



SOCIAL ENTERPRISE IN CHINA

A BRIEFING PAPER PREPARED BY CONSTELLATIONS INTERNATIONAL IN THE FRAME OF THE TRAINING COURSE ZGI:KOMPAKT BY SOCIAL ENTREPRENEURSHIP AKADEMIE OF LMU MUNICH SHANGHAI JULY 2015

“Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry.”
Bill Drayton, Founder and CEO of Ashoka

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WHAT IS SOCIAL ENTERPRISE?

Social enterprises are businesses with a social mission who use entrepreneurial spirit and strategy to reach their objectives for the benefit of society; surpluses are reinvested to work towards their purpose (European Commission, 2015). Despite no universal definition of social enterprise, it is agreed that their mission is for the ‘common good’, ranging from protecting the environment to creating employment for the community (Social Enterprise Alliance, 2015).

These enterprises are considered to be more sustainable than the traditional philanthropic organizations, as through re-investment of profits, they are less dependent on donations and fundraising (Wang et al., 2015).

SOCIAL ENTERPRISE IN CHINA

Social enterprises (SEs) in China are in their infancy, with the majority being less than 5 years old and creating a limited number of jobs. They tend to operate on a local level in a variety of sectors ranging from micro-finance, handicrafts, education and poverty alleviation (Lane, 2012).

There are two common types of social entrepreneurs in China; either fresh graduates or middle-aged workers. Graduates who are technologically savvy, open to new ideas and want to do something for the better often open social enterprises. Contrastingly, people who are mid-way through their career, typically in their 30s or 40s and want a change may become social entrepreneurs. They prefer to do things in a more traditional way, yet have the resources and professional experience.

However, unlike in the US or the UK, where the concept of social enterprise is well established, there is no specific legal form for social enterprises operating in China due to the field’s relative infancy. This lack of a clear legal framework for SEs means budding social entrepreneurs must select one of the following organizational forms.

LEGAL FORMS OF SOCIAL ENTERPRISES IN CHINA

Gu Yuan, CEO of AHA School of Social Innovation, believes there is not likely to be reforms to the current legal framework in the near future, therefore SEs are hybrid organizations and can take the form of non-governmental organizations (NGOs) and non-profit organizations (NPOs), commercial companies, specialized farmers' cooperatives, social welfare enterprises and other social organizations.

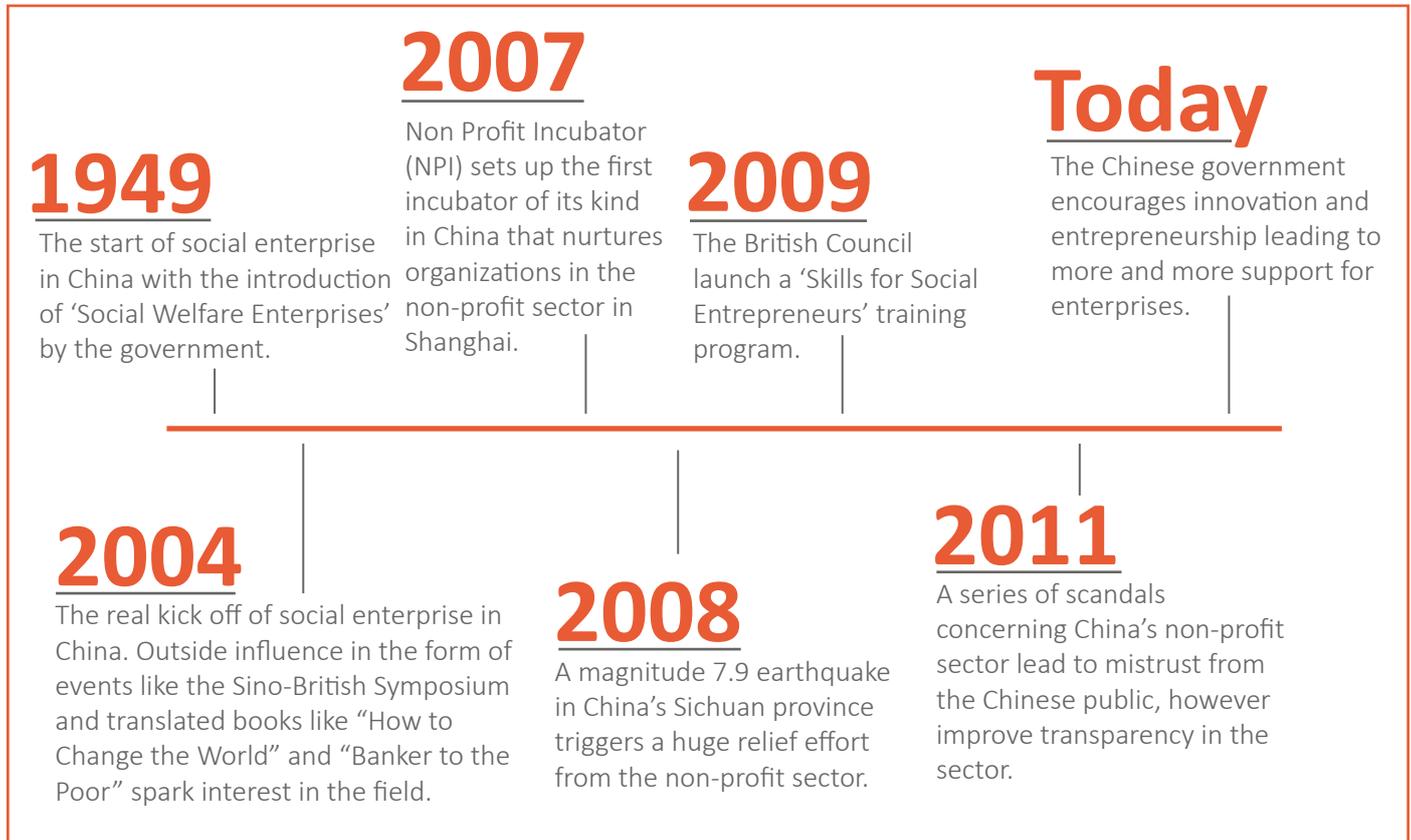
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NGOs and NPOs	<p>Registration with the Ministry of Civil Affairs has become easier in recent years due the abolishment of the dual management system, where an NGO had to find a government department willing to sponsor and supervise it's activities. However, NGOs' activities are still restricted by the government to some extent, in particular fundraising activities (Wang, et al. 2015).</p> <p>Advantage: Certain tax exemptions due to legal form.</p> <p>Disadvantage: Potential for mistrust from the Chinese public after a variety of scandals in the non-profit sector.</p>
Commercial Companies	<p>According to research carried out by Lane (2012), the majority of social enterprises choose to register with the State Administration for Industry and Commerce as business entities.</p> <p>Advantage: More freedom in terms of operations and administration.</p> <p>Disadvantage: These businesses do not benefit from tax allowances and are not able to publicly fundraise.</p>
Social Welfare Enterprises	<p>The Communist Party of China established this type of enterprise in 1949. By employing a proportion of people with disabilities, these enterprises may qualify for benefits like tax exemptions as well as State assistance in areas such as operation, production, finance and technology (Social Enterprise Research Center et al., 2013).</p> <p>Advantage: Policy changes mean that ownership has expanded beyond townships and the different levels of government. These enterprises may be operated for profit.</p> <p>Disadvantage: Strict regulations about the employees; minimum of 10 disabled people or at least 25% of the workers must be disabled.</p>
Specialized Farmers' Cooperatives	<p>An organizational form that may be seen as a social enterprise as it helps stimulate the rural economy of China. Members of the cooperative can benefit from sharing the profits and gain agricultural technology and information.</p> <p>Advantage: Preferential tax treatment and other government support such as human resources and fundraising available.</p> <p>Disadvantage: Limited to the agricultural sector (China.org.cn, 2011).</p>
Social Organizations and Civilian-Run Educational Institutions & Non-Enterprise Units	<p>These three forms of non-profit organizations may benefit from a varying degree of tax exemption; however, they may be seen to be 'quasi-government-owned' due to current legislation meaning assets can only be transferred to government-approved or governmental agencies.</p> <p>Advantage: Tax exemptions are available.</p> <p>Disadvantage: Restrictions of movement of assets according to legal form.</p>

A TIMELINE OF SOCIAL ENTREPRENEURSHIP IN CHINA

Despite the initiation of 'Social Welfare Enterprises' over half a century ago, the concept of social entrepreneurship has only existed in China for about a decade.

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"Social enterprise is still a controversial concept in China. Social entrepreneurs need to show people, rather than tell them, to change their perception" says Gu Yuan, CEO of AHA School of Social Innovation, 2015. "It is important to find supporters and focus on your action, rather than public opinion."

CURRENT CHALLENGES

- Due to an uncertain regulatory environment, some foundations may be deterred in investing into sensitive sectors and instead fund projects in areas like education, poverty relief and environmental protection.
- 25% of social entrepreneurs do not know the impact of their activities on their beneficiaries (Zhao, 2014).
- As social enterprises are clustered in two main cities, Beijing and Shanghai, those operating outside of the main ecosystem, in rural and western China, lack access to facilities such as incubators, which may restrict their level of growth.
- NGOs trying to implement a business strategy may struggle to convert to a sustainable business model due to lack of expertise, therefore remain dependent on grants (Lane, 2012).
- There is a lack of education and training about social entrepreneurship that restricts learning and understanding of the field .
- The greatest challenge is of public perception and trust in social enterprises; that entrepreneurs are not exploiting a cause for their own gain, but instead using a business model to ensure a sustainable stream of funds to support their chosen cause (Wang et al., 2015).

DRIVERS OF SOCIAL ENTREPRENEURSHIP

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SOCIAL PROBLEMS

Rapid economic development in China has put pressure on the welfare system due to the growing inequalities between rich and poor, mass unemployment and the aging population (Lane, 2012).

LACK OF FUNDING

NGOs are finding it increasingly difficult to obtain government funding leading to a move towards commercialization to generate revenue (Lane, 2012).

TECHNOLOGY

Social media websites and applications, such as Weibo and Weixin, act as a platform; micro-blogs allow individuals to share their stories and exchange information regarding philanthropy (Tuan, 2015). Social media also helps to raise investment, for example Tencent's crowd-funding platform which assists organizations that are unable to ask for funds directly due to government legislation (Pillsbury, 2015).

ROLE OF GOVERNMENT

As there is no formal government recognition of social enterprises in China, the framework in which they operate is somewhat ambiguous.

'Many believe that China can achieve in two years what has taken other countries ten years to do, if it decides to prioritize at a national level the development of social enterprises. The crucial issue, of course, is the role the government chooses to play.'

*Scott Lawson, 2011, CEO of SOW Asia Foundation,
Investor and accelerator to social and environmental entrepreneurs*

The government has influence on the national, provincial and local level, therefore if the Chinese government chooses to actively form policy on social enterprises, it has the ability to either push social enterprise forward or completely restrict the activity.

HELP

"The government is becoming much more open to working collaboratively when in the past they weren't" – *Ruth Sharipo, author of Social Entrepreneurship (Wang and Burton, 2015).*

The 12th Five-Year Plan, approved by the National People's Congress, details plans to foster and promote the development of social organizations in Chapter 39 (The Delegation of the European Union in China, 2011).

Devolving power to regional governments is leading to less bureaucracy and more opportunities for social entrepreneurs to provide civil services (Zhao, 2014). On a local level, Shanghai has announced that it wants to develop 200,000 entrepreneurs in a variety of areas through a network of incubators in the next five years (Cai, 2015).

HINDRANCE

3 million non-profit organizations are unable to gain finance through donations or bank loans, due to current legislation. This causes dependence on other sources of finance (Pillsbury, 2015).

The 12th Five-Year Plan simultaneously talks of 'strengthening the supervision' of social organizations which may prevent or restrict the activities of social enterprises (The Delegation of the European Union in China, 2011).

Existing government policy and lack of policy, in terms of a clear regulatory framework, are seen by nearly half of enterprises as a severe challenge to their operations (Lane, 2012).

KEY PLAYERS

The social enterprise ecosystem is made up of a variety of players including incubators, foundations, venture capitalists and governmental organizations.

FOUNDATIONS

There are 3046 foundations in China of which 57% are private, gaining funds from private sources like High Net Worth Individuals and the remainder are public, gaining funds from individuals (China Foundation Center, 2013).

Shanghai United Foundation (initiated by NPI), founded in 2009, is the first non-governmental public fundraising foundation in China. The foundation acts as a platform between donors and NGOs to help secure funding for and support NPOs performance through promotion of capacity, training and evaluation (Shanghai United Foundation, 2015).

You Change China Social Entrepreneur Foundation was established with the purpose of discovering and supporting neo-philanthropy leaders and providing a platform for cross-sector cooperation. The non-profit foundation is funded privately by entrepreneurs. In addition to offering social investment, the foundation offers capacity building services such as consultancy, project design and training (YouChange, 2014).

Narada Foundation, established in 2007, has the mission to foster civil society and gives grants to NPOs who 'foster social innovation and promote equality and harmony'. The Ginkgo Fellowship, set up by the foundation, is running until 2020 and gives flourishing social entrepreneurs an allowance of 100,000RMB for three years as well as support through capacity training and networking opportunities to encourage cultivation of future social entrepreneurs (Narada Foundation, 2015).

Some other foundations involved in social entrepreneurship:

Foundation for Youth Social Entrepreneurship (FYSE) (international)

Le Ping Social Enterprise Foundation

Ashoka (international)

One Foundation

INTERNATIONAL ORGANIZATIONS

The British Council was the first foreign organization in China to create a program on social enterprise. The 'Skills for Social Entrepreneurs' training program was launched in 2009 and has been successful in training 1800 social entrepreneurs. The social entrepreneurs in completion of this program are eligible to compete for funding provided by partners of which almost 30 million RMB has been distributed (The British Council a, 2015).

Recent Developments

A press conference was held on the 20th May 2015 to launch the China-UK Social Enterprise and Social Investment Research Center. The Center will raise awareness of the field, capacity build and carry out policy research activities in order to drive forward the development of social enterprise in China (The British Council b, 2015).

RESEARCH CENTERS

Research in the field of social entrepreneurship is growing, with a number of centers already in existence such as The Beijing Normal University One Foundation Philanthropy Research Institute, Social Enterprise Research Center, Social Enterprise Institute and NGO Research Center of Tsing Hua University.

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INCUBATORS

These organizations aim to nurture social enterprises by providing support through capacity building, training and facilities such as office space.

Non Profit Incubator (NPI) is a group of several intermediary agencies that provide support to a variety of organizations operating in the non-profit sector. NPI's mission is to "progress social innovation and cultivate social entrepreneurs." The first non-profit incubator of its kind, it was established in 2007 in Shanghai. Since then, NPI's operations have expanded nationally, reaching 21 cities across China, with over \$300 million of funding mobilized from large-scale institutions to charity programs (NPI, 2014). Furthermore, the Shanghai incubator has catalyzed the creation of over 200 similar incubators around China, in some cases replicated by local governments (Yang, 2015).

Furthermore, NPI has initiated a number of projects to further enhance the non-profit sector. NPI has incubated over 200 NGOs and social enterprises through provision of resources including office space, capacity building programs, small-scale grants and support with registration and funding. For example, in 2014, NPI collaborated with the European Union on the 'Social Enterprise as Force for more Inclusive and Innovative Societies' program to conduct research regarding the potential of social enterprise in China (NPI, 2014).

Gongyi Xintiandi/The Nest Incubator

NPI launched the first social innovation park in China in 2010 to bring social enterprises together and to provide them with support to scale their operations. Innovative social enterprises and NGOs showcase their projects at the Shanghai-based incubator and can learn from each other's success (NPI, 2014). Examples of social enterprises currently being incubated there are Art in Community (helin.org.cn) and Puki Design (pukidesign.org).

AHA Accelerator

Launched by the AHA School of Innovation, this accelerator has a focus on linking start-ups to foundations and supporting social innovation within the education sector. A cohort of 5-8 teams is supported over a period of 6-12 months through bootcamps, online coaching and on-site mentoring and through the online community with the other teams. Teams share their successes and failures and are encouraged to 'fail fast, fail cheap and succeed faster,' rather than be overly protected. The criteria for a start-up to join the accelerator are social purpose, people orientation, passion for innovation and potential for big social impact.

Transi.st Incubator

Transi.st is both an incubator and an impact investor launched by the Shell Foundation that aims to support entrepreneurs in the energy sector that create both financial and social value. They incubate enterprises related to environmental and developmental challenges in this sector and invest up to \$500,000 in start-ups (Transi.st, 2015).

Qiao Lab Incubator

Not specifically for the purpose of incubating social enterprises, this incubator, established by a business management consultancy, aims to 'contribute to develop economy and social life in the poor areas and regions' and to 'encourage women or minority entrepreneurship' thus some goals align with those of social entrepreneurs. The Shanghai-based incubator provides seed investment in addition to a wide range of services such as consulting and business development (Qiao LAB, 2015).

IMPACT INVESTORS

New Ventures China is an example of one of the many impact investors in China that seek to gain a social return on investment. Thus far New Ventures has helped to mobilize \$170 million of investment into 400 businesses with an environmental focus within 10 years (Elsen, 2012).

STORIES OF SOCIAL ENTREPRENEURS

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Buy 42

Who: Zhou Xian, who has previously opened two successful businesses, decided to open the first online charity shop in China after being inspired by the concept of second-hand shops whilst studying abroad in the UK.

What: The online shop supports employment of people with disabilities as well as saving unused garments from being thrown away.

How: People donate unused clothing, which is then processed by employees with disabilities who clean, photograph and price the clothing. Revenue is generated from selling second-hand clothes online; this is invested into providing training programs for people with disabilities.

Current situation: Buy 42 now employs over 30 people and Zhou is on the board of directors. She has appointed head of marketing, Syl Yu, to CEO. Zhou continues to work in the field of social entrepreneurship, for AHA Accelerator.

www.buy42.com

ECOLAND CLUB

Who: Pan Tao, an expert in environmental and sustainable urban development, was inspired by the 'Schrebergarten' concept whilst studying abroad in Germany.

What: Ecoland club is a farm in the Fengxian district of Shanghai which aims to bring urban residents closer to nature to foster learning around environmental sustainability, whilst bringing families together.

How: Members of Ecoland Club have their own plot of land that they can take care of and use to grow plants. There is also nature school that teaches children about the environment and other events are held regularly to promote love of nature.

Current situation: Pan Tao now has 250 families as members and is planning further social programs building on his current business.

www.ecolandclub.com

PUKI DESIGN

Who: Xiao Liang had previously worked in an advertising agency and was inspired by a film of people with hearing disabilities. He decided to learn more about how these disabilities impact on the daily lives of people and was shocked to find that although many of these people had studied design, they were unable to find employment.

What: Puki is a design agency that employs and supports people with hearing disabilities. With revenue raised from the design business, Puki also offers training programs for students with hearing disabilities and runs a number of projects to raise awareness.

How: Clients give design briefs to able-bodied workers who then communicate these to the trained designers with hearing disabilities. These employees then carry out graphic design. Also, Puki designs and implements team-building activities or family days. The generated revenue supports further training of workers.

Current situation: Puki has had a steady development, a stable team and is a trusted supplier for many companies.

www.pukidesign.org

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crossing spheres, linking ideas.

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