation for social enterprises will have a major impact and could enable the sector to grow or stifle it for years to come. 47% of respondents state government policy or the lack of such policy as a severe or significant challenge to their operation.

### 3. SCOPE AND DEFINITION

**This report presents the findings of the Social Enterprise Survey 2012 – the only annual survey of social enterprises in China.**

This report builds on the Social Enterprise baseline survey conducted in November 2010 - January 2011, and the second survey complemented with interviews of industry leaders conducted in December 2011 - January 2012. Both surveys focused on gaining an understanding of the sector, including:

- ▶ the scope of social/environmental objectives social entrepreneurs tackle in China;
- ▶ the economic impact through job creation the social enterprise sector has;
- ▶ the social profile of the social entrepreneurs, their motivations and background;
- ▶ and the challenge and opportunities of the sector.

The survey was distributed bi-lingual in English and Chinese to social entrepreneurs in FYSE's network as well as by tapping into existing networks for social enterprises. In addition to the survey responses we complemented the 2012 survey with interviews with industry leaders representing 12 organisations including impact investors, intermediaries and foundations, to draw further insights about the ecosystem for social entrepreneurs. Interviewees represented Avantage Ventures, British Council, China Foundation Center, Global Environment Institute, Grameen Foundation, LGT Venture Philanthropy, New Ventures, Social Enterprise Research Institute, Synergy Social Ventures, China Social Entrepreneurship Foundation (友成企业家扶贫基金会) as well as Karla Simons, Professor of Law at the Catholic University of America; and Patrick Cheung, former Country Director of Ashoka China.

To ensure that the sample reflected the landscape of social enterprise, organisations were only considered to be in the scope of the survey if they met the following criteria:

- ▶ Having a primary purpose of achieving a social, cultural, or environmental mission; and
- ▶ Deriving a substantial portion of their income from revenue-generating activities.

Therefore, for the scope of this research social enterprise has been defined as an organisation that applies commercial strategies to achieve its social or environmental mission. They can be structured as a for-profit or non-profit/NGO, yet they differ from a traditional NGO that relies on philanthropic support by using earned revenue strategies to pursue a double or triple bottom line.

FYSE's report is limited by the small number of respondents, as the two datasets from 2011 and 2012 only represent a very small sample of 56 social enterprises, yet as the number of social enterprises is still limited and as the data between the two annual surveys is consistent, we believe it can be used as a meaningful proxy for the broader sector.

Two key exclusions have been noted: Firstly, for the scope of this report we have excluded ventures operating in the cleantech/greentech space in China as their challenges, opportunities and ecosystem are very different from social enterprise operating in different sectors and deserve a separate assessment. For further information specifically about the Cleantech/Greentech sector we recommend the The China Greentech Report 2012 by the China Greentech Initiative. [www.china-greentech.com](http://www.china-greentech.com)

Secondly, the legal definition of social enterprises in China include cooperatives, mostly agricultural-related, of which there are tens of thousands across the country. None of the social enterprises in the 2011 and 2012 sample were cooperatives and therefore the data is not representative of this form of social enterprise. Lastly, microfinance institutions as a subcategory of social enterprises are excluded from the survey.



*Based in Beijing, Hand Affection (笃挚) sells fine silver jewellery made by impoverished silver artisans from Qian Autonomous Prefecture and Guizhou Province. Beyond being fair trade itself (though not officially certified), a portion of net profit is used for craft community development and production training. The company has currently one retail store in Beijing and is planning to open a further 18 by 2013.*

## 4. DRIVING FORCES FOR SOCIAL ENTREPRENEURSHIP

The emergence of social entrepreneurship in Western Europe, the United States and Hong Kong is closely linked to the welfare retrenchment by the state and the attempts by non-governmental organisations (NGO's) to embark towards commercialisation and marketisation to provide social services. In China social entrepreneurship was introduced by international actors such as the British Council and the Global Links Initiative (GLI) as well as through the international experience and interaction of Chinese individuals and organisations with social enterprises abroad.<sup>1</sup> While the early development therefore was largely driven by external factors, three simultaneous internal trends are currently influencing the growth of social entrepreneurship in China:

### Growing socio-economic disparities

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. Over the past 3 decades China has lifted about 500 million people out of poverty, yet by 2011, 128 million, nearly one-tenth of the nation's total population, still remain below the national poverty line of RMB2,300 per annum.<sup>2</sup>

Driving China's economic development is the growing "floating population" of 221 million rural people who migrated to cities to find work, with a further 300 million people expected to move to cities in the next three decades.<sup>3</sup> Despite the positive impact migration has had by increasing the income for the poor, the urban-rural divide is exacerbating and is increasingly felt by the people. It was disclosed in March 2012 that China's Gini coefficient exceeded 0.46, when many experts believe anything above 0.4 could endanger economic and social stability.<sup>4</sup>

*"The middle class in China has reached a certain level of stability and education where they are beginning to think about how to include more people in their country's economic growth."*

Jennifer Meehan – CEO Asia Region, Grameen Foundation

Chinese civil society and social enterprises are sprouting in the soil of these social and economic transformations and provide an alternative path towards sustainable development when, just like in Europe and the United States in the 1990s, social welfare needs cannot be fully met by the Government.

### Lack of funding for NGOs

The embryonic Chinese civil society sector is currently facing a funding challenge in which contributions for NGOs are scarce and competition among NGOs intense.

China's economic rise has led to previous international donors (esp. international governmental organisations and NGOs) reducing their funding for China, whilst those international donors who remain often award large grants to established organisations who can reach significant numbers of beneficiaries, which in the case of China are Government-operated non-governmental organisations (GONGO) not grassroots NGOs. A study by the Yale Center for the Study of Globalisation emphasised that US foundation's giving to China has almost entirely bypassed China's grassroots groups: of the total amount of \$443 million given to China between 2002 and 2009 86% were awarded to academia, government and GONGO's, while grassroots NGO's only received 5.61\$ million.<sup>5</sup>

On the other hand, new donors such as Chinese foundations and philanthropists who—though increasing in number and wealth—are not yet filling the funding gap as they are often unwilling to fund grassroots NGOs. Therefore a number of NGOs are embarking towards marketisation and commercialisation to continue to deliver their services and to achieve self-sustainability.

### The rise of social media

Chinese Society is developing a greater social awareness, often spurred of personal experience including the lack of quality education for their children affecting migrant workers and wealthy individuals alike, or large-scale natural disasters including the Sichuan earthquake of 2008, and with the rise of social media, this greater awareness is increasingly leading to individual expression online.

With more than 513 million internet users in China<sup>6</sup> technology and social media are quietly transforming Chinese civil society and the internet and "netizens" (internet users) are becoming a force to be reckoned with.

Social media provides citizen with a stream of information and the opportunity to express opinions, share incidents and discuss people and events previously restricted by the state-controlled media. The State has not been able to effectively censor online media and instead seeks to more proactively guide and channel opinion. Yet, social media has also had negative impacts on the sector, helping expose scandals such as the "Guo Meimei scandal" involving The Red Cross Society of China which not only resulted in brand damage for individual NGOs, but also damaged the reputation of the whole nonprofit sector, impacting the financial bottom line across the board regardless of which NGOs were trustworthy or transparent. Following the Guo Meimei incident donations declined appreciably to 84.5 billion yuan in 2011, down 18.1% year on year<sup>7</sup>. A positive consequence of the scandal has been to improve transparency in the sector in order to restore trust.



## 5. SOCIAL ENTERPRISE - A YOUNG CONCEPT IN CHINA

The seeds of social entrepreneurship were sowed through the influx of foreign experience and insights in 2004<sup>1</sup>, yet today “social enterprise” is still open to a range of interpretations and actors in China have yet to agree on a cohesive definition which incorporates distinct “Chinese characteristics”.

### Social Enterprise – A case for Translation

Meng Zhao, Assistant Professor at Moscow School of Management SKOLKOVO, highlights<sup>8</sup> that the term ‘social enterprise’ has 3 distinct linguistic translations from English into Chinese:

There is 社会企业 (the social enterprise), 社会创业 (the social start-up), and 公益创业 (the start-up for public good) and their distinctions is derived from the English- Chinese translation of the words “social” and “enterprise” which in Chinese have different meanings than in English. The word “social” in Chinese does not necessarily equate with nonprofit, philanthropy, or charity, nor is it usually used in phrases like social sector or social economy. In Chinese, the term public good has been used more frequently to refer to philanthropy or charity. The word “enterprise” in Chinese contains little implication of innovation, risk taking, or venture. It narrowly indicates business or company. On the other hand, “startup” has a clearer reference to innovation and venture.

According to Zhao nonprofit practitioners in China use startup (创业) as an appropriate concept to convey the meaning of social enterprise; because it has the clear implication of taking risks to create something new, regardless of nonprofit or for-profit status.

### Social Enterprise – A case for Definition

Internationally, the case for a concrete definition for social entrepreneurship and social enterprise is about finding the right balance between economic and social value. In China debates about a specific definition of social enterprise rest on two factors<sup>9</sup>:

- ▶ *Organisational nature* – can social enterprises be registered and managed as NGOs or must they be for-profit, commercial ventures? This is especially important, as many NGOs in China, because of regulatory challenges, register as businesses entities and are therefore legally not distinguishable from social enterprises.
- ▶ *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? This also raises the questions whether Chinese NGO’s currently embarking towards marketisation and commercialisation but who have not achieved it yet should be considered a social enterprise or a NGO.

## SECTOR MILESTONES

2004

- ▶ 1st “Sino-British Symposium on Social Enterprise and NPO”
- ▶ Chinese translations of “How to Change the World: Social Entrepreneurs and the Power of New Ideas” by David Bornstein and “The Rise of the Social Entrepreneur” by Charles Leadbeater

2007

- ▶ NPI (恩派) launches incubator
- ▶ China Social Entrepreneur Foundation (友成企业家扶贫基金会) established

2008

- ▶ Sichuan Earthquake
- ▶ “Skills for Social Entrepreneurs” training and awards program launched by the British Council

2009

- ▶ Paragon fellowship launched by FYSE

2010

- ▶ Ecsel fellowship launched by Schoenfeld Foundation
- ▶ Ginkgo Fellowship (银杏伙伴成长计划) launched by Narada Foundation (南都公益基金会)

## NGO's stuck in the middle

In the 2008 China Social Enterprise Research Report by the British Council<sup>1</sup> 68% of interviewees predicted social enterprises to be most likely to evolve from existing NGOs. And indeed an increasing number of NGOs are voicing their intention to become a social enterprise, some out of opportunity, however the majority out of necessity. About 40% of NGOs rank the problem of revenue shortage as the most significant barrier confronting the development of civil society in China<sup>53-->9</sup> and as one of the key factors driving the development of social enterprise. Registered NGOs, which can align themselves with an issue that draws international funding or are able to participate in government fee-for-service purchasing, have access to funding and thus greater resource security. However NGOs who cannot tap into international grants and are neither supported by domestic funders of NGOs or focus on sensitive domestic issues which local funders are not willing to fund, and NGOs registered as business entities, have little hope of surviving (particularly as only the handful of GONGOs are allowed to seek funding openly from the public).<sup>10</sup>

*“The majority of social enterprises in China are from the former category, of NGOs trying to transition to social enterprises, and therefore some say we don't have real social enterprise in China.”*

China Social Entrepreneurs Foundation

The result has been NGOs striving to decrease their donor dependency by embarking towards marketisation and commercialisation. Yet, many NGOs in the process of transforming into a social enterprise struggle due to inadequate business and market expertise within their management teams and institutional challenges including registration issues and strict eligibility criteria for government contracts. While the social mission for those organisations already exists, their business model is often unclear and their income generating strategies appear scattered or inefficient, lacking a commercial advantage to meet a market need, meaning they often revert back to grants and donations to cover costs or are unable to expand.

These challenges have led many experts interviewed for this report to question the ability of NGOs to turn into viable social enterprises. Instead they believe that the most promising social enterprises are to be found in the business sector, among the businesses across China that might not even identify themselves as social enterprises. One example is Beijing Landwasher Science & Technology Development, which produces environmentally friendly toilets that utilise a water-free flushing system. This technology both conserves resources and meets the sanitation needs of rural communities lacking access to current public infrastructure. Since 1999 Landwasher has sold over 2,200 of its environmental toilets and achieved sales revenues of 66.4 million Yuan (US\$8.8 million) annually. This places Landwasher as a leader in the environmental sanitation industry in China.

However these entrepreneurs often do not know of the concept of social enterprise and do not consider themselves to be social entrepreneurs which may affect their focus and limit their social or environmental impact.

## CASE STUDY: DANDELION SCHOOL 蒲公英

Thousands of youth in China are left without schooling due to vast populations of migrants moving to the city. Up until recently these children were legally not allowed to go to school because they do not hold an urban resident permit (hukou). In May 2005 Zheng Hong, a former university professor of micropaleontology, could no longer sit back and observe this increasingly devastating situation and she founded the Dandelion School, the only school for middle school-aged migrant youth in Beijing. The school was able to gain official accreditation from local authorities soon after opening, making it the only recognised educational facility of its kind in the city. In addition to providing secondary school education, Dandelion partners with various organisations for example Mercy Corps and United World College to enable student to either continue their education or to access vocational training.

Dandelion achieves financial sustainability through a mixed earned-income strategy and by continuing to accessing grants. Students are charged around RMB 3,000 a year, which includes text books and tuition, a bed in a dorm, and three meals a day. As even this small sum is beyond the means of many, Dandelion waives the fee for around 25% of the students who come from particularly impoverished backgrounds. Local authorities also provide a minuscule annual subsidy of RMB 100 per student. Unfortunately none of this comes close to covering the school's running costs of around RMB5 Million, so Dandelion on one hand continues to access corporate and well as individual donations from China and internationally and on the other hand launched a social enterprise initiative that produces marketable and creative gift products, generating about RMB1Million for the school in 2011.



## CASE STUDY: STARFISH PROJECT

The Starfish Project established in 2006 empowers exploited women with alternative employment and a range of holistic care opportunities. It aims to provide a legitimate employment opportunity for poor women from exploitative industries, and its business model emerged as a result of the initial market research which highlighted the needs and constraints of those women, including that if alternative viable work opportunity would be available, most of them would take it. If a woman tries to escape exploitive employment her alternative job prospects, as unskilled labour with low education, is often hopeless.

Starfish Project decided to make jewellery since the materials could easily be sourced in China and the manufacturing requires limited skills or education levels. Starfish mainly distributes and sells its products online to the US and other international markets but also sells locally though catalogues and market fairs.

Starfish launched with an initial grant to buy the necessary stock and then recruited volunteers to help design jewellery. It initially employed 5 women and that number has since grown to 25 employees (with employment doubling each year), including 3 full-time and 4 part-time foreign staff that are brought on for specific roles, as well as additional local and foreign volunteers.

The founders consider the Starfish Project as both an intermediary employment program to teach employees vocational skills that will enable them to enter the formal market sector, and as a self-sustainable functioning business. While the Starfish Project is paying two to three times the average migrant worker wage, it is however still lower than what the women could earn in exploitation. To enrich its offerings Starfish therefore provides free room and board and development opportunities including health seminars and English classes to respond to their employees needs.

Starfish is currently looking ahead to expand its operations and identified two bottlenecks that impede growth: Firstly, Starfish acknowledges that running a social enterprise requires skills that their current employees or volunteers lack, so they aim to hire more skilled staff, which still remains a challenge as the social enterprise cannot offer an attractive salary compared to traditional business jobs. Secondly, beyond its registration in the US, Starfish has to register locally in Asia, which requires large amounts of capital, beyond normal cash flows.

## 6. WHO ARE CHINESE SOCIAL ENTREPRENEURS?

A social entrepreneurial spirit is brewing in China. An increasing number of social entrepreneurs, driven by a wide range of motives and coming from diverse backgrounds, are starting and scaling solutions to social and environmental issues across the country.

### GENDER

The Global Entrepreneurship Monitor (2011) found that men are more likely to start a social venture than women, yet the ratio varies tremendously across countries. For example, women in Malaysia or Russia are more likely to start a social venture than men. For China it found the ratio to be about equal.<sup>2</sup> Our data found similar results, which are also comparable to UnLtd's findings for the UK (46% women, 54% male).

*Gender distribution among survey participants:*



Despite the approximately equal participation of women in social entrepreneurship some of our interviews have voiced gender-specific challenges which may be limiting additional women from becoming social entrepreneurs, or holding back current ones.

#### *Gender and Start-Up*

The survey revealed that female respondents were more likely to start a social enterprise on their own (56%) compared to men (29%). Women are more likely than men to have a business plan for their social enterprise (90% vs 79%), although there was no connection between existence of a business plan compared to profitability of the enterprise, Social enterprises with business plans were not likely to be more profitable than social enterprises without business plan.

#### *Gender and Economic Impact*

Where gender seems to have a large influence is on the number of jobs created: Women in our survey created an average of 4 jobs, while men created an average of 14 jobs. Furthermore social enterprises founded by men were more likely to be profitable (57%) than women's ventures (10%) and women were more likely to operate on a deficit (40% women; 14% men).

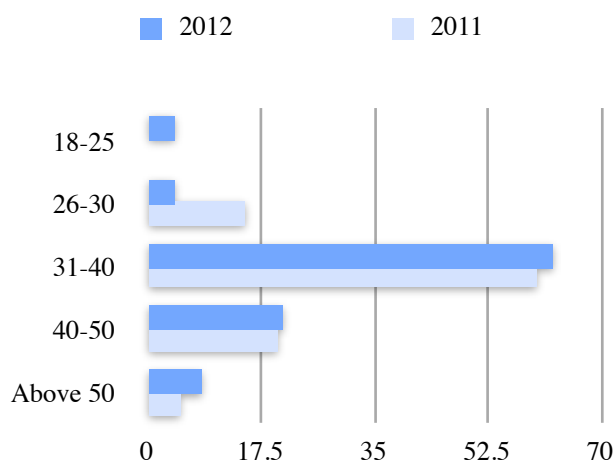
*"There is a perception of women's role in society. Women should be weak and submissive and their place is at home taking care of the family. If you are happy with that, and you are really happy to stay at home, that's fine. But if you are like me, and you feel you need to try to improve society, than you have to find the courage to stand up. I've met many girls, many from the countryside, who would like to do something similar to me. But x don't dare because there is too much resistance. But if you really want to make a difference, then you have to be brave. Very brave."*

Tian Zhongming – Founder, Jintian Centre for Autistic Children

Around the world, people aged 25-34 and 35-44 have the highest propensity of being involved in social entrepreneurial activity.<sup>11</sup>

The majority of Chinese social entrepreneurs were 31-40 years of age (63%), a period of their lives when they have developed vocational or professional skills and built their professional network.

*Age of Founder (Answers in %)*



There is no gender difference in the age bracket with 64% of men and 60% of women within 31-40 years of age. What seems to be emerging is a new group of young social entrepreneurs under the age of 25 years, especially from among university graduates who were exposed to social entrepreneurship through an increasing number of university initiatives, though further surveys in the coming years are required to establish if this is an ongoing trend or not.

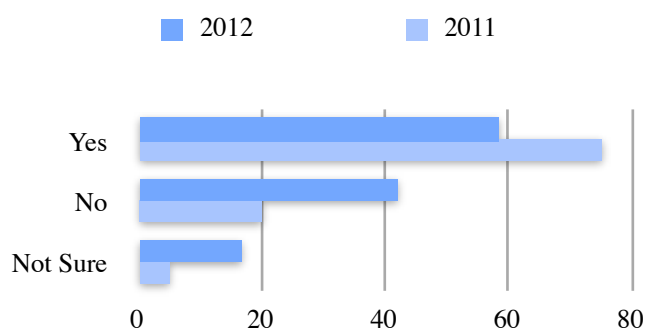
### AGE

# EDUCATION & WORK EXPERIENCE

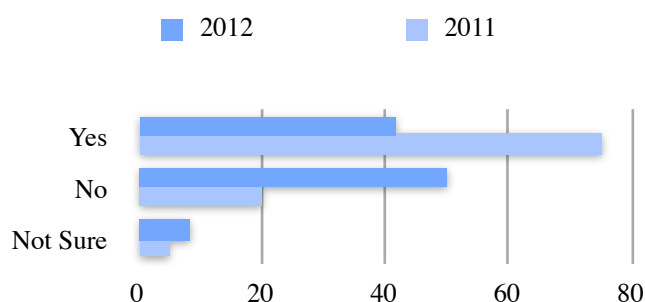
**100%** Globally social entrepreneurs are most prevalent amongst individuals with post-secondary education and university graduates, indicating that the propensity to engage in social entrepreneurial activity is related to education levels <sup>11</sup> Previous research by Rosenbusch et al (2009)<sup>12</sup> has shown that female entrepreneurs in China are not disadvantaged in terms of education level compared to male entrepreneurs, which our survey also found. In our study all social entrepreneurs had university degrees with 50% having advanced degrees (including MBA and Phd), up from 45% in our 2011 survey and both genders have similar vocational experience, with women having a mean of 10.2 years of vocational experience, and men 10.5 years respectively.

Secondly, almost half of the social entrepreneurs studied (46%) or worked (54%) outside of China. As a result, many had been exposed to—and inspired toward—social entrepreneurship during their time abroad, taking action upon their return to China. While a high number, the number of social entrepreneurs with international experience is decreasing compared to our 2011 survey in which 75% of social entrepreneurs had international experience (living or working abroad for a minimum of 12 consecutive months), indicating that social entrepreneurship is increasingly localising.

*Has the founder received his education abroad? (in %)*



*Has the founder worked abroad? (in %)*



Yet a notable difference in vocational experience prior starting the social enterprise has emerged between foreign and Chinese social entrepreneurs in China. Foreigners starting a social enterprise in China (33% of survey respondents) had an average of 17.3 years of vocational experience while Chinese started social enterprises with an average of only 7.6 years. This might be driven by the fact that foreign social entrepreneurs are marginally older than Chinese social entrepreneurs, with 38% above the age of 40 compared to 27% of Chinese social entrepreneurs, and therefore gained more vocational experience. 40% of social entrepreneurs (2011: 55%) gained their vocational experience in private enterprises, 17% worked for state-owned enterprises and 35% worked for NGOs (grassroots or international NGO). Interestingly, only two social entrepreneurs previously worked for a social enterprise.

**Social Enterprises in China were started for a variety of reasons.**

## MOTIVATION

Social Enterprises are started either driven by an individual's or by organisation'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. 95% of respondents got involved in social entrepreneurship after 2006, with the **2006** Sichuan earthquake of 2008 being a major driving force for participation.

*“The Sichuan earthquake crisis accelerated a change in mindset and created legitimacy around social enterprise.”*  
*Mairi Mackay, Director, Cultural and Education Section of the British Embassy Beijing*

On the other hand social enterprises in China are initiated out of organisational need in which an NGO embarks on marketisation and commercialisation out of financial need.

The latter is seen as one of the key drivers for the emergence and development of social enterprises in China.



## INTERVIEW: TIAN ZHONGMIN - FOUNDER BEIJING JINTIAN AUTISM TRAINING CENTER

Tian Zhongmin is the founder and CEO of the Beijing Jintian Autism Training Centre, an organisation providing education and boarding to children and youth with autism.

Prior founding the centre, Tian lived in the Netherlands and worked as legal consultant for an international firm in Beijing, a very well respected position with a high salary. In 2004 Tian took the family responsibility to choose a school for her autistic nephew. Yet while visiting every autism-training centre in Beijing she became disturbed by the quality and methods in those schools, leading her to the decision to quit her job and open her own school. Feeling initially very unsure and regretting the decision, she only told one of her work colleagues about her plans, but when he decided to join as a business partner, it gave her the motivation to get started.

### **What was your first step to start the centre?**

I went back to school to study about Autism. My partner started to build a school on some land he owned. It was a stupid decision, but we didn't know any better. It took about 10 months to finish construction and after a while in operation, we were driven off from the land and had to leave, moving to our current location. We wasted over 1 million RMB on that first school.

### **Where did you get the money to start? Did you develop a business plan?**

Our backgrounds didn't help us in starting this school. We thought, "if we choose this career, we should pay for everything, we should take money from our own pockets." We invested money from our savings to build the school. As the process continued and we found ourselves using more of our funds, we applied for government funding, but were unsuccessful.

### **Do you still think this way?**

No. I always discourage new social entrepreneurs from investing their own money. It makes it hard for you to choose whether to give up or continue. My advice is to focus on developing a sound business model first if you want to be a social enterprise. You have to act based on market demand. You cannot expect people to buy from you because of your social related mission.

*"Focus on developing a sound business model first if you want to be a social enterprise. You cannot expect people to buy from you because of your social related mission."*

### **How did you find the right people to work for you?**

To attract teachers we pay higher salaries than the market rate. Many teachers in Autism training centres are frustrated, overworked, and underpaid. Even though we were initially paying them out of our pocket, I believe this was a crucial to make them feel valued and encourage a new teaching style. To train all our teachers to build a different approach to teaching the children I initially would have personal conversations with each one to understand their approach and to share our understanding with them, but I no longer have time for this and needed to hire a professional manager that I can trust.

### **How is your centre financially sustainable?**

The Autism training circle is very small and once teachers were hired the word spread. Students were interested and we could charge an attendance fees. At the end of the first year we had 20 students enrolled.

When we moved to our new location many of our students couldn't come with us, and we also started to provide training to autistic orphans who had no means to pay for it. I was worried other students' parents would question if we provided trained some children for free and not others. I decided to make the autism training free and look for an alternative way to make money.

Currently our income derives from our organic farm, whereby we sell our produce around Beijing. Initially it was hard to find customers and I had to rely on friends, however with increasing publicity we gained new customers. However our challenge remains the pricing of our organic products, as customers have to be willing to pay a higher price for the organic food. Salesmen come and buy from other farmers in the area who do not farm organically, but not from me. In hindsight, I didn't think about pricing and whether it could sell.

Our income does not yet fully cover the costs of the school and I am continuously looking for new income generating models and because of our difficulties in earning sufficient income we also seeking donations.

*"I am a social entrepreneur because I never intended to ask for donations. I want my children to feel normal - why should we beg to society?"*

### **Running the school still requires extra money from you. Does it make you feel nervous? Do you ever feel like giving up?**

Yes, very nervous. At the beginning of the month I can't sleep, but something is keeping me going. I am happy with how our school serves the children. I still have the passion to provide a better future for the children - if the children were not doing well, I would consider giving up.

My friends and former colleagues are always encouraging me to give up and come back to work. They tell me they can get me a job at a good law firm and I can have my "own life again." But my values have totally changed. If a child makes progress, I feel excited. This is my life now.

### **What have you learned about yourself as a (business)woman?**

I have developed tremendous strength over the years. I have to be strong for not only myself but also my employees and children.

In the future I like to see the school divided into two parts, with the business on the farm and the non-profit autism training. When I deal with the farm, I want to be treated like a businesswoman. I don't get respect as a businesswoman and am always seen as a charity-woman. It is hard for others to see the separation. I spend a lot of time answering questions, "why should I donate money if you're trying to make money?", "If I'm paying for an organic product, why should I be paying for your work at the school?" No one tells a business what they should do with their money, but as soon as you add a charity element to things, people feel they can tell you what to do.

### **What advice would you give to other social entrepreneurs based on your experience?**

Pick a pure model of either business or non-profit, unlike me where I went back and forth. My model is half business, half charity. I'm neither here nor there, and it's hard. Running a social enterprise is about business and earning money according to the market. Then it's your choice with how to reinvest in the business.

Do not use your own money because it will make it harder for you to make decisions. Sourcing money from others makes you accountable to them and more responsible with your decisions. It can be a problem, however, when donors want you to do things differently than you'd like.

*Never stop believing. Even now, despite the hardships, I still believe.*

## 7. STATE OF CHINESE SOCIAL ENTERPRISES

Similar to their global counterparts Chinese Social Enterprise remain mostly early-stage enterprises with a limited number of employees and small geographic impact.

### LOCATION

Two-thirds of social enterprises are located in Beijing or Shanghai, and social entrepreneurs in rural and western areas are at a comparative disadvantage.

Social Entrepreneurs in our survey were located in Beijing (50%), Shanghai (17%), other first and second tier cities including Shenzhen, Tianjin and Suzhou (17%) and others (17%). Beijing and Shanghai house the majority of headquarters of social enterprises as they enable entrepreneurs to access a large pool of human and financial capital, networks with other social entrepreneurs and proximity to more forward-thinking governments at provincial/municipality-level.

Yet, despite the cluster of social enterprises in urban centres, 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.

While our survey respondents represent educated, experienced, urban and worldly social entrepreneurs, many social entrepreneurs in rural parts of China do not have the same international work experience, English language ability and high-levels of education. Not only do they differ in terms of their socio-economic profile but as the majority of investors, capacity builders and potential customers in China are based in Beijing and Shanghai, these social entrepreneurs operating at the grass roots level in rural China are separated from an ecosystem that nurtures them and supports them, therefore their growth potential is often limited.

*Geographical gap between social entrepreneurs in urban areas and those located in rural isolated parts of China*

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

### INDUSTRIES

Social Entrepreneurs focus on key areas contributing to the creation of a harmonious society.

The range of industrial sectors social enterprises operate in is clearly very diverse, ranging from microfinance, handcraft jewellery handmade by rural artisans to private schools for migrant children. A number of recent surveys and studies have shown that Chinese social enterprises tend to cluster around a few key issues. Aligned with findings in the Middle East<sup>13</sup> and India<sup>14</sup> most social entrepreneurs in China work on education, economic development through fair trade and integration of disadvantaged groups. As the following examples illustrate, these sectors often overlap and some social entrepreneurs operate across multiple fields.

Yet, experts interviewed for this report identified areas such as recycling and food safety as key sectors for social entrepreneurs in China, which are not represented in any of the surveys. One consequence of the discrepancy between experts think social enterprises should focus on and what social enterprise are working on the ground, is an investment gap in which investors are unable to identify investable social enterprises and social enterprises lack access to seed and mezzanine funding.



Key focus areas of social entrepreneurs in China according to three different surveys and expert opinion

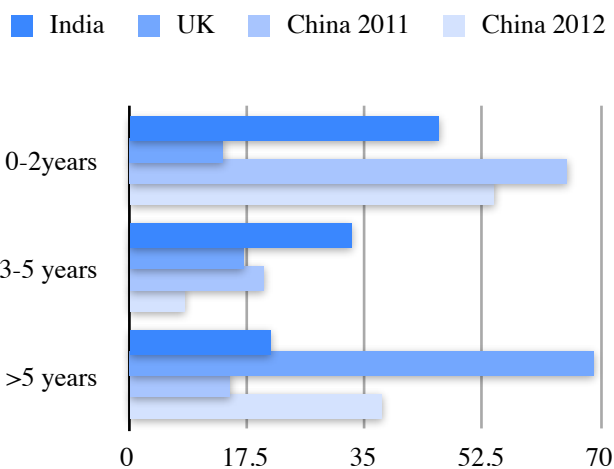
Survey Results	China Development Brief <sup>12</sup>	Xiaomin Yu <sup>9</sup>	Key Sectors Experts recommend (FYSE)
Learning & Education (14%),	Rural development and poverty alleviation (12%)	Education (49%)	Energy
Fair Trade/Handicraft (12%)	Environment (11%)	Social service (18%)	Elderly Care
Disadvantaged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

STAGE

Social enterprises in China are young.

In 2012 54% of surveyed social enterprises in China are under 3 years old, of whom 21% being less than 1 year old and 38% were older than 5 years. Compared to our 2011 survey we found an increasing number of mature social enterprises from 15% in 2011 to 38% in 2012. However, on the flipside the number of early-stage social enterprises under the age of 2 years and social enterprises aged 3-5years are notably decreasing, indicating that a large proposition of social enterprises are not graduating to the next level and size of operations.

Years in Operation – India, UK, China<sup>15</sup>



Three possible explanations behind these developments include: Firstly, increasing media attention and promotion of social entrepreneurship since the Sichuan Earthquake in 2008 has resulted in more individuals setting up social enterprises in recent years.

Secondly, recent developments have led many NGOs towards a path of marketisation and commercialisation, with many aspiring to become social enterprises. One example is Bread For Life founded by Keith Wyse. Keith originally established an orphanage in LangFang outside Beijing, for children diagnosed with Osteogenesis Imperfecta, commonly known as brittle bone disease. The orphanage provides children with necessary wheelchairs, funds their surgeries, and provides educational and extra-curricular activities. The orphanage is run on a typical NGO model, receiving substantial donations mostly originating in the United States. However, eager to see the children strive for more beyond the orphanage walls and with the ambition to break free from a grant dependency model, Keith established the Bread of Life Bakery six years ago. The bakery, which produces and sells western style bread to the mostly expatriate community in Beijing, provides employment to 4 disabled women who hail from the orphanage and generates profits which are reinvested into the orphanage.

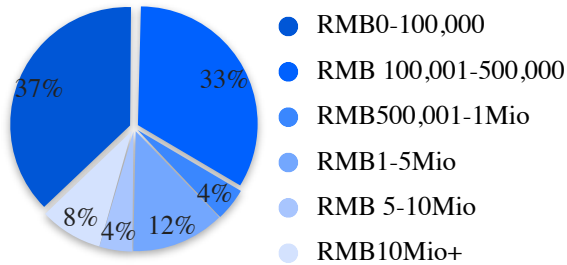
Thirdly, as social entrepreneurship and social enterprise is a new concept in China, many social entrepreneurs are not yet familiar with the term and don't consider themselves to be social entrepreneurs. Only 63% of social entrepreneurs consider themselves to be a social entrepreneur. (down from 75% in our 2011 survey). This can lead to various challenges, for example if social entrepreneurs don't identify themselves with the term they might not be aware of specific training and development programs or funding targeted towards them, which would enable them to address the challenges outlined in chapter 8 and thus grow.

# FINANCIAL PERFORMANCE

The majority of social enterprises achieve a modest turnover reflecting their early stage of development.

71% of social enterprises generate less than 500,000RMB in annual revenues. A strong relationship exists, however, between turnover and enterprise age with average turnover increasing over time.

Annual Turnover in RMB



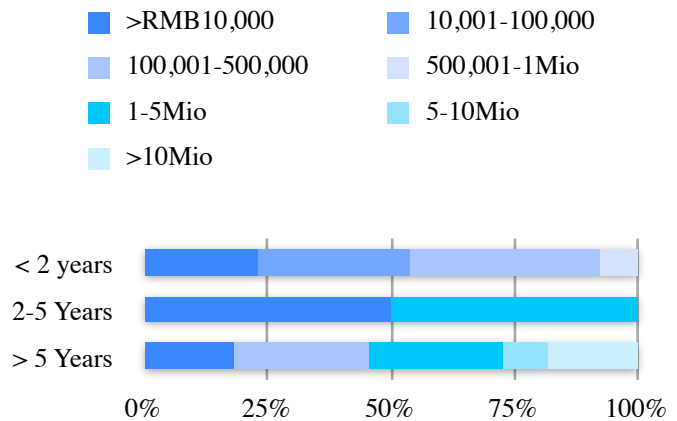
While social enterprises grow in size over time, older social enterprises are still relatively small. For example, only two social enterprises that have been operational for more than 5 years achieved a turnover above RMB 10Million annually.

## Less than half of social enterprises achieve financial sustainability.

Only 42% of social enterprises reported to be profitable, while 33% indicate that they break even. While the majority of social enterprise operational for less than 1 year are operating with a deficit (60%), an increasing proportion of enterprises reach break-even and profitability from year 2 onwards. There was little difference in profitability between social enterprises registered as NGOs (40% profitable) or as companies (44% profitable), leading to the hypothesis that despite the current ongoing discussion about the legal status of social enterprise in China, it does not affect the profitability of the social enterprise. The percentage of profit-making or at least breaking-even social enterprises increases with the maturity of the enterprise: from 40% in Year 1 to almost 89% after 5 years of operation, regardless of industry or geographic location.

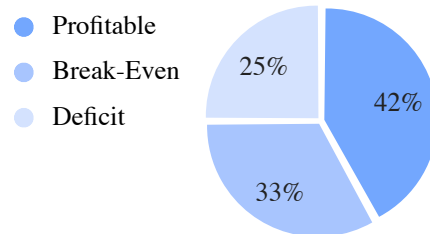
However, the high rate of break-even or profitable social enterprises is surprising and for some social enterprises does not correlate with other data provided. For example three social enterprises report to be profitable or break-even on an annual turnover of under RMB10,000 while employing 2, 1 and 3 employees respectively. Assuming a legal minimum wage of RMB1,260 per month (Beijing) this would exceed the annual turnover and therefore not enable the social

Annual Turnover vs. age of social enterprise

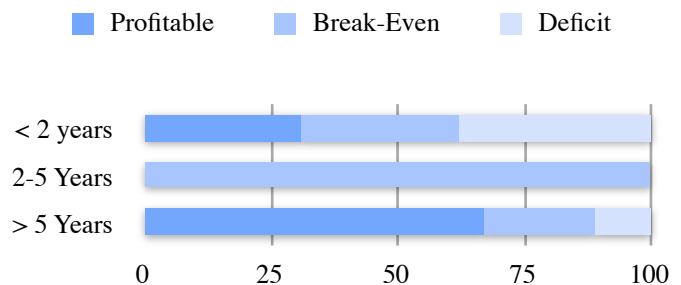


enterprise to break-even. It also indicates the severe limitations social enterprises have in paying their founders or their employees salaries at or above minimum wage.

Profitability of social Enterprises (in %)



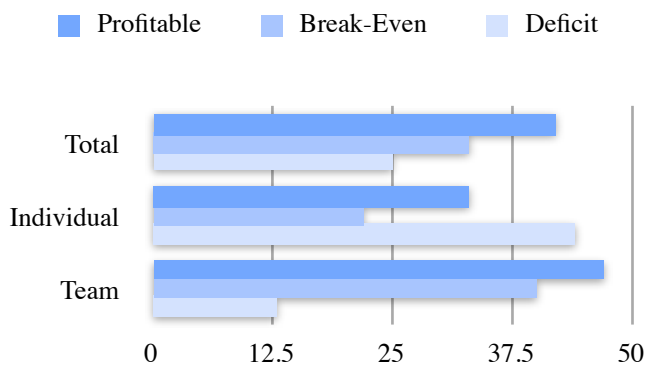
Profitability and Maturity of social enterprise (in %)



**Social Enterprises started by more than one person are more likely to achieve profitability, so are social enterprises started by men.**

Social enterprises started by more than one person had a higher probability of being profitable than social entrepreneurs who started out on their own. Men were more likely to start a social enterprise with others (66%) than women (50%).

Profitability by team or individual founder (in %)

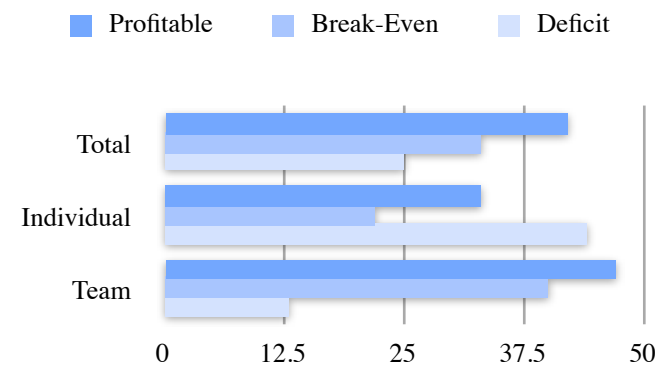


Social enterprises led by men are more likely to be profitable (57%) than those by women (10%) and women were more likely to operate on a deficit (40% women; 14% men). One reason for the gender difference could be that 43% of social

enterprises founded by men are more than 5 years old and only 14% are less than one year-old whereas women-led social enterprises are younger with only 30% being more than 5 years old and 30% being less than one year-old.

As social enterprise' profitability correlates with the maturity of the venture, it could be assumed that part the difference is due to the difference in years of operation of the social enterprises founded by men and women respectively.

Profitability by Gender (in %)



**Social Enterprises grew over the past year and entrepreneurs have an optimistic outlook for the future.**

When asked to compare the current fiscal year to the last fiscal year, 58% of social enterprises increased their turnover and 38% generated the same turnover as the previous year. Only one social enterprise saw a decrease in turnover. Projecting their growth for the next fiscal year, 75% of social entrepreneurs have a positive outlook and expect to increase their turnover, compared to only 57% of social enterprises in the UK who predict growth in 2012.<sup>16</sup>

*“Perhaps the hardest lesson I have learned as an entrepreneur so far is that you cannot aim for rapid growth if this growth is not sustainable. It is easy to give in to greed and want to grow at a very fast pace in order to reach more people and increase profits. In the long run however this can be extremely damaging to the development of the social enterprise. There are many entrepreneurs who see a possibility for growth and act upon it before having assessed the situation properly. This might increase profits in the short term but lead to a loss of profits in the long term. I have therefore learned that a fast pace of development is insignificant if this development is not sustainable.”*

Meixin Li – Founder, Gift of Hope

**Re-investing their profits for development and growth.**

One of the common indicators used to define social enterprise is that the enterprise reinvests the majority of their profits back into the organization to fulfill its mission. The current legal framework stipulates various requirements for profit distribution according to the legal form of the enterprise. For the majority of social enterprise structures in China profit allocation is partially limited, yet as most social enterprises are registered as businesses (not as social enterprises or nonprofits), profit allocation is often not actually limited. Xiaomin Yu (2011)<sup>9</sup> provides an extensive

overview about the profit allocation of legal structures in China. Our survey revealed that two-thirds of Chinese social enterprises reinvest their profits into the organization for training, research or development, compared to 82% of social enterprises surveyed in the UK.<sup>16</sup>

This is particularly interesting given that two-thirds of surveyed social enterprises are registered as businesses and therefore are not subject to profit allocation requirements.

56% of social entrepreneurs currently seeking funding require basic working capital to cover operational costs including staff wages and bridging cash flows and only 44% of respondents seek expansion capital to invest into new projects and purchase new equipment.

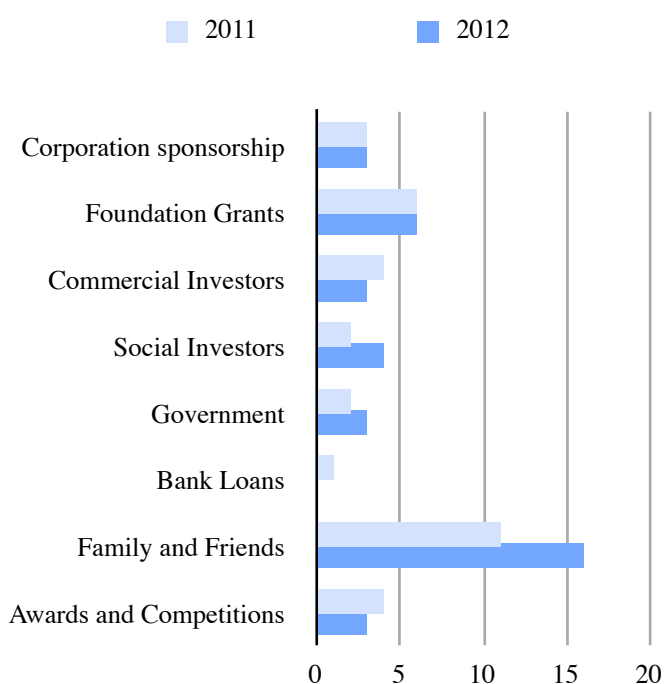
**Access to funding remains the biggest challenge.**

47% of respondents cite access to seed funding as one of their top challenge, a significant drop from the 70% in our 2011 survey. Furthermore, 86% of respondents list accessing mezzanine funding as a challenge, an increase from 77% of respondents in 2011. An increase in the number of foundations, social enterprise awards and competitions providing funding to early-stage social enterprises therefore might have a positive trickle down effect, while still very few investors and foundations support mezzanine stage social enterprises. There is a large discrepancy between investor expectations and the reality of social enterprises that is impeding investments (for further information see chapter 9).

**Social Entrepreneurs depend on family and friends for funding.**

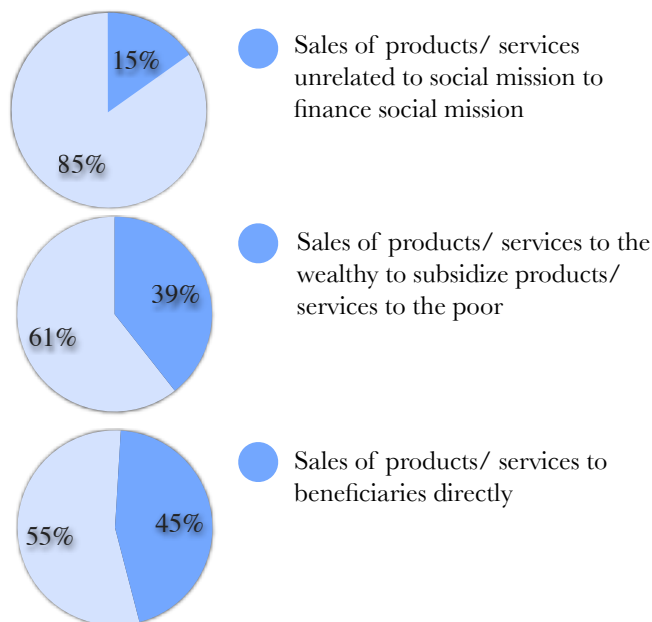
77% of social entrepreneurs raised their seed funding from family and friends with none of them using bank loans. While too early to show a trend, this represents an increase of 12% compared to 50% of social entrepreneurs in 2011 and mirrors the general situation of entrepreneurs in which Chinese firms heavily rely on principal owners, the startup teams', and their families to provide the initial capital.<sup>17</sup> In addition to family impact investors, government and bank loans also do not feature significantly.

Seed Funding Sources (in %, multiple answers possible)



**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.



**Impact Investment is not yet a viable avenue for funding for social enterprises in China**

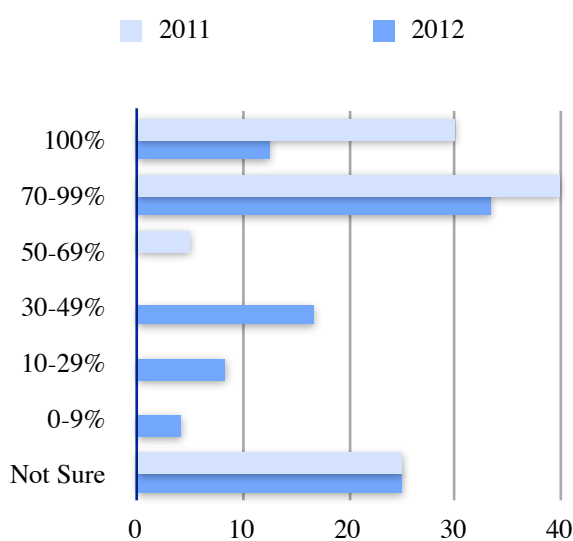
Despite an increasing number of impact investors scouting China for possible investment opportunities, only one social enterprise founded and operating primarily in China (rather than founded in the US or sourcing in China for sales elsewhere) has received an investment as of early 2012: GIGA, which enables designers to easily find, source and use green materials and thus drive the market demand for them. Therefore, so far impact investors have been a negligible source of funding—though since our survey at least two other deals have been agreed, yet not closed (see more information in chapter 9).

# Impact Measurement

The variety of issues social entrepreneurs desire to impact ranges from education to microfinance, yet the majority of social entrepreneurs are unclear about the impact they create.

Half of respondents have 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%). 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.

*% of the beneficiaries targeted by social enterprise that actually benefitted*



The lack of impact measurement results in a lack of information 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.

## GOVERNANCE AND LEGAL

**Corporate registration and good corporate governance are major stumbling blocks for social enterprises in China and social enterprises could benefit from a more certain legal environment.**

### **Incorporation remains a major challenge**

Because social enterprises in China as defined in this report (excluding cooperatives and cleantech) are a relatively new concept, there is no specific legislation for them and they have to adhere to the existing legislative framework. This provides social enterprises with challenges, but also freedom to choose a legal status from a variety of legal forms including those of commercial companies, farmers' specialised co-operatives, Social Welfare Enterprises (SWEs),

civilian-run educational institutions and civilian-run non-enterprise units. Depending on the legal status chosen, social enterprises have to follow a specific ownership structure, profit distribution and governance model and may benefit from tax exemption.

Registration as company (公司) was the legal entity of choice among social entrepreneurs in our survey (66%) compared to 20% who registered as NGO (非政府组织) and 14% which operate without legal registration at all. It remains a niche for further research to identify whether social enterprises registered as business did so out of choice or out of necessity as they were unable to register as NGO.

Of the organisations not formally registered, two are less than a year old and have less than RMB10,000 turnover, therefore the obvious assumptions would be that they are still in process of—or considering—registering. However, one unregistered entity is older than 5 years and has a turnover of between RMB100,001-250,000 annually.

### **Most social enterprises do not benefit from tax-exemption**

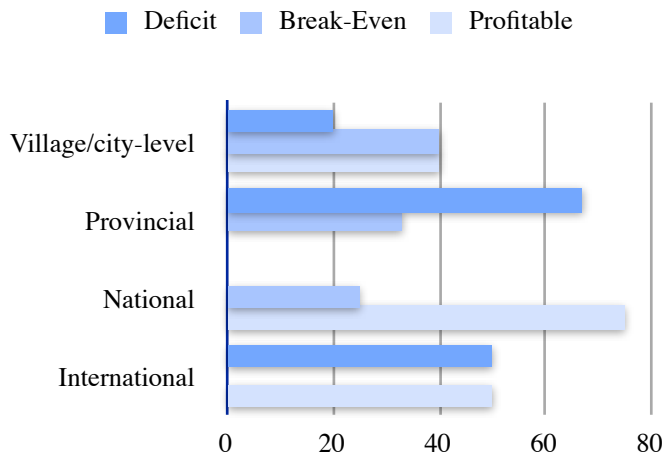
If a social enterprise wants to operate and register as a NGO, it must find a government department at any level to act as a supervisory agency before being allowed to register with the Civil Affairs Bureau through a system known as “dual management”. Although there are some cities where it is possible to only register with the Civil Affairs Bureau this has still not been widely implemented nor clearly defined. As the number of NGOs under one supervisory agency is limited, the path towards registration is long, not transparent, and the business management implications are far reaching, so many social entrepreneurs opt to register their enterprises as businesses under the State Administration for Industry and Commerce instead, with a few entrepreneurs registering additional sister NGOs abroad, with Hong Kong as the preferred option. As commercial enterprise, they do not benefit from any tax exemptions, no matter how social their mission may be. Social Welfare Enterprises (SWEs), as one form of social enterprise, on the other hand, benefit from wide-ranging tax exemptions depending on the percentage of disabled workers employed; farmers' specialised co-operatives, civilian-run educational institutions and civilian-run non-enterprise units are also exempt from selected taxes, e.g., the value-added tax.

As many social enterprises launch and sustain at least part of their operations with grants, not having tax-exempt status means that social enterprises in China must pay taxes on grants and donations received. National donors such as foundation, investors, and corporate donors are often aware of the situation and willing to allow an additional budget item called “taxes” in grant proposal budgets.

## Most social enterprises operate on a local level with limited economic impact.

**63%** of surveyed social enterprises in China operate on a city or village level, with only 13% operating on provincial level, 17% reaching national level and 8% operating on an international level, whereby this usually constitutes the sales of products to an international market (with the beneficiaries of those sales still being in China) rather than serving beneficiaries internationally. Social enterprises working on youth development, with disadvantaged groups, as well as learning and education usually only operate on a city/village level. Beyond the aforementioned challenges in accessing funding to scale a proven business model, social enterprises in the education sphere remain limited in scope because working on educational issues in China requires strong government partnerships, which have to be forged afresh for every local community the social enterprise intends to operate in and which require time and resources that slows down the growth and scale of social enterprises.

Profitability vs geographic scale of operations (in %)



There is no apparent trend in the data whether different geographic scale impacts profitability. 80% of social enterprises operating on city/ village level and 100% of nationally operating social enterprises achieve profitability or break-even, while two out of the three social enterprises operating on a provincial level are operating at a deficit and the other one breaking even. Lastly, of the two social enterprises one operating internationally, one is profitable and the other one unprofitable.

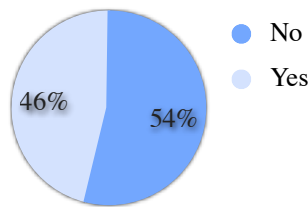
The majority of social entrepreneurs regardless of gender operate on local level (70% of women and 57% of men). Yet women participation decreases with increasing geographic scope: of 67% of social enterprises on provincial level and 75% on national level are led by men, while of the two social enterprises operating internationally, one was led by a women, and one by a man.

However it does still cause many problems. In addition to just getting NGO status, there are the challenges of not being able to fundraise in public, and not being able to provide an official receipt that provides tax deduction for the donor. Only a few GONGOs (Government organised non-governmental organisations) can do the latter two, and they are not that keen on establishing separate funds within their foundation for commercially registered organisations (which they do occasionally do for other NGO's, allowing them to benefit from the GONGOs' status).

## The majority of social enterprises lack effective governance structures.

Governance structures, if well established, help social enterprises to balance their social mission with their financial responsibilities and enable the management team to tap into a pool of expertise and resources to successfully manage the venture.

Do you have a formal Board of Directors?



Only 45.8% of social enterprises in China have Board of Directors in place. This can be traced to various challenges: Firstly, as the majority of social enterprises are incorporated as businesses they are not required to have a Board of Directors. Secondly, social entrepreneurs are less informed and training about good governance procedures and how to recruit, manage and retain a board to effectively manage the social enterprise. Lastly, social entrepreneurs find it difficult to 'recruit' professionals with the appropriate business skills and understanding of their social mission to serve on their board. Yet, in light of recent media scandals in China involving nonprofit accountability and transparency, entrepreneurs, donors and the public recognize the need for transparency and accountability and there is an increasing pressure to establish effective governance structures outside of regulatory requirements.

This could be attributed to men-led social enterprises being in operation longer than women-led social enterprises and therefore able to scale their approach geographically, although it may also depend more on the social enterprises' focus, business model and field.

#### **Social enterprises have limited potential for job creation**

The majority of the surveyed social enterprises have small teams with few of the social entrepreneurs providing a significant number of direct jobs. 41% of respondents created a maximum of 4 jobs, a further 38% created between 5 and 10 jobs, and 21% have created more than 10 jobs. There are only two respondents who reported creating a significant number of jobs: one has created 30 and another has created 60.

Over the next 12 months, social enterprises have a positive growth outlook and half of respondents expect to add jobs compared to a year ago. 46% of social enterprises expect the numbers employed to remain steady and only one social enterprise expects to have to make redundancies. On average, respondents intend to create 1.9 additional jobs alongside an increase of turnover which is expected by 75% of social entrepreneurs.

Two other factors appear to play a role in relation to job creation. Firstly, as with increasing profitability, job creation correlates to the stage of growth of the social enterprise: social enterprises less than one year old create a median of 3 jobs, ventures up to 2 years create a median of 4 jobs, social enterprises 3-5 years old create a median of 4.5 jobs and those older than four years create a median of 19 jobs. Secondly, geographic location played a role in the number of jobs created. Respondents located in Beijing created the highest median number of jobs (10), followed by Shanghai (8), while respondents outside of Beijing and Shanghai created a median of 4 jobs.

#### **The workforce of social enterprises in China is predominantly female.**

Decades after Mao Zedong declared that "women hold up half the sky" women now make up 46% of China's labor force<sup>84</sup>, and women constitute a significant share of employees in Chinese social enterprises. Not only are 42% of social entrepreneurs female, but also a large population of the workforce are women. 50% of respondents (down slightly from 52.6% in 2011) indicate that more than 70% of their workforce are women, and only 21% of enterprises indicate that women constitute less than 30% of their workforce. As financial compensation is a key driver in China's job market, and social enterprises as well as NGOs in China on average pay a lower salary than the business sector, further research is required to understand the individual motivations of the women (especially in regard to compensation) in the sector as well as their career opportunities and their abilities compared to the requirements of the job.

#### **Women social entrepreneurs create fewer jobs but utilise volunteers more.**

Previous research has shown that women entrepreneurs create fewer jobs than men do. According to research by the Ewing Marion Kauffman Foundation in September 2011<sup>19</sup> a combination of factors are to blame, including women having more trouble raising money (they tend to have fewer connections within their industry) and the report suggests that women may place more emphasis on maintaining a work-life balance, which could prevent them from assuming the demands of launching a start-up.

Our findings mirror the conclusion of the Kauffman Foundation report: female respondents of our survey created an average of 4 fewer jobs than men, who created an average of 14 jobs. Furthermore women plan to add fewer jobs in the 2012 (women: +1.1 jobs; men + 2.6 jobs). One reason for the discrepancy in the number of jobs created by men versus women could be that 43% of social enterprises founded by men are more than 5 years old and only 14% are less than one year. Women-led social enterprises were more early-stage, with only 30% being more than 5 years old and 30% being less than one year. As respondents on average increased the number of jobs created with the growth of their enterprise, it could be assumed that part the difference in job creation is due to the development stage of the social enterprises founded by men and women. A second reason could be that only 60% of women-led social enterprises are profitable or break even compared to 86% of men-led social enterprises, which creates financial constraints in adding more jobs.

Respondents provided a median of 2 volunteer positions, irrelevant of size of enterprise and industry. Women utilise volunteers on far greater scale with a median of 20 volunteer positions and only 20% not providing any volunteer position. Male respondents had on average only one volunteer, with half of respondents not providing any volunteer positions. Creating more volunteer opportunities than male social entrepreneurs might provide an avenue for women social entrepreneurs to add capacity to their organisations in the light of employing fewer employees than men.

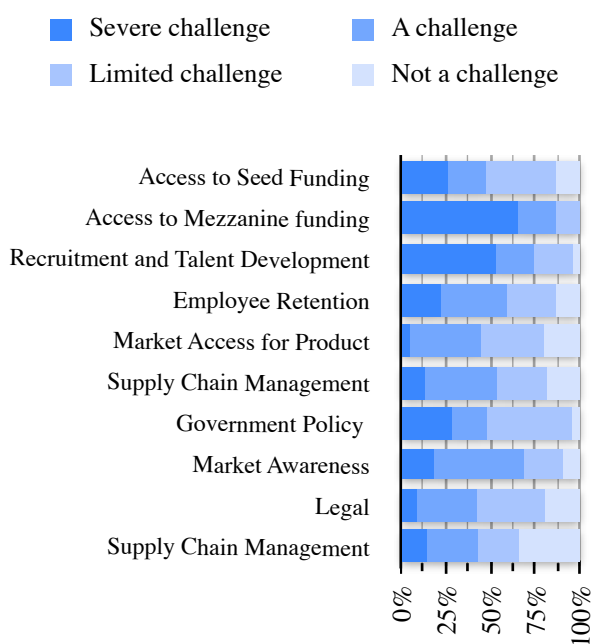
## 8. CHALLENGES

Social entrepreneurs in China face a variety of challenges, some in common with their global counterparts, some unique to China. The foremost challenges cluster around three key issues: access to funding; access and retention of human resources; and government policy and the legal framework.

Success for social entrepreneurs requires a healthy institutional and social environment: an “ecosystem of social entrepreneurship.” It requires resources including financial, human, social/political, and intellectual capital. It also needs appropriate environmental context (such as public policy and politics, media, economic and social conditions, and related fields) that either support or undermine the practice of social entrepreneurship.<sup>20</sup>

Social entrepreneurs in China face a variety of challenges, some in common with their global counterparts, some unique to China. The foremost challenges cluster around three key issues: access to funding at different stages of the entrepreneurial lifecycle; access and retention of human resources; and challenges related to government policy and the legal framework.

*Challenges social entrepreneurs face (in %, multiple answers possible)*



Only in December 2011, when the government realized slowing growth and unemployment from suppressed SME development presents a greater risk to the economy than inflation, did this begin to change.

Wen Jiabao called for better regulation of private lending because smaller enterprises should be a priority for bank credit and enjoy more tax preferences.<sup>21</sup> Due to the difficulty obtaining bank loans, other options such as private and public foundations (a term used in China to distinguish between foundations that obtain their funding from private sources such as wealthy individuals or companies and those that obtain them from the public in general), corporations, and impact investors play a crucial role in supplying social entrepreneurs with the necessary capital to start and grow their venture.

### For NGOs, new donors cannot yet replace old donors.

Bilateral and multilateral organisations, 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<sup>22</sup> government-managed public foundations and private foundations have not yet mobilised—or willing to provide—the required financial resources to replace old donors, or they exclude social enterprises from their funding. While the Corporate Foundations - such as the Narada Foundation (南都公益基金会) and Vantone Foundation (万通公益基金会), are increasingly playing a role in public welfare. Of the RMB84.5 billion in total charitable donations in 2011, enterprises provided the majority of donations with a total of 57.5%, of grant funding and an increasing number of corporate foundations are being set up. Yet corporates and corporate foundations tend to concentrate their grants on traditional issues including education, poverty alleviation and natural-disaster relief and grant mostly to GONGOs which can reach millions of beneficiaries, whilst excluding social enterprises and grassroots NGO’s.

New donors themselves struggle with legal uncertainties and change. For example, 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 organisations in less risky sectors such as education, poverty relief, and environmental protection, and to stay away from more sensitive areas.<sup>23</sup>

## FINANCIAL CAPITAL

In China, social enterprises, like SMEs and NGOs, are confronted with a challenge of accessing sufficient financial resources to start and scale their organisations. In China most social entrepreneurs are not able to access bank loans which affects the millions of SMES as well. Unlike for China’s state-owned enterprises, Banks are reluctant to lend to smaller privately owned businesses and usually charge them higher rates because they see them as higher risk.



Furthermore the Ministry of Civil Affairs recently issued the draft “Regulations Concerning the Standardization of Foundation Behavior (Trial Implementation)”, which has elicited concerns by NGO leaders and scholars such as Xu Yongguang of the Narada Foundation (南都公益基金会) and Deng Guosheng, director of Tsinghua University’s Innovation and Social Responsibility Research Center.

One of the key clauses states that foundations should not fund for-profit organizations, which would create difficulties for social enterprises as well as a number of NGOs that are registered as businesses. Mr. Xu, whose foundation has funded such NGOs in the past, noted that this regulation would threaten the livelihood of NGOs in this category.<sup>24</sup>

Issues	Traditional Donors	New Donors
Understanding Civil Society	Strong	Very Weak
Rights-Based Programming	Very Strong	Very Weak
Support to Institutional Development	Strong	It Depends
Provide Funds to	Appropriate Proposals	“Strategic” Direction
Communication	Development Terminology	Government and Market Jargon
Reporting System	Rigid in format	Flexible But Output Oriented
Resources	Funds and Technical Support	Funds, Volunteers, Policies, Media Support...

#### Accessing mezzanine funding to scale their operations presents the biggest challenge.

Accessing mezzanine funding to scale and replicate proven models presents the biggest challenge for respondents in the study; with 65% facing severe challenges and 21% indicating that it is a significant challenge. This is an increase from our 2011 research in which 55% of social entrepreneurs faced severe challenges and 22% indicated that it is a significant challenge.

An emerging source for funding are programs by foundations such as China Social Entrepreneur Foundation (友成企业家扶贫基金会) or One Foundation (深圳壹基金公益基金会) as well as ventures philanthropy-type initiatives that provide training and technical assistance such as IT, PR or volunteers along with funding such as the Innovation Initiative for NonProfits (IINP) led by Intel and others, Ford and Lenovo which have emerged to raise awareness about innovative organisations and help them grow. Yet despite an increasing number of such funding opportunities a limited number of grant darlings have emerged, organisations that have repeatedly won awards and received grants, while other organisations have difficulty accessing funding. For example, the British Council’s ‘Skills for Social Enterprise’ program trained 805 social entrepreneurs (as of June 2012) through its 5-day training program, yet the awards program granted a total of 69 awards to only 47 different organisations, with Beijing Golden Wings Rehabilitation Centre for Children with Disabilities (金羽翼) receiving 4 awards in 2009 and 2010, and XiXiang Women's Development Association; LangLang Learning Potential Development Centre (北京市红十字基金会儿童读写困难基金), iFAIR (上海乐创益公平贸易发展中心) and Hua Dan (花旦) receiving 3 grants each. This results in 0.6% of program participants receiving 34% of funding available through the program.

### Social enterprises do not have the information and knowledge about funding opportunities.

Conversely, ventures are unclear about which types of funding and how much funding they need, what funding opportunities are available to them and how to negotiate with funders. Programs specifically providing information and training to social enterprises in how to identify, connect with and negotiate with investors, such as Ogunte's Make a Wave Pre-incubator based in the UK do not yet exist in China, leaving social entrepreneurs with limited knowledge and information. Most NGOs and social enterprises are more familiar with pure grants which are awarded from programs such as the British Council's and IINP.

### The majority of social enterprises lack a clear business strategy.

Experts working for organisations looking to invest in social enterprises find that few social enterprises demonstrate a sound business model which can demonstrate an understanding of their market, and therefore struggle to attract legitimate investment. Applying for donations and public funding requires communication of a social or environmental need with a proposed plan for impact. In addition to this, sourcing investment or funding requires an assessment of market potential. Is there demand for the product or service? Is there competition, perhaps with government or NGO providers? How will you price your service? Experts indicated social enterprises have difficulty offering a competitive price that can also cover their costs, necessary in order to move from grants to investments.

Like other businesses and NGOs in China, human capital and resource management is one of the key challenges faced by social entrepreneurs in China.

### Social enterprise growth is impeded by problems regarding attracting, retaining and developing talents.

Common critical human resource issues include attracting and retaining employees at significantly lower rates of compensation compared to corporations, providing growth opportunities for employees within the organisation, as well as effectively recruiting volunteers and providing them with meaningful roles and responsibilities.

### Access and recruitment of talent

**and the skills and knowledge level of employees is a severe challenge for 52% of survey respondents, with a further 21% finding it a significant challenge. Chinese social enterprises struggle to attract skilled employees with a business background.**

Despite an increasingly socially conscious talent pool, social enterprise represents a less attractive employment opportunity than working for a multinational or state-owned company, in addition employees face a high opportunity cost by losing additional social and economic benefits, as well as professional training opportunities provided by larger corporations.

While social enterprises struggle to attract employees from a business background due to low compensation level, employees entering from NGOs have a different skill-set and often struggle to excel in a business-like environment. Cecilia Zhang, Investment Manager of LGT Venture Philanthropy, notes that often the social entrepreneur is the only driving force within the team, with employees being inexperienced or lacking strong execution capability. In fact, the majority of experts interviewed attribute Chinese social enterprise failure to a lack of business expertise, which leads to a poor business model, and the inability to plan a long-term strategy for social impact. However, these challenges are not unique to social enterprises in China. In India 70% of social enterprises state that staff recruitment is their biggest challenge.<sup>25</sup>

58% of respondents to our survey cited employee retention as a challenge to their business operation. The low level of salaries results in employees changing jobs regularly, because they have been offered a slightly higher salary elsewhere and because they cannot remain at a low salary for beyond a certain period of time due to family needs or expectations. Also, as many social enterprises have limited funds available to invest in employee training and development, team members have to gain skills on-the-job and take on multiple roles, which do not necessarily play to their strengths. As a result of all those factors, many social enterprises are either not able to fill open positions or entrepreneurs compromise on the experience and expertise level required and hire low-skilled employees or volunteers.

**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 such as B-Corp in the United States or Community**

**Investment Company in the UK has emerged, and registration and legal uncertainty remain one of the biggest challenge for social enterprises.**

The current legislative framework in China includes a variety of legal forms that social enterprises can adopt, including Social Welfare Enterprises, Civilian-Run Non-Enterprise Units, Civilian-Run Educational Institutions and cooperatives as well as the option to register as an NGO organization or as a company. Depending on the legal status chosen, social enterprises have to follow specific ownership structures, profit distribution and governance models and may benefit from tax exemption. So are Civilian-Run Non-Enterprise Units required to register as NGOs with the Ministry of Civil Affairs, while Social Welfare Enterprises, Civilian-Run Educational Institutions and Cooperatives can be operated as for-profit organizations.<sup>26</sup>

Xiaomin Yu and Qiang Zhang<sup>26</sup> point out, that China's current legislative framework provides no concrete specifications on another key issue determining the development of social enterprise – revenue generating commercial activities. Concerning all four kinds of social enterprises/NGOs, the provisions on income-earning commercial activities are either too general or inconsistent. For example, Civilian-Run Non-Enterprise Units are banned from "undertaking profit-making commercial activities", but simultaneously are allowed to register as organizations operating a business of education, health care, employment, sports, science and technology research and consulting, social welfare (care for the elderly and children, community service, etc.), legal services or others.

If a social enterprise wants to operate and register as a NGO it has to engage the relevant government department of the Ministry/Bureau of Civil Affairs (who oversee NGO registrations) on a local or national level. Due to the varying regulations associated with how an NGO can register and its influence over NGO governance structure most social entrepreneurs opt to register their enterprise as a business under the Ministry/Bureau of Industry of Commerce instead of the Ministry/Bureau of Civil Affairs. The social enterprise is therefore able to retain its independence however they are not allowed to publicly fundraise and there are no tax benefits.

Yet most social enterprises are registered as commercial companies, they do not benefit from any tax exemption, no matter how social their mission. Not having tax-exempt status means that social enterprises have to pay taxes on grants and donations received. National donors such as foundation, investors and corporate donors are often aware of the situation and are willing to accept an additional budget item "taxes" in grant proposal budgets.

However it does still cause many problems.

In addition to obtaining NGO status, there is the additional challenge of being able to fundraise in public, and being able to provide an official receipt that provides tax exemption to the donor. Only a few nonprofits and GONGOs can do the latter two.

**Additional challenges for NGOs seeking to become social enterprises are registration and public perception.**

NGOs embarking on marketisation and seeking to become social enterprises through the approach of generating revenue from providing fee-for-services to the government face a major challenge as contracts are yet widely available across the country or focus areas and those contracts are only granted to organisations legally registered as NGOs (many NGOs are registered as business).

In addition for NGOs that seek to evolve into social enterprises, and social enterprises, often have to overcome a sceptical public attitude that the business sector and the philanthropy sector should be kept separate. This has become more acute following a string of high profile scandals in 2011 where NGOs were criticised for crossing the line and becoming too commercial—or even unethical. Overcoming this scepticism means many social enterprises and NGOs feel uncomfortable (or unable) to charge for services, whilst potential donors who may be needed to cover initial start-up costs only allow a small amount to be used on overhead due to a lack of trust and misunderstanding of how important overhead is to an organisations' success and ability to grow its capacity.

The current legislative framework therefore provides opportunities and challenges to social enterprises. On one hand social entrepreneurs can choose from a variety of options to legally register their operations, allowing them some flexibility in terms of governance, tax exemption and the level of government intervention required to run their enterprise. On the other hand, as observed with the NGO legislation, an uncertainty exist among social entrepreneur concerning legislation the government might implement and how this might affect their operations. Furthermore operating a social enterprise under company registration can lead to doubt by the public about the social mission and value of the company, so that social enterprises might suffer from mistrust by the public solely due to their chosen legal status.

## 9. ENTREPRENEURIAL ECOSYSTEM

**Just like the social enterprises themselves, actors within the ecosystem including investors, intermediaries and media are all very new to the market, trying to identify their own focus and business model.**

### IMPACT INVESTORS

**An immature investor network is not yet a viable avenue to access funding.**

International impact investors have been investigating the potential for investment deals in China since 2008, yet their number is limited and due to the immaturity of social enterprises and the mismatch between investor expectations and the reality and scale of social enterprises on the ground in China, only one investment has so far completed, therefore making impact investors a negligible source of funding.

As of early 2012 only one social enterprise, GIGA which enables architects to easily find, source and use green materials and thus drive the market demand for them, has received funding from impact investors, with Beijing LangLang Learning Potential Development Center (北京市红十字基金会儿童读写困难基金) being approved by Avantage Ventures for an undisclosed investment combining debt and equity, and LGT Venture Philanthropy having approved a grant for the China Foundation Center (中国基金会网).

*“In Europe, there are very many impact investors in the market, whereas China’s investor market in many ways is not mature enough to see a great delineation between angel investors, impact investors, or private equity investors looking for financial returns.”*

*Han Xiao - Founder, LanShan Social Capital*

Impact investors’ operations in China are hampered by various challenges: Firstly, many do not have enough resources to set up an office or hire staff on the ground, operating based on annual business trips to meet prospective investees. Another model operated by investors is to set up an office in Hong Kong while sourcing deals in China. Investors not permanently represented in China cannot spend sufficient time to effectively monitor and evaluate prospects and it detaches investors from the local social ecosystem in which relationship building is so crucial. And lastly, impact investors have been finding it challenging to convert their money into local currency upon entry into the market (and this would also be a problem if they were to repatriate the capital upon a successful exit).

Secondly, many investors scouting for social enterprises in China are still unclear about their own expected financial returns; and whether they aim to position themselves as impact-first investors or finance-first investors, and whether they seek to provide seed or mezzanine funding. Funds that had set out to specifically address the “missing middle” of

impact investing, e.g. investments between US\$50,000-200,000 are currently adjusting their strategy due to a lack of investable social enterprises in this segment. This reflects the age distribution of social enterprises in China, whom are mostly early stage ventures younger than 2 year (54%).

Thirdly, the vast majority of the impact investment funds operating in China have not disclosed key information including investment criteria, investment guidelines, fund size or application procedure on its website in Chinese or English. Therefore potential investees face challenges identifying potential investors for the social enterprise, and it is impossible to say how much funding is available for social enterprises in China.

The limited availability of social enterprises that are investment ready leads to a situation in which a number of investors are negotiating with the same social enterprise, therefore giving the social enterprise the opportunity to choose among investors and to negotiate the most preferable terms for the investment. Furthermore it requires many investors in China to adjust their business model and to widen their net, for example by including NGOs or companies which don’t see themselves as social enterprise as investment opportunities.

The vast majority of investible businesses solving social or environmental problems are not the social enterprises identified by current social enterprise award programs, but among the businesses across China that might not even identify themselves as social enterprises. Examples are the hundreds of solar and wind energy producers, companies producing and distributing biogas toilets to address rural sanitation and energy, and the hundreds of companies producing and distributing the solar water heaters so familiar with everyone who is traveling across China. One example is Beijing Landwasher Science & Technology Development, which produces environmentally responsible toilets that utilise a water-free flushing system, therefore conserving resources while meeting the sanitation needs of rural communities lacking access to current public infrastructure. Since 1999 Landwasher has sold over 2,200 toilets and achieved sales revenues of RMB66.4 million annually.

So while on one side of the spectrum an increasing number of NGOs are using market approaches to achieve sustainability, on the other side of the spectrum are businesses that do not yet identify themselves as social enterprises and are not yet familiar with the impact investing concept, thus are not in a position to present themselves as “impact” companies and attract investments.

# SOCIAL ENTERPRISE AND IMPACT INVESTING IN CHINA

By Cecilia Zhang, Investment Manager China, LGT Venture Philanthropy

The concepts of “social enterprise” and “impact investing” have been gaining popularity in recent years, and are being widely discussed and hotly-pursued due to social enterprise’s self-sustainable nature and the balance impact investing strikes between social and financial returns. Having been in China for three years, LGT Venture Philanthropy (“LGTVP”) has accumulated a deep understanding of the China market:

## **The market is still at a very early stage, but there is a huge potential to grow.**

The development of the social enterprise impact investing market can broadly be divided into three stages:

1. *At seed stage* the social entrepreneur has a business idea to address a specific social problem(s), they may have access to advantageous resources, but generally no team has been formed or completed and the social entrepreneur only has a proposal to communicate with potential impact investors. The key challenge witnessed in China is recruiting and filling a competent team and further difficulties in staff retention. There is limited recognition in social enterprises among working professionals, and a low level of faith in these enterprise’s short-term prospects for success (which will typically take longer than its purely commercial counterparts).

2. *Early stage* is the phase in which business operations have begun, yet the business model is only partially proven, if at all and sales and distribution channels need to be built or strengthened. In China, social enterprises may either cooperate with government or pursue a market-oriented approach to establish distribution channels.

3. After surviving the seed and early stage, the enterprise enters the *growth stage* in which management expertise and efficient business operation are essential to focus on expansion and how to replicate the proven business solution. In China, we have encountered only a few organisations at this stage, mostly in the fair trade and IT sectors.

LGTVP observes a pyramid shaped distribution to describe the stage at where most Chinese social enterprises are at, with the majority of the social enterprises concentrated in the seed and early stages and only a few in the growth stage. Social entrepreneurs at the top of the pyramid have typically acquired business operation and management experience in the corporate world or through previous entrepreneurial undertakings. Yet considering the trend of a growing number of working professionals to the social sector and the emerging interest of fast growing seed/early-stage social enterprises for impact investors, LGTVP believes in the potential of the social enterprise sector to shift away from the pyramid-like distribution shape in the coming five years.

## **Two key lessons learned in China by LGT VP**

1) *The lack of professional teams and management know-how often hinder the creation of scalable solutions and deter the potential for significant impact.*

In China we observe in many cases, that the social entrepreneur is the only driving force within the team, with the rest being inexperienced or lacking strong execution capability. Therefore, an equally passionate and competent team is the primary restrictive factor to roll out the plan efficiently and sustainably. For example, if an affordable franchise model for nursing homes is to be executed, the team has to be capable of creating and monitoring standard practices, identifying partners and managing the franchising network, etc. In order to yield a significant positive impact, every key member of the management team (not just the CEO) has to be fully functional in his or her own area to guarantee that the affordable nursing home can be rolled out nationwide prudently and create lasting impact.

The lesson also holds true when one observes neighbouring South East Asia (“SEA”), and India where the market is more developed. Successful cases in SEA demonstrate that having a competent advisory board and extensive partnership network can be good supplements to not having a fully functional team.<sup>42</sup>

2) *Having a clear understanding of concrete future plans and funds to realise the plans.*

What is interesting, and in LGTVP’s experience unique to China, is that most social entrepreneurs, when asked how much money is needed to realise their dream, hesitate and instead ask the impact investor for the amount that can be provided. They will then usually request the maximum amount an investor provides rather than calculating actual needs using a bottom-up approach. What is missing behind these maximum numbers are concrete, facts-and-figures-based plans for the upcoming 3-5 years and the breakdown of funds needed to realise these plans. In contrast, Indian social entrepreneurs are much more sophisticated and know clearly the shortfall needed from investors, while being sensitive about the possible stake dilution of the enterprise.

## **Conclusion**

As more social enterprises emerge in China and the value chain for impact investing including incubator, advisors, investors, and intermediaries continue to develop, the relationship between impact investors and social entrepreneurs will become closer and longer lasting. There is promising potential for some of the social enterprises LGTVP has seen to achieve sizeable scale, showcasing the feasibility of the impact investment approach and the potential to create a significant positive impact in China.

## GOVERNMENT

Even more so than in other countries, government

relations and legislation represents one of the most crucial challenges for social enterprises in China and it is critical to understand that all social entrepreneurs and experts interviewed for this report highlight the importance of working with the government in order to be successful.

While social enterprises in other parts of the world can operate without the interference or cooperation with the government, in China social enterprises must engage government and at various levels, e.g. local, provincial or national. As Abigail Jung, Co-founder of Synergy Social Ventures notes: “Every social venture will have to work with the local government system and this therefore affects the way it can operate or achieve scale.”

Despite's China's rapid economic development and globalisation 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 environmental resources. Yet political leaders have recognised the role for a growing civil society to aid in the provision of services that will mitigate the negative impact of these problems on society. In recent years a number of policies have been gradually introduced to direct the welfare system towards a trajectory of decentralisation and privatisation, for example, by allowing local authorities more autonomy in social policies and mobilising resources from businesses and civil society. In May 2010, the national government introduced an across-the-board policy to source more investment from the market to boost the role and impact of non-state agencies in various social services such as health care, education, services for the elderly and the disabled.<sup>27</sup>

Chapter 39 of the Chinese Communist Party's 12<sup>th</sup> Five-Year Plan specifically aims to strengthen the construction of social organisations, charity and community social organisation; improve the supporting policies from the government; encourage the government to transfer functions to social organisational as well as “open up” education, medical care, sports and other areas.

*“The Chinese government is much more open to new ideas than some realize. The Communist Party knows that certain things don't work. In our 12th Five-Year Plan we have already emphasized national happiness. The government wants to look into new ways of structuring society otherwise people will go into revolt. The process will be in place for younger government officials with a different mindset to implement innovative models.”*

*Patrick Cheung - Chairman, Water Drops Foundation*

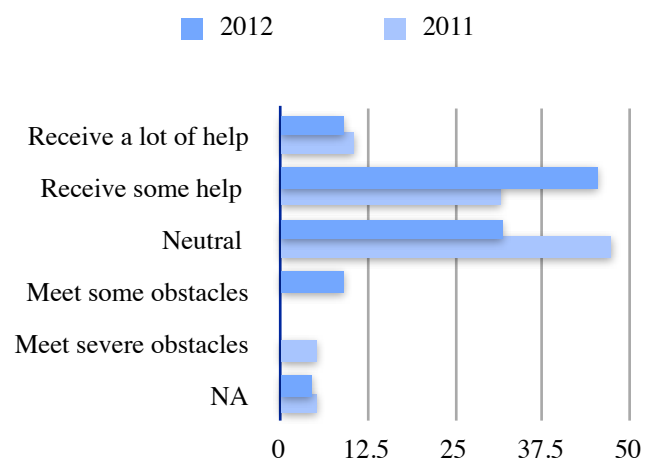
**Government legislation can enable the sector to grow or stifle it for years to come.**

The nature of the Chinese government means that, unlike India's laissez-faire attitude, government legislation for social enterprises will have a major impact and could enable the sector to grow or stifle it for years to come. Thus, while legislation has been put in place to regulate NGOs and foundations, no legislation to regulate social enterprises is currently on the agenda. Perhaps it is early days yet, given that neither the US nor the UK adopted such legislation until the first decade of the 21<sup>st</sup> Century, but it is important to begin to think about what type of social enterprise legislation would be suitable in China considering the existing options.

By not explicitly regulating social enterprises the present legislative system provides opportunities as well as challenges to social enterprises. Social entrepreneurs can choose from a variety of options to legally register their operations, allowing them some flexibility in terms of governance, tax exemption and the level of government intervention required to run their enterprise. On the other hand, as with nonprofit legislation an uncertainty exists among social entrepreneur regarding the nature of any legislation the government might implement and how this might affect their operations. 28% of respondents in our survey state government policy or the lack of such policy as a severe challenge to their operation and 19% perceive it as significant challenge.

In addition, we asked “How would you describe the relation between your organisation and the government?” whereby 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. So it is not necessary for the government to be unsupportive or purposely restrain social enterprises, but also a concern that the uncertain legal framework as well as the fact that it takes time, effort and relationships to develop effective government relations poses a challenges to respondents.

*How would you describe the relationship between your organisation and the government? (in %)*



# A BRIEF OVERVIEW OF THE 12TH FIVE-YEAR PLAN, 2011-2015 - SCOPE AND INTENTIONS FOR CIVIL SOCIETY SECTOR

By Karla W. Simon, Professor of Law Columbus School of Law, Catholic University of America

The Ministry of Civil Affairs (MCA), which promulgated its 12<sup>th</sup> Five Year Plan for Charity in July, hopes to enhance the role of charity and civil society in social development in China. The overall 12<sup>th</sup> “Five-Year National Economic and Social Development Plan” clearly articulated its commitment to the development of philanthropy, the enhancement of social awareness towards charity, and the improvement of tax incentives for charitable donations.

So, what does the government intend to do in the next five years?

*1. Write better legislation for the charitable sector. This will consist of two aspects:*

- better regulations for the three types of legal forms, social organisations (社会团体), NGO distributing private commercial enterprises (民办非企业单位) and foundations;
- passing the charity law which is making progress through the legislative process at the national level.

The former has received recent close attention as Guangdong Province and various cities in the province have sought to develop new rules that lessen entry barriers to registration. The charity law is making progress through the legislative process at the national level.

*2. Create a tax environment in which donations to charities are truly encouraged.*

The rules in the Individual and Enterprise Income Tax Laws in China provide for quite significant benefits for donors to public benefit CSOs (30% of income limitation for individual donors; 12% for corporations – compared to the US with 50% for individuals and 10% for corporations.) and the process for becoming a qualified donee is clearly spelled out and accessible on the websites of the national MCA and provincial and municipal bureaus. But the practical aspects of implementing the system appear to require more resources than have as yet been dedicated to it. This issue must receive more attention if smaller and medium-sized charities are to receive donations directly.

*3. Develop a more effective volunteer policy.*

This is extremely important if volunteerism is to have a sounder basis in China. At present the locally based volunteer regulations are very much event-focused, and the

policy does not centre on training for national disasters. It would be more desirable if policies more firmly focused on the importance of better training could be encouraged by the central government. On the other hand, 2011 witnessed the launch of the National Volunteer Association, which could provide some support for such efforts.

*4. Promote a more developed charitable sector.*

There are many things mentioned in the plan in addition to the legal policies discussed above. They include outsourcing social services to CSO, creating a national policy to encourage more people and business entities to partner with government and CSOs to support charity and social service, increasing CSR practices among companies, etc. All of these mechanisms to increase charity in China should clearly be explored.

*5. Make the sector more open, transparent, and better governed.*

MCA issued a discussion draft of “China Charity Donation Guidelines” in August 2011 and finalized them in December. The Guidelines are designed to give registered charities in China broad guiding principles for the sector’s development over the next five years. The guidelines cover:

- Methods to improve the information publicity system;
- Requirements to standardize the management of donated funds and uses of donated materials; and
- Measures to maintain the legitimate rights and interests of donors and recipients in accordance with relevant regulations and policies.

These guidelines have been criticized because of their lack of specificity, and that must be improved if both charities and regulators are to know what the real standards are.

*6. Create self-regulatory rules for the sector.*

For example, there should be both general codes of practice and specific ones for different types of sub-industries in the sector (e.g., elder care).

All in all the 12<sup>th</sup> Five Year Plan for Charity builds on successes accomplished during the past five years.

## CAPACITY-BUILDERS AND INTERMEDIARIES

**A small and emerging support network of incubators, nonprofits, student associations and university centres are providing training programs and technical assistance to social entrepreneurs or promote social entrepreneurship.**

While the majority of organisations, which are mostly located in Beijing and Shanghai, tailor their programs towards supporting NGOs, an increasing number are expanding their offerings to social enterprises. Programs range from national awards, mentorship, workshops, leadership training as well as connecting them to corporate pro-bono consulting services.

*“Many social entrepreneurs from the grass roots are operating alone and it may take two or three years before they are discovered by supporting organizations or manage to get media exposure.”*

*Patrick Cheung - Chairman, Water Drops Foundation*

Organisations include:

*British Council*

The Skills for Social Entrepreneurs program aims to reach 10,000 people in 1,000 communities and 100 institutions across the UK and in east Asia, China and south east Europe through international learning and networking.<sup>77</sup> The 5-day training program targets potential or existing social entrepreneurs and by June 2012 trained 805 social entrepreneurs in Beijing, Guangzhou, Shanghai, Tianjin, Nanjing, Changsha, Kunming, and Xi'an. Upon completion of the training, participants can compete for up to RMB 2.6 million provided by program partners including China Social Entrepreneur Foundation (友成企业家扶贫基金会), Narada Foundation (南都公益基金会), MoreLove Foundation (上海增爱基金会) and Diageo. Although many of the graduates are still classified in the NGO space, an increasing number are beginning to run social enterprises including Buy42.com, Shenzhen Canyou Group (残友集团) and Hand Affection. (北京笃挚优游文化发展有限公司 (笃挚手工艺))

*FYSE*

Since 2008 FYSE provided capacity-building to 154 social entrepreneurs across Asia, including 57 entrepreneurs and senior leaders of social enterprises in China. By partnering with companies, business leaders and NGO organisations FYSE's offers a social enterprise incubator and accelerator for women social entrepreneurs; a coaching program in cooperation with the Asia Pacific Alliance of Coaches (APAC); peer-to-peer learning through its Mastermind session and the Paragon fellowship for young social entrepreneurs up to 30 years of age.

*Non Profit Incubator (NPI, 公益孵化器)*

Currently, NPI operates incubation offices in Shanghai, Beijing, Chengdu and Shenzhen, providing start-up NGOs and Social Enterprises with free office space, capacity building, micro-grants, and assistance with registration and fundraising. To date, more than 40 NGOs and social enterprises with great potential have graduated from the incubation stage. The program now has the capacity to incubate 30 civil society or social enterprises each year.

*SIFE*

SIFE is a global NGO organisation active in 40 countries with operations in China since 2002. SIFE established 176 SIFE university chapters across China involving more than 7,700 students. Chapters are led by faculty advisors and are challenged to develop sustainable community outreach projects that create economic opportunities for members of their communities. The effectiveness of their programs is judged at an annual national competition. SIFE National Champion teams advance to the top level of competition, the SIFE World Cup.

*Narada Foundation (南都公益基金会)*

The foundations' *Ginko Fellowship*, modelled 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. In this way, the Narada Foundation hopes to offset the lack of funding for management staff at the grassroots level, which is a key barrier to improvement in human capital. Since its inception 21 entrepreneurs have been selected as fellows.

*Beijing Huizeren Volunteering Development Center (惠泽人)*

Huizeren is working with US-based Taproot Foundation to implement their successful pro-bono program in China. The program aims to connect social enterprises and nonprofits with a lack of organisational capacity with skilled corporate volunteers. Since 2011 Huizeren have managed 11 projects in partnership with companies including HP and IBM.

*Peter F. Drucker Academy (彼得·德鲁克管理学院)*

DA provides entrepreneurship education and competitions especially for university students as well as management courses for social entrepreneurs.



In recent years increasing academic attention towards social entrepreneurship has emerged. Yet currently the majority of research and newly established educational program continue to focus in NGOs with limited focus on social enterprise

Centers include:

*The Beijing Normal University One Foundation Philanthropy Research Institute* (北京师范大学壹基金公益研究院)

Established on June 21 is China's first civil philanthropic institute jointly founded by a university and a philanthropic organization. It specializes in providing human resources training and policy counseling services.

*Social Enterprise Research Center* (社会企业研究中心)

Based in Shanghai SERC engages in research about social enterprise and has published numerous social enterprise case studies since 2008.

*Beijing Normal University Research Center of Philanthropy and Social Enterprise* (北京师范大学)

The RCPSE is responsible for creating and implementing the universities master's and doctoral programs in NGO management. The Center additionally provides policy consultation in areas such as enhancing community self-organization, cultivating social responsibility and promoting action for public welfare.

*NGO Research Center of Tsing Hua University* (中国人民大学非营利组织研究所)

Since 1998 NGORC conducts research into NGOs management and actively cultivates senior managers at different levels in NGOs, and promotes the establishment of related rules and policy systems.

Some of the notable research recently published about social enterprise in China include:

- ▶ British Council (2008) The general report of social enterprise in China.
- ▶ Tim Curtis (2011) 'Newness' in social enterprise discourses: looking to the Chinese experience. *Journal of Social Entrepreneurship* Volume 2, Issue 2, 2011. Pages 198-217
- ▶ YJ Ryou (2012) A comparative study in Chinese Social Enterprises. <http://tinyurl.com/c5kbc2r>
- ▶ Meng Zhao (2012) The Social Enterprise Emerges in China. *Stanford Social Innovation Review*, Spring 2012
- ▶ Li Qingran (2012) Emerging Social Enterprises in China: An Innovative Approach towards Poverty Alleviation and Social Fairness.
- ▶ Xiaomin Yu (2011) Social enterprise in China: driving forces, development patterns and legal framework. *Social Enterprise Journal* Vol. 7 No. 1, 2011 pp. 9-32

gained momentum in China. While many companies are still limiting their community engagement to mass-volunteering events or donations of grants to NGOs, others such as Intel, HP, Lenovo and Ford have taken a more comprehensive approach in supporting the development of nonprofits and social enterprises in China. Businesses contain vast resources that social enterprises can—and must—tap into if they wish to impact such a large country.

Pamela Hartigan, Director of the Skoll Centre for Social Entrepreneurship, noted in a recent article in the *Financial Times*<sup>28</sup> that nine years ago not a single corporate representative attended the first Skoll World Forum. At the recent 2012 event, not only were there dozens of companies on the delegate list, including representatives from McDonalds, Cisco, Marks & Spencers and Rabobank, but also many had executives up on the podium, explaining the advantages and challenges of working together with social enterprises.

In recent years a number of companies in China have launched corporate social responsibility programs supporting the development of civil society and social entrepreneurs in China. Innovative programs include those funded by Ford, Intel, Nike, Google and Lenovo. The programs often include a nationwide search, selection and award of outstanding nonprofits or social enterprises (or ideas for the same), providing them with funding as well as training and mentorship. For example, in 2010 China Youth Development Foundation (中国青少年发展基金会) and Nike partnered to launch Beyond Love (爱超越), a grants program for young people aged 18-25 years to implement projects in their community that uses sport to address issues such as health, disabilities and gender equity. In addition to leadership and project management training NIKE provided RMB10,000 for selected teams as seed funding. Another example is Lenovo's Venture Philanthropy program, which was established in 2009. Varying each year, occasionally the program also uses micro philanthropy" to identify university students interested in launching their social enterprise and providing them with training and capital. The main focus of the program since 2009 though has been funding NGOs—Lenovo has donated more than 6 million RMB in financial assistance to 32 NGOs and social enterprises dedicated to education, environmental protection, narrowing the digital divide and poverty alleviation; they have also provided free IT equipment, provided employee volunteers and provided extensive PR for some of the participants.<sup>29</sup>

# CORPORATE ENGAGEMENT OPPORTUNITIES FOR

By Adam Lane, Manager, BSR

Social enterprises in China face an uphill struggle. They are designed to be innovative and entrepreneurial yet they lack the kind of business plans which mainstream investors are looking for. They often lack time – an invaluable resource- to dedicate to strategic business development and the capital required to attract skilled staff. Social enterprises are driven by passion, mission and a business idea– but this model makes them a marginalised section of the business community, so the resources available to most businesses are out of reach to many SEs. However, partnerships with the corporate sector represent important opportunities for social enterprises, because this sector is home to expertise, resources and networks that many social enterprises in China need to overcome the operational challenges they face. Numerous partnership strategies are beginning to emerge, not just in China, but internationally, which demonstrate the value of corporate engagement with SEs. To make an impact in a country as large as China then social enterprises must scale-up. This piece highlights some corporate engagement strategies which Chinese social enterprises could benefit from, to maximise their growth potential.

**A wealth of resources and skills** within State-Owned, private and foreign business have dramatically reshaped China over the last thirty years. These institutions contain vast resources that social enterprises can—and must—tap into if they wish to impact such a large country. These assets include staff, intellectual property, physical products, fixed assets, relationships across the value chain (including government), and of course financial capital. Since 2007, a variety of companies have begun exploring opportunities to provide these resources. One Chinese example is Lenovo, the World's second largest PC maker, launched a Venture Philanthropy program in 2009 which has provided ¥6 million RMB, IT products, volunteers, and training to build the organisational capacity of 32 NGOs and social enterprises. In addition, Lenovo has used its marketing resources to promote its NGO partners, in particular its social enterprise ones.

**Corporate employee engagement schemes** can enable SEs to access a pool of skilled labor that it couldn't otherwise afford to employ. Most people want to work for large, well-known companies that can offer high salaries, resources they can work with and career progression. These people are a luxury which most social enterprises cannot afford hence they are always keen on affordable high quality operational and strategic advice. But these people don't have to be seen as just regular volunteers or even skilled volunteers, but may be better understood as pro-bono consultants. Their time can be worth a small fortune when applied in the right way to the

right social enterprise. Since 2011, Huizeren has been helping NGOs and social enterprises in China access skilled corporate volunteers as pro-bono consultants.

**Intellectual Property** is core to a company's success. It shapes its development and research approaches and provides cutting edge products to its consumers. In stark comparison, social enterprises do not have advanced systems at their disposal to take advantage of core business opportunities, and very basic IT systems that limits their operational efficiency. Sharing corporate IT software can mean a new database, and access to market research techniques and insights can help to understand how to affect change across its audiences. Whilst many IT companies may donate their software (e.g. Microsoft), or provide customised software (e.g. Baidu providing customised online mapping services) in China, pharmaceutical companies have begun to donate medicines or provide access to their databases of research on molecules which may open doors to tackling neglected diseases; one example in China is Novo Nordisk's donation of a license to its small molecule compound library to the National Centre for Drug Screening. Although this is a donation to an academic/governmental institute, in the future such programs may spread to social enterprises, like Viiv Healthcare (not yet active in China) or through initiatives like WIPO Re:Search.

**Cross-branding products**, in-kind donations often remain a crucial resource for many NGOs but some social enterprises have taken this one-step further, partnering with companies to customise products for specific sections of society. For example, Hantel Technologies partnered with Shanghai Haiyang Elderly Development Service Center to produce a customised phone, which connects to Shanghai Haiyang's support service for the elderly. Another type of in-kind donation is "cause-related marketing" - where companies promote the message of an NGO through its products. For example, China's Everbright Bank credit card promoted the China Women Development Foundation's Water Cellar for Mothers program. Social enterprises may seek to grow their brand through strategic product placement or association with like-minded sectors like fair-trade or organic food, as opposed to partnering with a company that has no direct link to the social enterprises mission or values. In addition, donating corporate space is providing a much needed jump-start for many new social enterprises in China. They are able to sell their products in hotel lobbies or gift shops (such as Accor selling Chi Heng's bags) or even on airplanes (such as China Eastern selling Handaffection's jewelry); collect unwanted clothes in office lobbies to sell in charity shops or online (example being Buy42); use spare office space as a

# SOCIAL ENTERPRISES IN CHINA

preparation for when they are needed (in China, Links Moving provides free storage and transport for donated items for the Roundabout Charity Store).

Many NGOs in China are looking to move away from grant-dependency to social enterprises in order to scale-up their operations and impact. Some are doing this through corporate service provision. A few examples in China exist: the social enterprise Zhi Cheng is providing counselling, health advice and skills-based training for employees of manufacturing companies such as Grandsun; Beijing-based charity Compassion for Migrant Children trains and places youth workers in food companies such as Subway; and Zhi Le has placed disabled people in IT-related jobs with a range of companies such as EF, Ping An or Shanghai Ling Li. Another alternative is as suppliers for companies: Canyou is an IT company owned and staffed by disabled people which counts clients such as People's Bank of China and Suburu and partners including Intel and IBM; Dialogue in the Dark (which provides business workshops in the dark led by blind trainers) provides services to corporate clients in Shanghai; the Dandelion School for migrant children in Beijing sells gifts and stationery designed by their students to companies to generate income.

Social enterprises can access communities and sectors which companies are keen to invest in. The intellectual property of an SE is their reach into vulnerable sections of society— they are more trusted than most government agencies and they do not have the profit motive of companies. Social enterprises can use this to act as paid consultants with expertise in specific sectors of society to companies looking to invest, albeit responsibly, in those sectors.

**Scaling-up** requires solid relationships with distributors, government officials, customers and suppliers if social enterprises are to widen their geographical reach and have the greatest possible impact. This is a critical but scarce resource for many social enterprises so tapping into a company's distribution networks is one option. The opportunity for growth that comes with a partnership (or an endorsement) between a company and a social enterprise is invaluable, if done correctly. In China Alibaba is proactively providing training to NGOs and social enterprises on how to better use its online taobao sales platform to sell products or promote themselves.

In Bangladesh, the Grameen Foundation is well known for successfully scaling-up its activity through corporate engagement. For example, partnering with Danone (to make

fortified yoghurts) and Uniqlo (to produce affordable clothing for the poor), though there are few such examples in China yet.

**Realising this potential** is dependent on mutual opportunities for both the company and the SE. In addition, access to key decision makers is notoriously difficult and again, this access is heavily dependent on whether or not the SE can demonstrate the strategic added value they bring to a company. If these are clear then leveraging a company's resources; its skilled staff, its technology or its distribution and marketing network then becomes much more likely. Conceptually, social enterprise is still a nascent business model concept for most in the corporate sector so time needs to be spent on educating and 'selling' the concept to potential corporate partners.

As social enterprises seek to build their capacity in China companies need to be mindful of two important roles they can play in this sector. The first role is the strategic social enterprise consultant, to aid business development strategies and address human resource constraints in the social enterprise sector. The second role is to be a potential business partner. Companies can aid the growth and reach of social enterprises through their channels to reach specific stakeholders; be it millions of customers, tens of thousands of employees, thousands of retail outlets or just a few important strategic business and government partners.

## 10. RECOMMENDATIONS

**In China the social entrepreneurial ecosystem is still in its infancy and just like the social enterprises themselves, actors within the ecosystem including investors, intermediaries and media are all very new to the market, trying to identify their own focus and business model.**

### SECTOR ENABLERS

#### **Provide capacity-building to whole organisations.**

Social Enterprise support programs are currently founder-centric, the focus is currently on developing and supporting the founder or CEO of social enterprises. Yet, the enterprises will be unable to scale if functional and other management staff lack development and learning opportunities and access to training, mentorship and networks. Enablers should provide such programs to build the capacity of whole organisations and not only individuals.

#### **Focus on building a pipeline of social enterprises support programs.**

Social enterprises face barriers to transition into the next stage of growth. Enablers need to more clearly define their stage in the entrepreneurial lifecycle and Chinese entrepreneurship ecosystem and define and communicate more clearly how they can support enterprises to transition from one stage in the next. Furthermore more cooperation with foundations and investors would enable enablers to provide funding in addition to their capacity-building.

#### **Provide more programs to support early stage social enterprises.**

Beyond business plan competitions, programs supporting social entrepreneurs at the idea stage and at the early stage are missing and therefore a greater pool of startups which can grow into sustainable social enterprises is missing. More enablers should come forward to focus on inspiring more people to become social entrepreneurs and to incubate social enterprises.

#### **Enable peer-to-peer learning among social entrepreneurs.**

A major barrier for social entrepreneurs in China is a lack of information about good case practices and other learning from the field, leading to many social entrepreneurs making the same mistakes as others before them and wasting valuable resources and time. More peer-to-peer learning through Mastermind sessions, practitioner conferences and working groups within China and with international counterparts will prevent duplication of mistakes and facilitate partnerships.

#### **Learn from, and localise, international good-case-practices for support structures.**

The stream of international study tours with the objective to learn about international good-case-practices such as UnLtd, Social Enterprise UK, School of Social Entrepreneurs or Social Enterprise Alliance need to be finally translated into

the local context and implement in China to provide support to social entrepreneurs at various stages of their development.

#### **Facilitate cross-sector partnerships to shortcut (at low cost) capacity building and reach scale through strategic partnerships.**

Initiatives such as BSR- CiYuan initiative have piloted initiatives to promote cross-sectoral partnerships between international social enterprises, local social enterprises, companies and foundations. Expand such initiative to channel resources into the sector.

### FUNDERS

#### **Consider funding social enterprises and not only NGOs registered with the Ministry of Civil Affairs.**

Funders should focus on impact and change/innovation and less on the form/approach/status of the organisation being funded.

#### **Recognise limited or delayed return on investment.**

Recognise the very limited or long-term return on investment horizons that social enterprises tackling the toughest challenges represent and partner with other funders to ensure different funders (philanthropic-impact-commercial) work together to build the pipeline (and capacity and market opportunity) that the others will benefit from.

#### **Provide seed funding to support social enterprises to pilot and prove their models.**

In order to be able to benefit from a large pool of social enterprises with a proven business model and in need of mezzanine funding, more funders need to fill the niche and focus on financially supporting early-stage social enterprises. Sustainable social enterprises will only emerge if more early-stage ventures are financially supported to pilot and prove their models.

#### **Combine investments with capacity-building.**

Philanthropists and social enterprise investors should take a venture philanthropy approach to combine investments with capacity-building. Most Chinese social enterprises lack the capacity to effectively absorb capital and investors should invest time, expertise and their network to build the capacity of social enterprises to turn their investments into impact.

#### **Stop capping operational expenditure at 10%.**

Recognise the contradiction in reducing operational expenditure and the need for increased capacity. Expand operational expenditure so organisations can invest in people, leadership, systems, professionalism, measurement, R&D, collaboration, advocacy, market research, fundraising etc.

## UNIVERSITIES

### **Encourage and incentivize students to join the social enterprise workforce.**

While students in some universities are exposed to social entrepreneurship as a career choice, most students are not yet aware of the opportunities within the sector. Universities should consider providing scholarships or student-fee-waivers for graduate studies for students coming from or entering the sector.

### **Adjust the curriculum to meet the need of the market.**

Universities can develop partnerships with practitioners to provide real-life case studies, study tours and lectures, as well as adjust the curriculum to provide specialist courses, electives or internships to train students and to provide a talent pipeline for the sector.

## GOVERNMENT AND POLICY

### **Provide fundings to organisations who are able to deliver, regardless of registration.**

Continue funding social enterprises as well as outsource to organisations who have the capacity and history to deliver results and not only NGOs registered with the Ministry of Civil Affairs. Consider piloting payment-based-on-results not based on organisation type (NGO) to achieve impact with limited funding available.

### **Scale local innovations in supporting social organisations.**

The government can apply its financial might and geographical scale to identify local approaches to supporting social enterprises and scale them nationwide.

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## ABOUT FYSE

FYSE, a leader in social entrepreneurship in Asia, is dedicated to inspire, connect and accelerate social entrepreneurs and the field that supports them.

We have a track record of managing regional and national projects in Asia through multi-stakeholder collaborations with a wide network of partners including companies, educational institutions and nongovernmental organizations.

Visit [www.fyse.org](http://www.fyse.org) for more Information

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