

- 2012 -

CHINA SOCIAL ENTERPRISE REPORT

EXECUTIVE SUMMARY



ABOUT THE REPORT

Despite an increasing awareness about social entrepreneurship in China, there is limited understanding about the current state, size, scope and impact of social enterprises in China. To fill the void FYSE has conducted an annual survey among social entrepreneurs for the past two years, and the 2012 Social Enterprise Report shares our findings.

This report was written by Andrea Lane with support by Sharan Basal and additional articles contributed by industry experts. It

is based on 2 datasets collected in winter 2010/2011 and winter 2011/2012:

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

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INTRODUCTION

While awareness in China about the concept social entrepreneurship began surfacing in 2004, the phenomenon didn't gain currency on a wider level until two years later and especially following the 2008 Sichuan earthquake. 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.

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.

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.

SECTOR MILESTONES

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- 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)

DRIVING FORCES FOR SOCIAL ENTREPRENEURSHIP

Three simultaneous internal trends are currently influencing the growth of social entrepreneurship in China:

Growing socio- economic disparities

Over the past 3 decades China has lifted millions of people out of poverty, yet China's economic development has led to environmental degradation, an exacerbating urban-rural divide and social disparities that could endanger national stability. Chinese civil society and social enterprises are providing an alternative path towards sustainable development.

Lack of funding for NGOs

China's economic rise has led traditional foreign donors to reduce their donations to China, yet new donors such as Chinese foundations and philanthropists are not yet filling the funding gap. Therefore a number of NGOs are embarking towards marketisation and commercialisation to continue to deliver their services and to achieve financial sustainability.

The rise of social media

Social media provides people with a stream of information, the opportunity to express opinions, share incidents, collaborate and discuss issues previously restricted by the state-controlled media. With more than 513 million internet users in China, social media is quietly transforming civil society and “netizens” are becoming a force to be reckoned with.

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.

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.

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.

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.

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.

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 for more Information

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